Consolidated financial statements of

Urbana Corporation

December 31, 2010 and 2009

Urbana Corporation
December 31, 2010 and 2009

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Independent Auditor's Report

To the Shareholders of
Urbana Corporation

We have audited the accompanying consolidated financial statements of Urbana Corporation, which comprise the consolidated statements of net assets and investment portfolio as at December 31, 2010 and 2009, and the consolidated statements of operations, changes in net assets and (deficit), and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Urbana Corporation as at December 31, 2010 and 2009, and the results of its operations, changes in its net assets and (deficit) and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
March 15, 2011

Urbana Corporation

Consolidated statements of net assets as at December 31, 2010 and 2009

	2010	2009
	$	$
Assets		
Cash and cash equivalents	4,287,835	1,756,696
Investments, at fair value	164,803,819	183,760,782
Sundry receivables	194,050	3,709
Prepaid expenses	35,596	14,132
Deposit on future investments	-	685,381
Future income taxes (note 12)	7,500,000	5,000,000
	176,821,300	191,220,700
Liabilities		
Loan payable (note 5)	13,455,000	-
Accounts payable and accrued liabilities	828,544	1,161,118
	14,283,544	1,161,118
Non-controlling interest (note 4)	14,440,650	15,380,177
Shareholders' equity		
Share capital (note 6)	213,684,538	230,739,519
Contributed surplus (note 7)	26,611,124	17,733,587
Deficit	(92,198,556)	(73,793,701)
Shareholders' equity representing net assets	148,097,106	174,679,405
Total liabilities and shareholders' equity	176,821,300	191,220,700
Number of shares outstanding (note 6)	81,066,100	87,526,320
Net assets per share - basic and diluted	1.83	2.00

Approved by the Board:

Director

Director

See accompanying notes.

Urbana Corporation

Consolidated statements of operations
for the years ended December 31, 2010 and December 31, 2009

	2010	2009
	$	$
Gains/losses		
Loss on sale and disposal of investments	(5,582,536)	(3,669,933)
Investment income		
Dividends	6,607,859	3,646,573
Seat rental income	729,693	3,073,947
Interest income	201,546	58,105
Loss on foreign exchange	(94,204)	(9,631)
	7,444,894	6,768,994
Expenses		
Investment management fees (note 10)	2,353,731	2,231,834
Foreign withholding taxes	1,027,229	1,342,871
Interest	251,930	190,015
Administrative	573,925	439,355
Legal fees	37,690	79,077
Shareholder reporting costs	76,071	74,836
Transaction costs	637,615	-
Capital financing fees	-	229,074
Audit fees	127,261	94,651
Insurance	30,777	30,145
Director fees	66,396	20,000
Independent Review Committee fees	5,788	5,650
Amortization	-	277
License fees	1,545	1,228
	5,189,958	4,739,013
Net loss before unrealized net loss on foreign exchange and investments, non-controlling interest and income taxes	(3,327,600)	(1,639,952)
Unrealized net loss on foreign exchange and investments	(18,516,782)	(135,183)
Net loss before non-controlling interest and income taxes	(21,844,382)	(1,775,135)
Non-controlling interest portion of loss	939,527	1,813,519
Net (loss) income before income taxes	(20,904,855)	38,384
Recovery (provision) for income taxes (note 12)		
Current	-	-
Future	2,500,000	(1,400,000)
	2,500,000	(1,400,000)
Total results of operations for the year	(18,404,855)	(1,361,616)
Basic and diluted loss per share	(0.22)	(0.02)
Weighted average number of shares outstanding	85,433,299	79,792,241

See accompanying notes.

Urbana Corporation

Consolidated statements of changes in net assets and (deficit)
for the years ended December 31, 2010 and December 31, 2009

	2010	2009
	$	$
Net assets		
Shareholders' equity representing net assets, beginning of year	174,679,405	158,402,330
Operating activities		
Total results of operations for the year	(18,404,855)	(1,361,616)
Capital transactions (Notes 6 and 7)		
Exercise of warrants	-	2,685,038
Issuance of shares net of expenses	-	15,103,919
Normal course issuer bid repurchases payments	(8,177,444)	(150,266)
Total capital transactions	(8,177,444)	17,638,691
Net assets, end of year	148,097,106	174,679,405
(Deficit)		
(Deficit), beginning of year	(73,793,701)	(72,432,085)
Total results of operations for the year	(18,404,855)	(1,361,616)
Deficit, end of year	(92,198,556)	(73,793,701)

See accompanying notes.

