

# URBANA CORPORATION

## INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE

For the six month period ended June 30, 2014

This interim management report of fund performance follows the disclosure requirements of the Canadian Securities Administrators' National Instrument 81-106. It contains financial highlights but does not contain the complete interim or annual financial statements of Urbana Corporation ("Urbana" or the "Corporation"). You can get a copy of Urbana's interim or annual financial statements at your request, and at no cost, by calling Urbana collect at (416) 595-9106, by writing to us at: 150 King Street West, Suite 1702, Toronto, Ontario M5H 1J9 or by visiting our website at [www.urbanacorp.com](http://www.urbanacorp.com) or the SEDAR website at [www.sedar.com](http://www.sedar.com).

Securityholders may also contact us using one of these methods to request a copy of Urbana's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

## MANAGEMENT DISCUSSION OF FUND PERFORMANCE

### Results of Operations

Net shareholders' equity decreased from \$174.9 million at the end of 2013 to \$169.9 million at the end of June 2014, a decrease of \$5.0 million (or 2.86%), which included \$2.05 million spent on the repurchase of the Corporation's Class A shares (See *Normal Course Issuer Bid* below). Net Assets per common share was \$2.86 as at June 30, 2014 compared to \$2.89 as at December 31, 2013, representing a decrease of 1.04%. The Net Assets per share for the Non-Voting Class A Shares, which have the same rights as the common shares upon liquidation, is the same as the Net Assets per common share.

Dividend income and interest income in the first six months of this year were \$1,090,986 and \$37,149 respectively as compared to \$1,216,578 and \$61,387 for the same period in 2013. During the first six months of 2014, Urbana realized a gain of \$4,661,016 from the sales and dispositions of investments as compared to a realized loss of \$15,150,109 during the same period in 2013. As at June 30, 2014, change in net unrealized net loss from December 31, 2013 was \$2,439,560.

Investment management fees for the first six months of 2014 increased by \$276,626 as compared to the same period in 2013 (2014 - \$1,515,954 and 2013 - \$1,239,328) as a result of a slight increase in investment portfolio. In the first six months of 2013, foreign withholding tax

decreased by \$137,826 (2014 – (\$1,723) and 2013 – (\$139,549)) as a result of lower U.S. dividend income for the period. Transaction costs decreased by \$287,429 (2014 - \$97,361 and 2013 - \$384,790).

Urbana's operations in the first six months of 2014 resulted in a net gain of \$865,531 (a net gain of \$3,305,091 before net unrealized gain on foreign exchange and investments, and income taxes) as compared to a net gain of \$41,032,867 (a net loss of \$15,841,290 before the specified items) in the same period in 2013.

### **Demand Loan Facility**

On February 19, 2008, Urbana entered into a demand loan facility with Bank of Montreal (the 'Bank'). In July 2009 the loan facility agreement was amended to allow Urbana to borrow up to \$15,000,000 from the Bank at any given time. As at June 30, 2014, interest was charged on the outstanding balance of the loan facility at the Bank's prime rate plus 2.50%, calculated on a daily basis and paid monthly. Subsequently, management has successfully negotiated for a lower borrowing rate of the Bank's prime rate plus 1.75%, effective as of July 21, 2014. The loan facility is secured by a general charge on Urbana's assets. Proceeds from the loan may be used for purchasing additional investments and/or for general corporate purposes. As at June 30, 2014, the outstanding balance of the loan was \$1,000,000, representing 0.59% of the net assets of Urbana. The minimum and maximum amount borrowed during the first six months of 2014 were \$0 and \$8,700,000 respectively.

### **Normal Course Issuer Bid**

On August 27, 2013 the Toronto Stock Exchange ("TSX") accepted Urbana's notice of intention to conduct a normal course issuer bid to purchase up to 5,394,023 of its own 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 29, 2013, and will terminate on the earlier of August 28, 2014, 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 is to be the market price of such shares on the TSX at the time of acquisition. The shares purchased under the NCIB are to be cancelled. Urbana is not to purchase in any given 30 day period, in the aggregate, more than 1,087,720 Non-Voting Class A Shares, being 2% of the 54,386,000 issued and outstanding Non-Voting Class A Shares as at August 27, 2013 (the date on which the notice was filed). As at June 30, 2014, Urbana has purchased 4,960,700 Non-Voting Class A Shares pursuant to the NCIB. These shares were purchased on the open market at an average purchase price of \$1.77 per share. Previously, the TSX had accepted Urbana's notices of intention to conduct normal course issuer bids for the periods of August 28, 2008 to August 27, 2009, August 28, 2009 to August 27, 2010, August 28 2010 to August 27, 2011, August 29, 2011 to August 28, 2012 and August 29, 2012 to August 28, 2013 ("Previous NCIBs"). Pursuant to these Previous NCIBs, Urbana purchased, respectively during these periods, 1,336,582 Non-Voting Class A Shares at an average price of \$1.28 per share, 3,083,920 Non-Voting Class A Shares at \$1.32 per share, 7,431,300 Non-Voting Class A Shares at \$1.27 per share, 6,636,033 Non-Voting Class A Shares at \$1.01 per share and 5,989,067 Non-Voting Class A Shares at \$1.18 per share.

