

**CALLINAN MINES LIMITED**  
**FINANCIAL STATEMENTS**  
**SIX MONTHS ENDED DECEMBER 31, 2010 AND 2009**

**CALLINAN MINES LIMITED**  
**SIX MONTHS ENDED DECEMBER 31, 2010 AND 2009**

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**CALLINAN MINES LIMITED**  
**BALANCE SHEETS**  
**AS AT**

	December 31, 2010 (Unaudited)	June 30, 2010 (Audited)
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 15,789,088	\$ 13,483,189
Accounts and Other Receivables	9,521,255	8,380,400
GST Receivable	146,700	77,982
Income Tax Receivable	550,532	-
Prepaid Expenses	<u>83,691</u>	<u>218,868</u>
<b>TOTAL CURRENT ASSETS</b>	<b>26,091,266</b>	<b>22,160,439</b>
<b>MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS</b> (Note 3)	<b>21,296,359</b>	<b>15,958,678</b>
Net of Accumulated Amortization of \$1,138,762 (June 30, 2010 - \$1,131,975)		
<b>EQUIPMENT</b> (Note 4)		
Net of Accumulated Amortization of \$221,249 (June 30, 2010 - \$183,440)	<b>80,121</b>	<b>90,279</b>
<b>INVESTMENTS</b> (Note 5)	<u><b>1,914,789</b></u>	<u><b>1,585,071</b></u>
<b>TOTAL ASSETS</b>	<u><b>\$49,382,535</b></u>	<u><b>\$ 39,794,467</b></u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Liabilities	\$ 130,888	\$ 219,052
Income Tax Payable	2,202,683	1,005,193
<b>LONG-TERM LIABILITY</b>		
Future Income Tax Liability	<u><b>3,781,361</b></u>	<u><b>3,781,361</b></u>
<b>TOTAL LIABILITIES</b>	<u><b>\$ 6,114,932</b></u>	<u><b>\$ 5,005,606</b></u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>CAPITAL STOCK</b> (Note 6)		
Authorized - Unlimited Common Shares – No Par Value Issued – 46,642,121 Common Shares (June 30, 2010 – 45,192,121)	<b>28,268,547</b>	<b>26,428,218</b>
<b>CONTRIBUTED SURPLUS</b> (Note 6)	<b>5,314,015</b>	<b>5,032,349</b>
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME</b>	<b>377,620</b>	<b>463,952</b>
<b>RETAINED EARNINGS(DEFICIT)</b>	<u><b>9,307,421</b></u>	<u><b>2,864,342</b></u>
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<u><b>43,267,603</b></u>	<u><b>34,788,861</b></u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u><b>\$49,382,535</b></u>	<u><b>\$ 39,794,467</b></u>

Nature and continuance of operations (Note 1)

Subsequent events (Note 13)