Urbana Corporation

Consolidated statements of cash flows
for the years ended December 31, 2010 and December 31, 2009

	2010	2009
	$	$
Operating activities		
Total results of operations for the year	(18,404,855)	(1,361,616)
Items not affecting cash		
Loss on sale and disposal of investments	5,582,536	3,669,933
Unrealized net loss on foreign exchange and investments	18,516,782	135,183
Non-controlling interest portion of loss	(939,527)	(1,813,519)
Provision for future income taxes	(2,500,000)	1,400,000
Amortization and write-off	-	2,076
	2,254,936	2,032,057
Net change in non-cash working capital items		
Sundry receivables	(190,341)	40,965
Prepaid expenses	(21,464)	(8,433)
Accounts payable and accrued liabilities	(332,574)	344,332
	(544,379)	376,864
Cash flow from operating activities	1,710,557	2,408,921
Financing activities		
Proceeds from loan payable	13,455,000	2,500,000
Repayment of loan payable	-	(13,600,000)
Issuance of shares (net of expenses)	-	15,103,919
Issuance of share warrants - contributed surplus	-	2,685,038
Normal course issuer bid repurchases payments	(8,177,444)	(150,266)
Cash flow from financing activities	5,277,556	6,538,691
Investing activities		
Purchases of investments	(52,880,583)	(45,229,244)
Proceeds on sale of investments	10,439,186	4,619,958
Proceeds on maturity of investments	37,634,391	32,291,222
Deposits on future investments	350,032	(350,032)
Cash flow used in investing activities	(4,456,974)	(8,668,096)
Net change in cash during the year	2,531,139	279,516
Cash and cash equivalents, beginning of year	1,756,696	1,477,180
Cash and cash equivalents, end of year	4,287,835	1,756,696
Supplemental disclosure		
Amount of interest paid	197,953	97,428

See accompanying notes.

Urbana Corporation

Consolidated statements of investment portfolio
as at December 31, 2010 and 2009

Number of shares	Description	Cost	2010 Fair value
		$	$
	Privately owned entities		
2,200,000	2232057 Ontario Inc. (Investment in Stonecap Securities Inc.)	2,200,000	1,825,560
1,100,000	2232057 Ontario Inc., Warrants	-	-
24,683	Bermuda Stock Exchange (shares)	533,099	257,126
169,341	Budapest Stock Exchange (shares)	4,761,242	5,756,292
50,000	Bulgarian Stock Exchange (shares)	724,589	41,791
312,500	CNSX Markets Inc. Class A*	-	-
4,806,544	Bombay Stock Exchange (shares held by CIHI and UMI)	50,520,683	40,547,370
11	Kansas City Board of Trade (seats)	5,948,450	4,590,663
42	Minneapolis Grain Exchange (seats)	10,244,301	4,590,663
55	OneChicago Stock Futures Exchange (shares)	3,175,830	413,166
		78,108,194	58,022,631
	Publicly traded securities		
1,800,000	NYSE Euronext	115,100,204	53,621,329
880,000	CBOE Holdings Inc. (transfer restriction until Jun. 15, 2011)	29,145,211	19,613,061
880,000	CBOE Holdings Inc.	29,145,212	19,989,058
50,000	Manulife Financial Corp.	866,000	853,700
75,000	Bank of America Corp.	989,447	994,147
200,000	Citigroup Inc.	971,124	939,993
190,000	TMX Group Inc.	7,408,733	7,019,900
		183,625,931	103,031,188
	Other		
2,500,000	2232057 Ontario Inc. (Investment in Stonecap Securities Inc.) Unsecured subordinated promissory note - Current yield 10% with a maturity date of March 12, 2013	2,500,000	2,500,000
1,250,000	CNSX Markets Inc. Convertible debenture with no interest. Convertible into shares at $4 per share	1,250,000	1,250,000
		265,484,125	164,803,819

* The Company holds 312,500 class A shares of CNSX Markets Inc.The shares have nil fair value and will be cancelled at the time the debenture is converted.

See accompanying notes.