## Acquisitions and Dispositions of Investments

From January 1, 2014 to June 30, 2014, Urbana made the following significant acquisitions and dispositions of investments:

### Acquisitions

<b>Investments</b>	<b>Quantity (units/shares)</b>	<b>Costs</b>
Highview Investments Limited Partnership	3,000,000	\$3,000,000
Caldwell Growth Opportunities Trust	318,327,260	2,600,000
Radar Capital Fund 1 Limited Partnership	1,450,000	1,450,000
AGF Management Ltd.	200,000	2,412,370
Citigroup Inc.	30,000	1,587,259
Barrick Gold Corp.	90,000	1,946,749
Edgecrest Capital Holdings Inc. promissory note	--	1,200,000

### Dispositions

<b>Investments</b>	<b>Quantity (units/shares)</b>	<b>Cost</b>	<b>Proceeds</b>
Citigroup Inc.	30,000	\$1,275,846	\$1,628,967
Intercontinental Exchange Group Inc.	10,640	2,209,846	2,379,785
CBOE Holdings Inc.	225,000	7,439,326	12,858,755
Manulife Financial Corp.	250,000	3,817,483	5,140,610
Sun Life Financial Inc.	125,000	3,563,270	4,760,070
2232057 Ontario Inc.	2,674,532	2,502,451	0
Unsecured subordinated promissory note - 10%	--	2,500,000	1,200,000

### Mining Claims

Urbana has owned resource properties in Urban Township, Quebec for a number of years. All development costs have been written off as no expenditures on exploration or evaluation have occurred since 2005. Management monitors the exploration activity in the area on an ongoing basis and may carry out exploration work on its resource properties if and when it is deemed suitable. In 2013 there has been some limited exploration activity in Urban Township by other companies with land positions there.

### Changes in Accounting Standards

As required by the Canadian Accounting Standards Board, the Corporation adopted the International Financial Reporting Standards (“IFRS”) basis of accounting, effective January 1, 2014. For all fiscal years up to and including the year ended December 31, 2013, the Corporation’s financial statements conformed to Part V Canadian Generally Accepted Accounting Principles (“Canadian GAAP”), per CPA Canada Handbook – Accounting. For details of the impact of the adoption of IFRS by the Corporation, refer to note 1 to the Corporation’s 2014 interim financial statements.

### **Dividend Policy and Dividend Declared**

On February 14, 2014, the board of directors of Urbana approved a policy to pay an annual cash dividend to the holders of common and non-voting Class A shares of the Corporation (collectively, the “Shareholders”). The Corporation intends to pay a cash dividend of five cents (\$0.05) per share to the Shareholders in March each year beginning March, 2014. The amount of dividend to be paid is determined each year by the board of directors of the Corporation (the “Board”), taking into consideration all factors that the Board deems relevant, including the performance of the Corporation’s investments, the economic and market conditions, and financial situation of the Corporation.

On February 14, 2014, Urbana’s board of directors declared a cash dividend of five cents (\$0.05) per share on the issued and outstanding common and non-voting Class A shares of Urbana, payable on the 17th of March, 2014, to the Shareholders of record at the close of business on the 3rd day of March, 2014. Pursuant to subsection 89(14) of the Income Tax Act of Canada (ITA) each dividend paid by Urbana qualifies as and is designated an eligible dividend for Canadian income tax purposes, as defined in subsection 89(1) of the ITA.

### **Related Party Transactions**

Caldwell Financial Ltd., a company under common management with Urbana, is the parent company of Caldwell Investment Management Ltd. (“CIM”), the investment manager of Urbana. In the six month period ended June 30, 2014, CIM earned from Urbana investment management fees of \$1,515,954 inclusive of HST (2013 – \$1,239,328). In the six month period ended June 30, 2014, CIM absorbed no expenditures relating to Urbana (2013 - \$ Nil). As at June 30, 2014 there was an investment management fee payable of \$736,850 to CIM (December 31, 2013 – \$758,265). There were no other fees payable to related parties as at June 30, 2014.