*The accompanying notes are an integral part of these financial statements*

**CALLINAN MINES LIMITED**  
**STATEMENTS OF OPERATIONS AND RETAINED EARNINGS (DEFICIT)**

	Three Months Ended December 31,		Six Months Ended December 31,	
	2010	2009	2010	2009
<b>INCOME</b>				
Interest	\$ 35,776	\$ 6,519	\$ 57,845	\$ 11,357
Royalty – Callinan Mine	<u>6,133,238</u>	<u>4,843,628</u>	<u>10,552,009</u>	<u>7,695,952</u>
	6,169,014	4,850,147	10,609,854	7,707,309
<b>EXPENDITURES</b>				
Annual Meeting	20,763	18,268	21,742	19,246
Audit and Accounting	64,433	97,281	82,744	97,134
Bank Charges & Interest	2,157	416	3,605	1,015
Consulting Fees	7,500	48,774	55,131	111,999
Donation	2,000	-	2,000	1,000
Equipment Amortization	10,747	16,400	37,809	16,400
Insurance Expense	7,581	8,918	14,719	17,835
Legal	74,768	83,646	148,072	185,576
Listing and Sustaining Fees	8,585	6,503	8,755	13,595
Mineral Property Amortization	3,348	3,588	6,787	7,455
Mining Tax Expense	-	-	-	-
Property Investigation Costs	52,536	53,556	75,890	135,437
Office and Administration	15,761	16,622	24,387	25,754
Office Rent	8,346	12,156	20,864	24,312
Salaries and Wages	307,018	213,560	464,388	357,697
Shareholder Relations and News Releases	146,050	37,558	214,289	75,343
Stock-based Compensation	735,645	150,826	735,645	150,826
Telephone	6,716	5,292	11,774	10,272
Transfer Agent	5,633	5,549	8,956	10,498
Travel	23,824	17,621	41,724	29,304
Miscellaneous	<u>9,178</u>	<u>-</u>	<u>39,801</u>	<u>(36,952)</u>
	(1,512,589)	(796,534)	(2,019,082)	(1,253,746)
<b>NET INCOME BEFORE TAXES</b>	<b>4,656,425</b>	<b>4,053,613</b>	<b>8,590,772</b>	<b>6,453,563</b>
Income Tax expenses/Current and Future	<u>(2,147,693)</u>	<u>(272,142)</u>	<u>(2,147,693)</u>	<u>(196,479)</u>
<b>Net Income for the Period</b>	<b>2,508,732</b>	<b>3,781,471</b>	<b>6,443,079</b>	<b>6,257,084</b>
Deficit at Beginning	<u>6,798,689</u>	<u>(3,125,120)</u>	<u>2,864,342</u>	<u>(5,600,733)</u>
Retained Earnings at End of Period	<u>\$ 9,307,421</u>	<u>\$ 656,351</u>	<u>\$ 9,307,421</u>	<u>\$ 656,351</u>
<b>NET INCOME PER COMMON SHARE</b>				
Basic	\$ 0.05	\$ 0.08	\$ 0.14	\$ 0.14
Fully Diluted	\$ 0.05	\$ 0.07	\$ 0.13	\$ 0.13
Weighted Average Number of Common Shares Outstanding				
Basic	45,917,208	44,600,817	46,040,118	44,647,121
Fully Diluted	46,220,703	44,854,505	46,343,313	44,900,789

*The accompanying notes are an integral part of these financial statements*

**CALLINAN MINES LIMITED**  
**STATEMENTS OF CASH FLOWS**  
**SIX MONTHS ENDED DECEMBER 31, 2010 AND 2009**

CASH PROVIDED BY (USED FOR)	Three Months Ended December 31,		Six Months Ended December 31,	
	2010	2009	2010	2009
<b>OPERATING ACTIVITIES</b>				
Income for the quarter	\$ 2,508,732	\$ 3,781,471	\$ 6,443,079	\$ 6,257,084
Items not affecting cash:				
Mineral property amortization	3,348	3,588	6,787	7,455
Equipment Amortization	10,747	16,400	37,809	16,400
Stock-based compensation	735,645	150,826	735,645	150,826
Current income taxes	2,147,693	272,142	2,147,693	196,479
Changes in non-cash working capital items:				
(Increase) in receivables	(3,214,110)	(1,956,744)	(1,760,104)	889,018
(Increase) decrease in prepaids	(23,208)	49,308	135,177	61,286
Decrease in accounts payable	<u>(1,874,471)</u>	<u>(119,530)</u>	<u>(1,038,369)</u>	<u>(22,578)</u>
Net cash flows provided by operations	294,376	2,197,461	6,707,717	7,555,970
<b>INVESTING ACTIVITIES</b>				
Mineral properties and deferred Exploration costs - net of recoveries	(1,357,227)	(982,000)	(5,079,367)	(1,847,887)
Equipment purchases	(16,740)	(1,018)	(27,651)	(1,018)
Investment acquired	<u>(202,970)</u>	<u>(250,000)</u>	<u>(416,050)</u>	<u>(250,000)</u>
Cash used in investing activities	(1,576,937)	(1,233,018)	(5,523,068)	(2,098,905)
<b>FINANCING ACTIVITIES</b>				
Capital stock issued, net of issuance costs	1,093,437	25,000	1,121,250	25,000
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>189,124</b>	<b>989,443</b>	<b>2,305,899</b>	<b>5,482,065</b>
Cash and equivalents at beginning of period	<u>15,978,212</u>	<u>11,328,767</u>	<u>13,483,189</u>	<u>6,836,145</u>
<b>CASH AND EQUIVALENTS AT END OF PERIOD</b>	<b><u>\$ 15,789,088</u></b>	<b><u>\$ 12,318,210</u></b>	<b><u>\$ 15,789,088</u></b>	<b><u>\$ 12,318,210</u></b>
Cash and cash equivalents is comprised of:				
Cash	\$ 433,512	\$ 416,678	\$ 433,512	\$ 416,678
Cash equivalents	<u>\$ 15,355,576</u>	<u>\$ 11,901,532</u>	<u>\$ 15,355,576</u>	<u>\$ 11,901,532</u>
Cash paid during the year for:				
Interest	-	-	-	-
Income taxes	\$ 495,542	-	\$ 1,500,735	-