Urbana Corporation

Consolidated statements of investment portfolio
as at December 31, 2010 and 2009

Number of Shares	Description	Cost	2009 Fair value
		$	$
	Privately owned entities		
24,683	Bermuda Stock Exchange (shares)	533,099	365,893
169,341	Budapest Stock Exchange (shares)	4,761,242	7,641,271
50,000	Bulgarian Stock Exchange (shares)	724,589	307,592
312,500	CNSX Markets Inc. Class A*	-	-
4,015,544	Bombay Stock Exchange (shares held by CIHI)	43,507,793	37,198,574
24	Chicago Board Options Exchange (seats)	63,747,049	67,933,178
9	Kansas City Board of Trade (seats)	5,287,915	3,396,654
41	Minneapolis Grain Exchange (seats)	10,146,476	4,728,058
54	OneChicago Stock Futures Exchange (shares)	3,175,830	990,603
		131,883,993	122,561,823
	Publicly traded securities		
1,735,981	NYSE Euronext	116,322,041	45,989,265
180,000	TMX Group Inc.	7,058,590	5,959,800
		123,380,631	51,949,065
	Other		
1,250,000	CNSX Markets Inc.		
	Convertible debenture with no interest. Convertible into shares at $4 per share	1,250,000	1,250,000
	Resource investment	1,094,038	1
	Fixed Income		
8,000,000	Cda T Bill 07 Jan 2010	7,999,893	7,999,893
		265,608,555	183,760,782

* The Company holds 312,500 class A shares of CNSX Markets Inc.The shares have nil fair value and will be cancelled at the time the debenture is converted.

See accompanying notes.

Urbana Corporation ("Urbana" or the "Company") is an investment company originally incorporated as a mineral exploration company named Macho River Gold Mines Limited under the Companies Act (Ontario) on August 25, 1947. A change of Business application from a mining issuer to an investment issuer was approved by the TSX Venture Exchange in July, 2005. The Company is now considered a "non-redeemable investment fund" and an "investment fund" for the purposes of applicable securities laws and is listed on the Toronto Stock Exchange ("TSX").

The long-term strategy of Urbana is to continue to seek and acquire investments for income and capital appreciation. Currently, management has identified the financial services sector as attractive for longer term growth.

1. Summary of significant accounting policies

These consolidated financial statements of Urbana have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). The following is a summary of significant accounting policies followed by the Company in the preparation of the financial statements.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the reporting period. Actual results could differ from those estimates. Significant estimates included in the financial statements relate to the valuation of certain investments and realization of the future income tax asset.

Basis of consolidation

These consolidated financial statements include the accounts of the Company, its 58.54 % (2009-59.24%) owned subsidiary, Caldwell India Holdings Inc., and its wholly owned subsidiary, Urbana Mauritius Inc. All inter-company transactions have been eliminated.

Capital management

The Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535 Capital Disclosures requires the disclosure of information that enables users of the financial statements to evaluate the Company's objectives, policies and processes for managing capital.

Foreign exchange

The monetary assets and liabilities of the Company's integrated foreign subsidiaries are translated into Canadian dollars at exchange rates in effect at the balance sheet date and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated at average exchange rates for the year. Foreign exchange gains and losses are included in the statement of operations for the year.

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at year-end exchange rates. Purchases and sales of investments, investment income and expenses are calculated at the exchange rates prevailing on the dates of the transactions.

Financial instruments

The Company's financial instruments are comprised of cash and cash equivalents, investments, sundry receivables, deposit on future investments, loan payable and accounts payable and accrued liabilities.

Sundry receivables and deposit on future investments are classified as loans and receivables, loan payable and accounts payable and accrued liabilities are classified as other financial liabilities, and as such, are recorded at amortized cost. The carrying values of cash and cash equivalents, sundry receivables, deposit on future investments and accounts payable and accrued liabilities approximate their fair values due to their short-term maturities. The carrying value of loan payable approximates its fair value as the interest rate on the loan is variable. Investments are classified as held-for-trading financial instruments, and as such, are recorded at fair value. Unrealized gains and losses on investments are recognized in the consolidated statement of operations.

1. Summary of significant accounting policies (continued)

Valuation of investments

Investments are valued at fair value. The securities which are actively traded are valued at the closing bid price on the recognized stock exchange on which the securities are listed or principally traded.

The Minneapolis Grain Exchange ("MGEX") and the Kansas City Board of Trade ("KCBT") are valued based on the current price of a seat, as quoted by the respective exchanges.

Securities which are listed on a stock exchange or traded over-the-counter and which are subject to a hold period or other trading restrictions are valued as described above, with an appropriate discount as determined by management.

Investments for which reliable quotations are not readily available, or for which there is no closing bid price, including securities of private issuers, are valued at fair value using management's best estimates. A number of valuation methodologies are considered in arriving at fair value, including comparable company transactions, earnings multiples, the price of a recent investment, net assets, discounted cash flows, industry valuation benchmarks and available market prices. During the initial period after an investment has been made, cost translated using the year end foreign currency exchange rate may represent the most reasonable estimate of fair value.