The Corporation has a 50% ownership interest in Radar Capital Inc. (“RCI”), a private capital company, and Urbana SRL Inc. (“SRL”), a company that markets an investment management software. As at June 30, 2014, Urbana had advanced RCI and SRL each \$500,000 as operating capital. As at June 30, 2014, accounts receivable of the Corporation included \$269,867 from RCI and SRL and there were bad debts of \$324,095 related to these advances. At June 30, 2014, Urbana had made investments of \$4,950,040 in two limited partnerships that are managed by RCI.

All related party transactions are recorded at their exchange amounts

Subsequent to its establishment, the Independent Review Committee of Urbana has made a recommendation to Urbana and CIM to execute portfolio transactions through Caldwell Securities Ltd., a sister company of CIM and a registered broker and investment dealer, provided that such transactions are executed on terms as favourable or more favourable to Urbana as those executed through broker-dealers unrelated to CIM.

## FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about Urbana and are intended to help you understand Urbana's financial performance for the six month period ended June 30, 2014 and for the prior five financial years.

<b>Urbana's Net Assets per Share<sup>(1)(2)</sup></b>						
	<b>Six months ended 06/30/2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Net assets, beginning of year/period	\$2.89	\$1.86	\$1.70	\$1.83	\$2.00	\$2.05
Realized loss for the year/period	0.08	(0.35)	(0.22)	(0.11)	(0.07)	(0.05)
Unrealized gain(loss) for the year/period	(0.04)	1.26	0.38	(0.09)	(0.22)	(0.00)
Total investment income for the year/period	0.02	0.05	0.08	0.06	(0.09)	0.08
Total expenses for the year/period including future taxes and non-controlling portion of loss. <sup>(3)(4)</sup>	(0.05)	(0.07)	(0.06)	(0.01)	(0.02)	(0.05)
Distributions	0.05	Nil	Nil	Nil	Nil	Nil
Increase in contributed surplus from NCIB purchases	0.02	\$0.22	0.13	0.15	0.11	0.00
Net assets, end of year/period <sup>(5)</sup>	2.86	\$2.89	1.86	1.70	1.83	2.00

(1) This information is derived from Urbana's audited annual financial statements and most recent unaudited interim financial statements. The net assets per share presented in the financial statements may differ from the net asset value calculated for fund valuation purposes due to differences in valuation techniques as described in the note 9 to the interim financial statements.

(2) Net assets are based on the actual number of shares outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of shares outstanding over the financial period.

(3) For the years of 2013 and before, total expenses include non-controlling interest portion of loss. For the six months period ended June 30, 2014, due to the adoption of IFRS, there was no non-controlling interest portion of loss.

(4) Total expenses include future taxes only where future taxes are an expense. Where future taxes are revenue (i.e. a future tax credit), total expenses do not include future taxes.

(5) This is not a reconciliation of beginning and ending net assets per share.

<b>Ratios and Supplemental Data</b>						
	<b>Six months ended 06/30/2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Total net asset value(000's) <sup>(1)</sup>	\$169,872	\$174,854	\$129,073	\$126,669	\$148,103	\$174,683
Shares outstanding <sup>(1)</sup>	59,425,300	60,525,200	69,579,000	74,408,000	81,066,100	87,526,320
Management expense ratio including share issuance costs <sup>(2)</sup>	2.67%	2.68%	3.45%	3.20%	2.76%	4.32%
Management expense ratio excluding share issuance costs <sup>(2)</sup>	2.67%	2.68%	3.45%	3.20%	2.76%	2.94%
Management expense ratio excluding share issuance costs and foreign withholding taxes <sup>(2)</sup>	2.67%	2.67%	2.93%	2.89%	2.14%	2.11%

Management expense ratio excluding share issuance costs, foreign withholding taxes and interest <sup>(2)</sup>	2.52%	2.50%	2.31%	2.32%	1.98%	1.99%
Management expense ratio excluding share issuance costs, foreign withholding taxes and interest, before waivers or absorptions	2.52%	2.50%	2.31%	2.32%	1.98%	1.99%
Portfolio turnover ratio <sup>(3)</sup>	15.88%	52.02%	21.65%	5.56%	7.21%	2.23%
Trading expense ratio <sup>(4)</sup>	0.11%	0.48%	0.63%	0.08%	0.44%	0.00%
Net asset value per share	2.86	\$2.89	\$1.86	\$1.70	\$1.83	\$2.00
Closing market price (common)	1.82	\$1.85	\$1.00	\$0.89	\$1.29	\$1.51
Closing market price (Class A)	1.81	\$1.88	\$0.97	\$0.89	\$1.23	\$1.48

(1) This information is provided as at the end of the stated period/financial year.