Supplemental disclosure with respect to cash flows (Note 10)

*The accompanying notes are an integral part of these financial statements*

**CALLINAN MINES LIMITED**  
**STATEMENTS OF COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE**  
**INCOME, (LOSS)**

**SIX MONTHS ENDED DECEMBER 31, 2010 AND 2009**

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<b>Statements of Comprehensive Income</b>	<b>Six Months Ended December 31, 2010</b>	<b>Six Months Ended December 31, 2009</b>
Net Income for the Period	\$ 6,443,079	\$ 6,257,084
Other Comprehensive Income, Net of Tax		
Fair value adjustment for available-for-sale securities	<u>86,332</u>	<u>79,150</u>
Comprehensive Income	<u>\$ 6,529,411</u>	<u>\$ 6,336,234</u>

**Statements of Accumulated Other Comprehensive Income (Loss)**

	<b>December 31, 2010 (Unaudited)</b>	<b>June 30, 2010 (Audited)</b>
Accumulated Other Comprehensive Income,		
Beginning of Period	\$ 463,952	\$ (74,800)
Cumulative effect of change in accounting policy	-	-
Adjustment on disposition of shares	-	-
Fair value adjustment for available-for-sale securities	<u>(97,555)</u>	<u>718,336</u>
	366,397	643,536
Future income taxes (expense)/recovery	<u>11,223</u>	<u>(179,584)</u>
Accumulative Other Comprehensive Income		
(Loss) End of Period	<u>\$ 377,620</u>	<u>\$ 463,952</u>

*The accompanying notes are an integral part of these financial statements.*

**CALLINAN MINES LIMITED  
NOTES TO FINANCIAL STATEMENTS**

**SIX MONTHS ENDED DECEMBER 31, 2010 AND 2009**

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**1. NATURE AND CONTINUANCE OF OPERATIONS**

The principal activity of Callinan Mines Limited (“the Company”) is the acquisition, exploration and evaluation of mineral properties in Canada.

These financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing, continued royalty payments from Hudson Bay Mining and Smelting Co. Limited, (“Hudbay”) and to commence profitable operations in the future.

All amounts are in Canadian dollars unless otherwise stated.

**2. SIGNIFICANT ACCOUNTING POLICIES**

The unaudited interim financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for audited financial statements. In the opinion of management, all adjustments (consisting of normal and recurring accruals) considered necessary for fair presentation have been included. Operating results for the six months period ended December 31, 2010 are not necessarily indicative of the results that may be expected for the year ended June 30, 2011.