The Company takes its own credit risk and the risk of its counterparties into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. Management has reviewed its policies concerning valuation of assets and liabilities and believes that the fair values ascribed to the financial assets and financial liabilities in the Company's financial statements incorporate appropriate levels of credit risk.

There are inherent uncertainties in the process of valuing investments for which there are no published markets. As such, the resulting values may differ from values that would have been used had a ready market existed for the investments and may differ from the prices at which the investments may be sold.

Fair Value Hierarchy

The Company classifies fair value measurements based on a three-level hierarchy that reflects the significance of the inputs used in making the measurements. The three levels of the fair value hierarchy are described below:

Level 1 — Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 — Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly;

Level 3 — Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

Refer to Note 2 for the classification of the fair value measurements.

Transaction costs

Transaction costs are expensed and are included in "Transaction costs" in the Consolidated statements of operations. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an investment, which include fees and commission paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Prior to adoption of Section 3855, Financial Instruments – Recognition and Measurement, transaction costs were capitalized and included in the cost of purchases or proceeds from sale of investments. There is no impact on the net asset value of the Company in using either of these methods. The cost of investments for each security is determined on an average basis.

1. Summary of significant accounting policies (continued)

Resource properties

Resource properties and related expenditures are recorded at cost, net of incidental revenues generated from the particular mineral properties. These net costs are deferred until the mineral properties to which they relate are placed into production, sold or abandoned.

General exploration costs not specifically relating to a mineral property are expensed as incurred.

As per Accounting Guideline 11 in the CICA, when there has been a delay in development activity that extends beyond three years, there is a presumption that a write-down of capitalization costs is necessary. In 2005, management determined that due to the lack of recent development activity for the resource properties, the capitalized costs of the resource properties would be written down to a nominal value. In 2010, the capitalized costs of the resource properties were written off. The write off of these costs decreased unrealized net loss on investments and increased realized loss on investments by the same amount of $1,094,038 with a net impact of $Nil on the results of operations of the Company for the year.

Future income taxes

The Company accounts for income taxes using the liability method, whereby future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and measured using substantively enacted income tax rates and laws that are expected to be in effect when the differences are expected to reverse. Income tax expense for the year is the tax payable for the year and any change during the year in the future tax assets and liabilities. A valuation allowance is provided to the extent that it is more likely than not that future tax assets will not be realized.

Investment transactions and income recognition

Investment transactions are recorded on the trade date. Dividend income is recorded on the ex-dividend date. Interest income is recorded on an accrual basis. Rental revenue from exchange memberships is recognized over the term of the lease contract, on a straight-line basis.

Realized gains and losses from investment transactions and unrealized appreciation or depreciation of investments are calculated on an average cost basis.

Earnings per share

Basic earnings per share is computed by dividing the total results of operations for the year by the weighted average number of common shares outstanding during the year, including contingently issuable shares, which are included when the conditions necessary for issuance have been met. Diluted earnings per share reflects the assumed conversion of all dilutive securities using the “treasury stock” method for purchase warrants and stock options.

2. Fair value measurement

The following is a summary of the Company’s investments categorized in the fair value hierarchy:

	Level 1	Level 2	Level 3	2010 Total
	$	$	$	$
Cash and cash equivalents	4,287,835	-	-	4,287,835
Publicly traded entities	83,418,127	19,613,061	-	103,031,188
Privately owned securities	-	9,181,326	48,841,305	58,022,631
Other	-	-	3,750,000	3,750,000
	87,705,962	28,794,387	52,591,305	169,091,654

2. Fair value measurement (continued)

During the year ended December 31, 2010 the reconciliation of investments measured at fair value using unobservable inputs (Level 3) is presented as follows:

	Privately owned entities	Other	Total
	$	$	$
Beginning balance	46,503,933	1,250,001	47,753,934
Purchases	8,301,509	2,500,000	10,801,509
Change in unrealized (losses)	(5,964,137)	(1)	(5,964,138)
Ending balance	48,841,305	3,750,000	52,591,305
Total change in unrealized (losses) during the year for level 3 assets held at December 31, 2010			(5,964,138)

	Level 1	Level 2	Level 3	2009 Total
	$	$	$	$
Cash and cash equivalents	9,756,589	-	-	9,756,589
Publicly traded entities	51,949,065	-	-	51,949,065
Privately owned securities	-	76,057,890	46,503,933	122,561,823
Other	-	-	1,250,001	1,250,001
	61,705,654	76,057,890	47,753,934	185,517,478