(2) Management Expense Ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of weekly average net asset value during the period.

(3) Urbana's portfolio turnover rate indicates how actively the corporation's investment manager manages Urbana's portfolio securities investments. A portfolio turnover rate of 100% is equivalent to the corporation buying and selling all of the securities in the portfolio once in the course of the year. The higher a company's portfolio turnover rate in a year, the greater the trading costs payable by the company in the year, and the greater the chance that the company will receive taxable gains or losses in the year. There is not necessarily a relationship between a high turnover rate and the performance of the investment portfolio.

(4) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of weekly average net asset value during the period.

## Management Fees

Investment management fees are charged for portfolio management services in accordance with an investment management agreement with CIM. Pursuant to a fund management and portfolio management agreement effective as of August 1, 2011 between Urbana and CIM, CIM is entitled to an investment management fee equal to 1.5% per annum of the market value of Urbana's investment portfolio. During the six month period ended June 30, 2014, CIM earned \$1,515,954 (inclusive of HST) of investment management fees from Urbana, as compared to \$1,239,328 during the same period in 2013. In the same periods, CIM absorbed no expenditures related to Urbana. The investment management fees are accrued and paid quarterly in arrears.

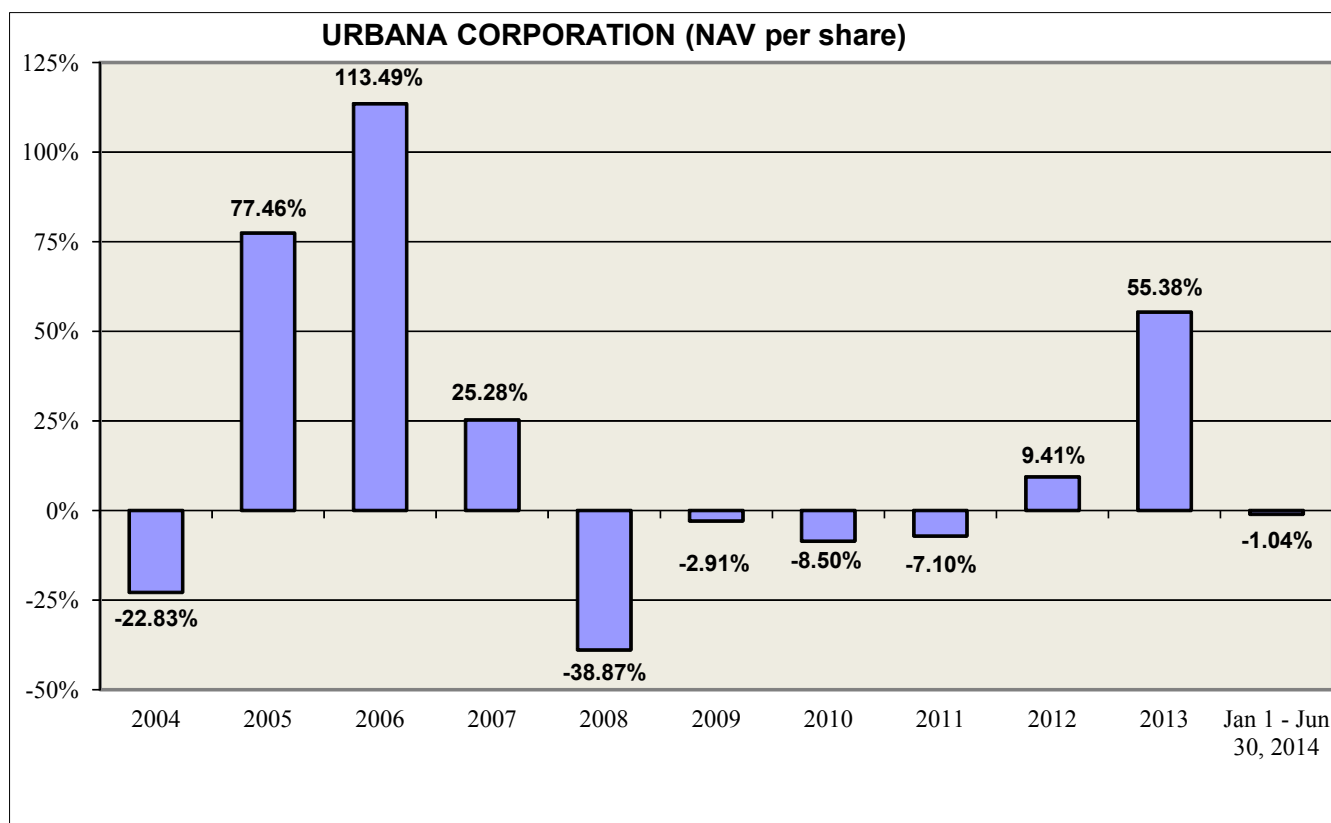
## PAST PERFORMANCE

The performance information presented in this section shows how Urbana has performed in the past and does not necessarily indicate how it will perform in the future.

### Year-by-Year Returns

The following bar chart shows the net asset value performance of Urbana’s common shares for the financial years/periods indicated. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year/period would have grown or decreased by the last day of each financial year/period based on the net asset value (NAV) per share of Urbana.

Urbana’s Non-Voting Class A Shares were first issued on January 11, 2007. The Non-Voting Class A Shares, which have the same rights as the common shares upon liquidation, have the same NAV per share as the common shares.



\*CIM began managing Urbana’s investment portfolio on October 1, 2002.