The interim financial statements have been prepared by management in accordance with the accounting policies described in the Company’s annual financial statements for the year ended June 30, 2010. For further information, refer to the financial statements and footnotes thereto included for the year ended June 30, 2010.

**New accounting standards**

International Financial Reporting Standards (“IFRS”)

In 2006 the Canadian Accounting Standards Board (“AcSB”) published a strategic plan that will significantly affect financial reporting requirements for Canadian companies. The strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period.

In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada’s existing GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of July 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended June 30, 2011.

The Company has begun assessing the adoption of IFRS for 2011, and the financial reporting impact of the transition to IFRS is not expected to be significant other than increased disclosures in the notes of the financial statements.

**CALLINAN MINES LIMITED  
NOTES TO FINANCIAL STATEMENTS**

**SIX MONTHS ENDED DECEMBER 31, 2009 AND 2008**

**3. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS**

**Activity as of December 31, 2010**

	Callinan	Hamell Lake	Fox	Gossan	Coles	Rug	Herblet	Other	Total
Acquisition	\$ -	\$ 81,000	\$ -	\$ 48,024	\$ 205,000	\$ 17,559	\$ 29,658	\$ 321,200	\$ 702,441
Geochemical	-	-	-	-	16,362	-	45,378	-	61,740
Geophysical	-	11,500	-	-	144,842	-	-	-	156,342
Linecutting	-	-	-	-	-	-	40,130	-	40,130
Drilling	-	-	19,587	431,466	2,549,632	-	-	(4,895)	2,995,790
Consulting	-	-	1,200	18,524	55,669	-	24,800	1,500	101,693
Freight	-	-	-	-	-	-	-	-	-
Travel	-	-	-	-	22,179	-	-	-	22,179
Field & Camp	-	-	-	58,421	1,027,257	-	1,139	2,295	1,089,112
Vehicle	-	-	-	-	65,952	-	927	-	66,879
Prospecting	-	-	-	800	7,025	-	28,341	55,111	91,277
Miscellaneous	-	-	-	15,272	-	-	-	1,612	16,884
Recovery***	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>92,500</b>	<b>20,787</b>	<b>572,507</b>	<b>4,093,918</b>	<b>17,559</b>	<b>170,373</b>	<b>376,823</b>	<b>5,344,467</b>
Opening	221,508	313,484	4,149,499	260,026	7,331,275	68,108	387,931	3,226,847	15,958,678
W/O Mineral Property	-	-	-	-	-	-	-	-	-
Amortization	(6,786)	-	-	-	-	-	-	-	(6,786)
December 31, 2010	\$ 214,722	\$ 405,984	\$ 4,170,286	\$ 832,533	\$ 11,425,193	\$ 85,667	\$ 558,304	\$ 3,603,670	\$ 21,296,359

**Activity as December 31, 2009**

**Activity As Of December 31, 2009**

	Callinan	Hamell Lake	Fox	Island Lake	Coles	Sneath	Cal	Other	Total
Acquisition	\$ -	\$ 34,200	\$ 249,524	\$ 66,500	\$ 5,000	\$ -	\$ -	\$ 273,500	\$ 628,724
Geochemical	-	-	51,598	-	62,228	-	-	11,359	125,185
Geophysical	-	-	6,352	-	169,097	-	-	345,490	520,939
Linecutting	-	-	-	-	24,255	-	-	195,631	219,886
Drilling	-	-	-	-	3,441	-	-	80,286	83,727
Consulting	-	-	14,930	1,800	44,699	-	-	45,871	107,300
Freight	-	-	-	-	-	-	-	-	-
Travel	-	-	1,220	-	5,473	-	-	-	6,693
Field & Camp	-	100	12	-	348,576	-	-	21,859	370,547
Vehicle	-	100	266	-	35,606	-	-	1,045	37,017
Prospecting	-	1,542	-	-	221,853	-	-	14,848	238,243
Miscellaneous	-	-	-	-	9,923	-	-	-	9,923
Recovery***	-	-	-	-	(347,729)	-	-	(28,368)	(376,097)
<b>Total</b>	<b>-</b>	<b>35,942</b>	<b>323,902</b>	<b>68,300</b>	<b>582,422</b>	<b>-</b>	<b>-</b>	<b>961,521</b>	<b>1,972,087</b>
Opening	236,237	261,657	2,515,515	-	6,523,632	805,890	628,249	1,858,689	12,829,869
Amortization	(7,456)	-	-	-	-	-	-	-	(7,456)
December 31, 2009	\$ 228,781	\$ 297,599	\$ 2,839,417	\$ 68,300	\$ 7,106,054	\$ 805,890	\$ 628,249	\$ 2,820,210	\$ 14,794,500