During the year ended December 31, 2009 the reconciliation of investments measured at fair value using unobservable inputs (Level 3) is presented as follows:

	Privately owned entities	Other	Total
	$	$	$
Beginning balance	53,809,965	1,250,001	55,059,966
Change in unrealized (losses)	(7,306,032)	-	(7,306,032)
Ending balance	46,503,933	1,250,001	47,753,934
Total change in unrealized (losses) during the year for level 3 assets held at December 31, 2009			(7,306,032)

On June 15, 2010, Chicago Board Options Exchange demutualized and as a result the exchange seats were converted into shares of CBOE Holdings Inc. On initial conversion, half of the shares received were restricted until December 15, 2010 and the other half until June 15, 2011. As at December 31, 2010, $19,989,058 (2009 – $Nil) were transferred from level 2 to level 1. There was no transfer from level 1 to level 2.

2. Fair value measurement (continued)

There were no sales and transfers into/out of Level 3 in 2010 and 2009. The potential impact of using reasonable possible alternative assumptions for valuing the two biggest holdings that are classified as Level 3 financial instruments would increase or decrease their fair value by up to $3.6 million (2009 - $1.8 million). The major assumption relating to this sensitivity calculation relates to the multiple used to value the entities based on earnings and the increase/decrease was calculated based on increasing the multiple by plus/minus one.

3. Financial instruments and risk management

The Company's activities expose it to a variety of financial risks. Management seeks to minimize potential adverse effects of these risks on the Company's performance by employing professional, experienced portfolio advisors, and through daily monitoring of the Company's position and market events.

Credit risk

Credit risk represents the potential loss that the Company would incur if the counterparties failed to perform in accordance with the terms of their obligations to the Company. The Company maintains all of its cash and cash equivalents at its custodian or in overnight deposits with a Canadian chartered bank. All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation. As at December 31, 2010,the Company had $2.5 million (2009 – $Nil) in debt instruments. The fair value of the debt instruments includes a consideration of the credit worthiness of the debt issuer. The carrying amount of investments and other assets represent the maximum credit exposure as disclosed in the statements of net assets.

Liquidity risk

Liquidity risk is the risk that the Company may not be able to settle or meet its obligation when due. The Company's obligations are due within one year. As at December 31, 2010,the Company had a demand loan for $13,455,000 (2009 - $Nil). Liquidity risk is managed by investing in assets that are traded in an active market and can be readily sold or by borrowing under its credit facility (Note 5). The Company's common shares and Class A shares cannot be redeemed by shareholders. The Company endeavours to maintain sufficient liquidity to meet its expenses.

Currency risk

Currency risk arises from financial instruments that are denominated in a currency other than the Canadian dollar. The Company is exposed to the risk that the value of securities denominated in other currencies will fluctuate due to changes in exchange rates. When the value of the Canadian dollar falls in relation to foreign currencies, then the value of foreign investment rises. When the value of the Canadian dollar rises, the value of foreign investment falls.

The table below indicates the currencies to which the Company had significant exposure as at December 31, 2010 and 2009.

Currency	2010 As % of net assets	2009 As % of net assets
	%	%
United States Dollars	70.91	70.09
Indian Rupee	27.38	20.92
Other	3.92	4.47
	102.21	95.48

3. Financial instruments and risk management (continued)

Currency risk (continued)

The Company's net assets would increase or decrease by approximately $7,567,733 (2009 - $8,486,907) in response to 5% depreciation or appreciation of the Canadian dollar, with all other variables held constant. In practice, the actual results may differ materially.

Interest rate risk

Interest rate risk arises on interest-bearing financial instruments such as bonds and loans payable. The Company is exposed to the risk that the value of interest-bearing financial instruments will fluctuate due to changes in the prevailing levels of market interest rates. There is a reduced risk to interest rate changes for cash and cash equivalents due to their short-term nature.

The table below summarizes the Company's exposure to interest rate risks by remaining term to maturity.

		Less than 1 year	1 – 3 years	3 – 5 years	Over 5 years	Total
		$	$	$	$	$
Financial asset - bonds	2010	-	2,500,000	-	-	2,500,000
	2009	-	-	-	-	-
Loan payable	2010	13,455,000	-	-	-	13,455,000
	2009	-	-	-	-	-

As at December 31, 2010, had prevailing interest rates increased or decreased by 1%, with all other variables held constant, the results of operations would have decreased or increased, respectively, by approximately $175,000 (2009 - $Nil). In practice, the actual results may differ materially.