**SUMMARY OF INVESTMENT PORTFOLIO**  
**As at June 30, 2014**

The following data is extracted from Urbana's interim financial statements:

Number of shares, units or seats	Description	Cost	Fair value	% of Portfolio Fair Value	% of Total Net Assets
<b>Privately owned entities</b>					
2,350,699	Caldwell India Holdings Inc. <sup>1</sup>	26,259,711	15,027,696	8.72%	8.85%
791,000	Urbana Mauritius Inc. <sup>2</sup>	6,077,244	5,020,814	2.91%	2.96%
10,324,506	CNSX Markets Inc. common stock	4,995,936	6,194,704	3.60%	3.65%
32	Minneapolis Grain Exchange	7,279,359	6,646,536	3.86%	3.91%
169,341	Budapest Stock Exchange	4,761,242	2,222,627	1.29%	1.31%
759,000	Caldwell Financial Ltd.	1,707,750	2,193,510	1.27%	1.29%
1,950,040	Radar Capital Fund 1 Limited Partnership	1,950,040	1,950,040	1.13%	1.15%
3,750,000	Real Matters Inc.	4,500,000	4,500,000	2.61%	2.65%
3,000,000	Highview Investments Limited Partnership	3,000,000	3,000,000	1.74%	1.77%
318,327,260	Caldwell Growth Opportunities Trust	2,600,000	2,625,722	1.52%	1.55%
<b>Publicly traded securities</b>					
625,000	CBOE Holdings Inc.	20,664,795	32,760,020	19.02%	19.29%
45,000	Intercontinental Exchange Group Inc.	9,346,153	9,054,308	5.26%	5.33%
300,000	Citigroup Inc.	13,069,871	15,050,570	8.74%	8.86%
1,200,000	Bank of America Corp.	14,386,684	19,645,627	11.41%	11.56%
800,000	AGF Management Ltd.	10,200,638	9,984,000	5.80%	5.88%
700,000	Barrick Gold Corp.	13,038,664	13,675,135	7.94%	8.05%
600,000	Morgan Stanley	14,411,923	20,661,780	12.00%	12.16%
<b>Other</b>					
	Edgecrest Capital Holdings Inc. <sup>3</sup>	1,200,000	1,200,000	0.70%	0.71%
	Cash and Cash Equivalents <sup>3</sup>	833,212	833,212	0.48%	0.49%
<b>Total</b>		<b>160,283,222</b>	<b>172,246,301</b>	<b>100.00%</b>	<b>101.40%</b>

<sup>1</sup>Urbana owns 58.54% of the outstanding shares of Caldwell India Holdings Inc, which holds 4,015,544 equity shares of the Bombay Stock Exchange.

<sup>2</sup>Urbana Mauritius Inc. is a wholly-owned subsidiary of Urbana and holds 791,000 equity shares of the Bombay Stock Exchange.

<sup>3</sup> The Corporation holds an unsecured subordinated 8% promissory note, \$500,000 of which is repayable on January 27, 2015 and the remaining \$700,000 repayable on January 27, 2016.

The above summary of the investment portfolio may change due to ongoing portfolio transactions. Weekly and quarterly updates are available at Urbana's website at [www.urbanacorp.com](http://www.urbanacorp.com)



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