\*\*\* From the Mineral Exploration Assistance Program (MEAP) which provides assistance for non-fuel exploration in Manitoba and the joint venture with Bell Resources for Fox River, and from the BC Mining Exploration Tax credit (BCMETS) for exploration in British Columbia.

**CALLINAN MINES LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

**SIX MONTHS ENDED DECEMBER 31, 2010 AND 2009**

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**3. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (cont....)**

Title to mineral property interests involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral claims. The Company has investigated title to all of its mineral property interests and, to the best of its knowledge, expects title to all of its interests to be in good standing.

(a) Callinan

The Company holds a 6-2/3% net profits interest in the Callinan Mine in Manitoba. This mine is operated by Hudbay. The Company also receives a royalty of \$0.25 per ton of ore milled, effective January 1, 1988. In the event of abandonment of the Callinan Claims by Hudbay, the rights and claims will be transferred back to the Company.

On March 5, 2007, the Company commenced action in the Manitoba Court of Queens Bench against Hudbay in relation to the 6-2/3% net profit interests in the Callinan Mines. The Company is seeking:

- (i) the right to conduct an audit of the books and records of the operations of Hudbay in relation to the Callinan Mine and the recently developed 777 mine
- (ii) a declaration that Hudbay must keep and maintain separate records and accounts for each of the Callinan Mine and the 777 Mine
- (iii) a declaration that the Cumulative Cash Flow defined in the Net Profit Interest Agreement and accumulated for the Callinan Mine should not be used in calculating the Net Profits interest from the 777 Mine
- (iv) an order compelling Hudbay to make available to Callinan the books and records of both the Callinan Mine and the 777 Mine
- (v) an order for an accounting of all sums improperly included or excluded in calculating the Net Profits Interest
- (vi) general damages for breach of contract and breach of fiduciary duty
- (vii) aggravated and punitive damages, interest and costs

(b) Fox River

On March 15, 2003 the Company acquired an option to purchase the Fox River Property. The Company has satisfied the requirements for earning a 60% interest in the property and on October 9, 2009 purchased an additional 10% interest in the property for \$200,000. The Company now has a 70% interest in the property and can earn an additional 10% by producing a feasibility study. On March 15, 2006 the company assigned half of its interest in this property to Bell Resources Corporation ("Bell"). The agreement with Bell was amended on February 21, 2005 to allow Bell to issue 1,250,000 common shares of Bell to the Company in lieu of expending the \$250,000 that Bell was required to pay under the agreement. On April 14, 2008 the agreement with Bell was again amended to allow Bell to withdraw from the joint venture. Bell's interest is now based on a dilution clause contained in the agreement of March 15, 2006.