Other market risk

Other market risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or market segment. All securities present a risk of loss of capital. Any equity and derivative instrument that the Company may hold are susceptible to market price risk arising from uncertainties about future prices of the instruments. Management moderates this risk through a careful selection of securities and other financial instruments within the parameters of the investment strategy. The maximum risk resulting from financial instruments is equivalent to their fair value.

The most significant exposure for the Company to other price risk arises from its investment in publicly traded securities. As at December 31, 2010, had the prices on the respective stock exchanges for these securities increased or decreased by 10%, with all other variables held constant, net assets would have increased or decreased, respectively, by approximately $8,341,813 (2009 - $5,194,907) (approximately 5.63 % (2009 – 2.92%) of total net assets). In practice, the actual results may differ materially. Management is unable to meaningfully quantify any correlation of the price of its privately owned equities to changes in a benchmark index.

Capital management

Management manages the capital of the Company which consists of the net assets and the proceeds from the bank facility, in accordance with the Company's investment objectives. The Company borrowed this money to make additional investments. The Company is not subject to any capital requirements imposed by a regulator.

4. Subsidiaries

Caldwell India Holdings Inc.

During 2007, the Company subscribed for 100 common shares, at US$1 per share, for Caldwell India Holdings Inc. (“CIHI”). CIHI then issued 4,051,300 investor shares (non-voting) at US$10 per share of which the Company subscribed for 2,400,000, representing 59.24% of the issued share capital of CIHI. The total proceeds for the CIHI shares issued were $44,843,950, of which the Company provided $26,565,556. The remaining $18,278,394 which is owned by other investment funds managed by Caldwell Investment Management Ltd. (note 10) was accounted for as a non-controlling interest. CIHI used the proceeds of the share issuance to purchase 308,888 equity shares of the Bombay Stock Exchange (“BSE”). In 2010, the Company sold 28,507 investor shares of CIHI with a cost base of $306,045 for cash proceeds of $248,676. Consequently, the Company’s investment in CIHI represents a 58.54% interest in the issued share capital of CIHI.

Non-controlling interest consists of the following:

	2010	2009
	$	$
Non-controlling interest, beginning of year	15,380,177	17,193,696
Share of net loss	(939,527)	(1,813,519)
Non-controlling interest, end of year	14,440,650	15,380,177

Urbana Mauritius Inc.

In June 2009, Urbana set up a wholly owned subsidiary in Mauritius, Urbana Mauritius Inc. (“UMI”), to facilitate future investments in India. In fiscal 2010, UMI purchased 791,000 equity shares of the BSE.

5. Loan payable

On February 19, 2008, the Company entered into a demand loan facility with the Bank of Montreal. In July 2009 the loan facility agreement was amended to allow the Company to borrow up to $15,000,000 from the Bank of Montreal at any given time. Interest is charged on the outstanding balance of the loan facility at Bank’s prime rate plus 2.75%, calculated on a daily basis and paid monthly. The loan facility is secured by a general charge on the Company’s assets and allows the Company to purchase additional interests in public and/or private exchanges around the world. As at December 31, 2010, the outstanding balance of the loan was $13,455,000 (2009 - $Nil) which is the fair value of the loan. As at December 31, 2010, the Company has complied with all covenants, conditions or other requirements of the outstanding debt.

6. Share capital

At December 31, 2010, share capital consists of the following:

	December 31, 2010		December 31, 2009	
	Number	Amount	Number	Amount
	$	$	$	$
Authorized				
Unlimited preferred shares				
Unlimited common shares				
Unlimited non-voting fully participating Class A shares				
Issued - common shares				
Balance, January 1	10,000,000	7,998,893	10,000,000	7,998,893
Balance, end of year	10,000,000	7,998,893	10,000,000	7,998,893
Issued - non-voting Class A shares				
Balance, January 1	77,526,320	222,740,626	67,100,000	207,916,753
Issued during the year	-		10,526,320	15,103,919
Normal course issuer bid repurchase	(6,460,220)	(17,054,981)	(100,000)	(280,046)
Balance, end of year	71,066,100	205,685,645	77,526,320	222,740,626
Total	81,066,100	213,684,538	87,526,320	230,739,519

a) On November 10, 2009, Urbana completed a short form prospectus offering (the "Offering") of 10,526,320 units (the "Units") at a price of $1.90 per unit for gross proceeds of $20,000,008. Each Unit consisted of one Non-Voting Class A Share and one-half of one Non-Voting Class A Share purchase warrant (each whole Non-Voting Class A Share purchase warrant, a "Series B Warrant"). Each Series B Warrant entitles the holder to purchase one Non-Voting Class A Share at a price of $2.50 on or before November 10, 2011. The Units separated into Non-Voting Class A Shares and Series B Warrants immediately upon the completion of the Offering. As a result of the completion of the Offering, Urbana issued 10,526,320 Non-Voting Class A Shares and 5,263,160 Series B Warrants. In connection with the Offering, the syndicate of agents for the Offering (the "Agents") was granted the option to purchase (the "Over-Allotment Option"), within 30 days of the completion of the Offering, up to an additional 1,578,948 Non-Voting Class A Shares at a price of $1.85 per share and up to an additional 789,474 Series B Warrants at a price of $0.10 per Series B Warrant. On November 30, 2009, the Agents partially exercised the Over-Allotment Option and as a result, Urbana issued an additional 82,590 Series B Warrants and no additional Non-Voting Class A Shares.

6. **Share capital (continued)**

b) On August 26, 2010 the Toronto Stock Exchange accepted Urbana's notice of intention to conduct a normal course issuer bid to purchase up to 7,431,323 of its Non-Voting Class A Shares (the "NCIB"), representing 10% of the public float, pursuant to TSX rules. Purchases under the NCIB were permitted starting on August 28, 2010, and will terminate on the earlier of August 27, 2011, the date Urbana completes its purchases pursuant to the notice of intention to make a normal course issuer bid filed with the TSX or the date of notice by Urbana of termination of the bid. Purchases are to be made on the open market by Urbana through the facilities of the TSX in accordance with the rules and policies of the TSX. The price that Urbana may pay for any such shares shall be the market price of such shares on the TSX at the time of acquisition. The shares purchased under the NCIB shall be cancelled. Urbana will not purchase in any given 30 day period, in the aggregate, more than 1,500,000 Non-Voting Class A Shares, being 2% of the 75,000,000 issued and outstanding Non-Voting Class A Shares as at August 24, 2010 (the date on which the notice was filed). As at December 31, 2010, Urbana has purchased 3,376,300 Non-Voting Class A Shares pursuant to the NCIB. These shares were purchased on the open market at an average purchase price of $1.22 per share. Previously, the Toronto Stock Exchange had accepted Urbana's notices of intention to conduct a normal course issuer bid for the periods of August 28, 2008 to August 27, 2009 and August 28, 2009 to August 27, 2010 ("Previous NCIBs"). Pursuant to these Previous NCIBs, Urbana purchased 1,336,582 Non-Voting Class A Shares at an average price of $1.28 per share and 3,083,920 Non-Voting Class A Shares at $1.32 per share respectively during these periods.

7. **Contributed surplus**

	2010	2009
	$	$
Balance, beginning of year	17,733,587	14,918,769
November 10, 2009 short form prospectus (note 6(a))	-	2,685,038
Normal course issuer bid repurchase discount (note 6 (b))	8,877,537	129,780
Balance, end of year	26,611,124	17,733,587

8. **Class A purchase warrants**

A summary of the Class A warrants are presented below:

	2010 Number of warrants	2010 Weighted average exercise price	2009 Number of warrants	2009 Weighted average exercise Price
		$		$
Outstanding, January 1	-	-	21,366,897	3.75
Expired	-	-	(21,366,897)	-
Outstanding, December 31	-	-	-	-

9. Series B Class A purchase warrants

A summary of the Series B warrants are presented below:

	Number of warrants	2010 Weighted average exercise price
		$
Outstanding, January 1, 2009	-	-
Issued – 2009	5,263,160	2.50
Over-Allotment - 2009	82,590	2.50
Outstanding, December 31, 2009 and 2010	5,345,750	2.50

As at December 31, 2009 and 2010, the following Series B warrants are outstanding:

	Number of warrants	Exercise Price	Expiry date
Class B warrants	5,345,750	2.50	November 10, 2011

10. Related party transactions

Caldwell Financial Ltd ("CFL") and Urbana are under common management. Caldwell Investment Management Ltd. ("CIM") is a subsidiary of CFL.

Under an investment management agreement dated May 1, 2006 between the Company and CIM, the investment manager, CIM, is entitled to an investment management fee equal to 1.5% per annum of the market value of the equity securities in the Company's portfolio and .5% of the market value of the fixed income securities in the Company's portfolio of marketable securities. The investment advisory fees are accrued and paid quarterly in arrears. In the years ended December 31, 2010 and 2009, investment management fees of $2,353,731 and $2,231,834 respectively were earned by CIM.