**CALLINAN MINES LIMITED  
NOTES TO FINANCIAL STATEMENTS**

**SIX MONTHS ENDED DECEMBER 31, 2010 AND 2009**

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**3. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (cont....)**

(c) Coles Creek

On August 1, 2005 the Company entered into an agreement with Mike Muzylowski, President of the Company, under which the Company was granted the option to acquire a 100% interest in certain claims in the Omenica Mining Division of British Columbia. Under the terms of the agreement, Mr. Muzylowski, was paid \$50,000. If the option was exercised on or before September 1, 2008, \$200,000 would be due to Mr. Muzylowski. During fiscal 2008 Mr. Muzylowski chose to defer this payment date to September 2009, in lieu of a payment of \$5,000. In September 2009 Mr. Muzylowski again chose to defer payment to September 2010 in lieu of a payment of \$5,000. On August 13, 2010 Mr. Muzylowski was paid the \$200,000 due to him. To maintain the option in good standing, Callinan must expend \$500,000 on exploration of the claims prior to September 1, 2008. To date the Company has incurred exploration expenditures of \$12,966,466 thereby, meeting its obligation. If the claims are placed into production, Mr. Muzylowski will be entitled to a 5% royalty on net smelter returns, of which Callinan can repurchase one half or 2.5% for \$1,500,000.

(d) Dion Lake

On June 26, 2007 the Company entered into an option agreement for the Dion Lake property near Snow Lake, Manitoba. The agreement called for payment of \$100,000 and 100,000 common shares over 36 months on receipt of regulatory approval (received). All obligations required to keep the holding in good standing have been met.

(e) Herblet Lake

On March 15, 2007 the Company entered into an option agreement for the above property. The agreement requires payment of \$50,000 and issuance of 100,000 shares over 36 months after regulatory approval (received). All obligations have been met.

(f) Moak and Norris Lake

On May 14, 2007 the Company entered into an option agreement whereby it was obligated to make payments totalling \$100,000 and issue 200,000 shares within 36 months after regulatory approval is received. All obligations have been met after the receipt of regulatory approval.

(g) Berry Creek

On March 15, 2008 the Company optioned the Berry Creek Claims which affords it the right to acquire 100% interest in and to the mineral claims, subject only to the royalty interest of 2% Net Smelter Returns. In order to acquire 100% interest the Company must pay \$20,000 and issue 25,000 shares on receipt of regulatory approval (received, paid/issued), a further \$40,000 and 375,000 shares within 36 months of the effective date. To date all obligations have been met on this project.

(h) Tramping Lake

Between March 28 and April 10, 2008 the Company staked claims in the Snow Lake area of Manitoba. To date \$99,077 has been expended on this property.

(i) Hamell Lake

On July 9, 2008 the Company received Toronto Stock Exchange ("Exchange") approval for the option agreement entered into for Hamel Lake claims located near Flin Flon, Manitoba. This agreement called for payments of \$150,000 and issuance of 150,000 shares of common stock over a three year period. The property is subject to a 2% Net Smelter Return Royalty of which the Company may purchase half for \$1,000,000 subject to further Exchange review and acceptance. All obligations have been met to keep this property in good standing.

**CALLINAN MINES LIMITED  
NOTES TO FINANCIAL STATEMENTS**

**SIX MONTHS ENDED DECEMBER 31, 2010 AND 2009**

**2. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (cont....)**

(j) Island Lake

On July 31, 2009 the Company optioned the Island Lake claims. In order to acquire an 80% interest in the claims, the Company must pay \$400,000 and issue 400,000 shares within 36 months of the effective date of the agreement. The Company must also incur cumulative expenditure of \$100,000 within 12 months, \$1,000,000 within 24 months and \$1,900,000 within 36 months.

(k) Pine Bay

On July 8, 2009 the Company entered into an agreement to acquire a 100% interest in the Pine Bay Claims and a 90% interest in the Sour Claims. To acquire the claims the Company must make payments of \$375,000 and issue 425,000 shares within 36 months of the effective date. All obligations have been met on this claim.

(l) Rug Claims

On May 12, 2010 the Company entered into an agreement to acquire a 100% interest in the Rug Claims for payment of \$200,000 and issuance of 200,000 shares within 36 months of the effective date. In addition, the Company must make cumulative expenditures of \$100,000 within 12 months, \$250,000 within 24 months and \$450,000 within 36 months to keep the option in good standing.