Included in accounts payable and accrued liabilities is investment management fees of $571,110 (2009 - $608,920) payable to CIM. There are no other fees payable to related parties.

All related party transactions are recorded at their exchange amounts.

11. Net asset value and net assets

In calculating net assets ("Net Assets") for financial reporting purposes, the Company must comply with Canadian GAAP and these rules require the use of the bid price for securities purchased long and ask price for securities sold short, where the securities are traded in an active market.

The Canadian securities regulatory authorities have published amendments to NI 81-106, in final form, that remove the requirement that net asset value be calculated in accordance with Canadian GAAP (other than in financial statements). As a result, the net asset value of investment funds (other than in financial statements) will continue to be calculated using the fair value of the assets and liabilities of the investment funds, as calculated by applying the close or last trade price to obtain securities values ("Net Asset Value").

11. Net asset value and net assets (continued)

As a result, the Company's investment valuations are different for weekly net asset value calculation and for financial statements purposes. The Net Asset Value per share and Net Assets per share is presented as follows:

	Net asset value per share	Net assets per share
	$	$
2010	1.83	1.83
2009	2.00	2.00

12. Income taxes

The Company's provision for income taxes is summarized as follows:

	2010	2009
	$	$
Net income (loss) before income taxes	(20,904,855)	38,384
Expected income taxes payable at future rates - 25%	(5,226,213)	9,596
Income tax effect of the following:		
Non-taxable portion of realized capital transactions losses	697,817	458,742
Non-taxable portion of unrealized capital losses	2,313,810	16,898
Decrease in effective income tax rate	444,695	1,668,698
Non-controlling interest	(234,882)	(453,380)
Other	(495,227)	(300,554)
	(2,500,000)	1,400,000

The components of the Company's future income tax (asset) liability are as follows:

	2010	2009
	$	$
Resource deductions available in perpetuity	(13,703)	(13,703)
Unrealized capital losses on investments	(5,403,378)	(2,540,754)
Share issuance costs	(494,610)	(955,364)
Tax benefit of capital loss carryforwards	(821,964)	(810,893)
Tax benefit of non-capital loss carryforwards	(769,030)	(733,739)
Other	2,685	54,453
Total future income tax (asset) liability	(7,500,000)	(5,000,000)

13. Future changes in accounting standards

International Financial Reporting Standards ("IFRS")

In 2008 the Canadian Accounting Standards Board ("AcSB") confirmed that publicly accountable enterprises will be required to adopt IFRS on or by January 1, 2011. In September 2010, the CICA extended the deadline for adoption of IFRS by certain qualifying investment funds by one year and in January 2011, the AcSB approved a one year extension of the deferral. Investment companies will now be required to mandatorily adopt IFRS for interim and annual financial statements relating to annual periods beginning on or after January 1, 2013. The comparative statements will also be prepared under IFRS.

Business combinations

In January 2009, the CICA issued Handbook Section 1582, "Business Combinations", which will replace CICA Section 1581 of the same name. Under the guidance, the purchase price used in a business combination is based on the fair value of shares exchanged at their market price at the date of the exchange and generally requires all acquisition costs to be expensed. Contingent liabilities are to be recognized at fair value at the acquisition date and re-measured at fair value through earnings each period until settled. In addition, negative goodwill is required to be recognized immediately in earnings. Section 1582 is effective for the first annual reporting period beginning on or after January 1, 2011.

Consolidated financial statements

In January 2009, the CICA issued Handbook Section 1601, "Consolidated Financial Statements", which will replace CICA Section 1600 of the same name. This guidance requires uniform accounting policies to be consistent throughout all consolidated entities. Section 1601 is effective for the first annual reporting period beginning on or after January 1, 2011.

Non-controlling interests

In January 2009, the CICA issued Handbook Section 1602, "Non-controlling Interests", which will replace CICA section 1600, "Consolidated Financial Statements". Minority interest will be referred to as Non-controlling Interest ("NCI"), and presented within equity. Under this new standard, when there is a loss or gain of control, the Corporation's previously held interest is revalued at fair value. In addition, NCI may be reported at fair value or at the proportionate share of the fair value of the acquired net assets and allocation of the net income to the NCI will be on this basis. Section 1602 is effective for the first annual reporting period beginning on or after January 1, 2011.

The Company is currently assessing the impact of adopting Section 1582, Section 1601 and Section 1602 on its consolidated financial position and results of operations.