(m) Gossan

On April 10, 2010 the Company entered into an agreement to acquire 100% interest in the Gossan Gold Property for payment of \$20,000 and issuance of 150,000 shares payable within 5 business days from acceptance of the agreement by the TSX Venture Exchange.

(n) Stag Claim

On May 29, 2010 the Company staked claims at Stag Lake in Manitoba.

(o) Troitsa

On September 24, 2010 the Company increased its holding in British Columbia by entering into an agreement to acquire the Troitsa claim. The agreement calls for payment of \$300,000 and issuance of 300,000 common shares within 48 months of the acceptance of the agreement by the TSX Venture Exchange. Acceptance by TSX Venture Exchange was received and all obligations to keep the option in good standing have been met.

**4. EQUIPMENT**

	Opening Net Balance	Additions	Cost	Amortization	December 31 2010 Net Book Value
Machinery & Equipment	54,870	3,083	57,953	16,923	41,030
Office Furniture	16,576	9,000	25,576	4,215	21,361
Computer Equipment	18,833	15,568	34,401	16,671	17,730
<b>Totals</b>	<b>90,279</b>	<b>27,651</b>	<b>117,930</b>	<b>37,809</b>	<b>80,121</b>

**CALLINAN MINES LIMITED  
NOTES TO FINANCIAL STATEMENTS**

**SIX MONTHS ENDED DECEMBER 31, 2010 AND 2009**

**5. INVESTMENTS**

The Company's investments consist of the following:

- a. 55,340 common shares of Bison Gold Resources with a carrying value at fair market value of \$14,942 (June 30, 2010 - \$4,704).
- b. 1,320,000 common shares of Bell Copper Corporation with a carrying value at fair market value of \$285,000 (June 30, 2010 - \$363,000).
- c. 1,950,000 of common shares of Constantine Metals with a carrying value at fair market value of \$507,000 (June 30, 2010 - \$341,250).
- d. 100 common shares of Hudbay Minerals Inc. with a carrying value at fair market value of \$1,797 (June 30, 2010 - \$1,117).
- e. 6,000,000 common shares of Copper Reef with a carrying value at fair market value of \$790,000 (June 30, 2010 - \$875,000). 2,000,000 shares were purchased at a cost of \$100,000 during the quarter ended December 31, 2010.
- f. 6,000,000 common shares of IronGold Corp. with a carrying value at fair market value of \$316,050 (June 30, 2010 - \$0). 4,000,000 shares were purchased during the three months ended September 30, 2010, and the remaining 2,000,000 during the period ended December 31, 2010.

**6. CAPITAL STOCK**

<b>Authorized</b>	<b>Number of</b>	<b>Capital</b>	<b>Contributed</b>
Unlimited common voting shares, no par value	<u><b>Shares</b></u>	<u><b>Stock</b></u>	<u><b>Surplus</b></u>
<b>Common shares issued</b>			
<b>Balance June 30, 2009</b>	<b>44,472,121</b>	<b>\$ 25,451,085</b>	<b>\$ 4,924,695</b>
Exercise of warrants	125,000	156,250	
Exercise of stock options	100,000	133,933	(43,433)
Acquisition of mineral properties	495,000	686,950	
Stock based compensation	-	-	151,087
<b>Balance at June 30, 2010</b>	<b>45,192,121</b>	<b>\$ 26,428,218</b>	<b>\$ 5,032,349</b>
Exercise of warrants	2,250	2,813	-
Exercise of stock options	25,000	25,000	-
Acquisition of mineral properties	100,000	151,500	-
<b>Balance at September 30, 2010</b>	<b>45,319,371</b>	<b>26,607,530</b>	<b>\$ 5,032,349</b>
Exercise of warrants	382,750	478,438	-
Exercise of Stock options	900,000	1,068,979	(453,979)
Acquisition of mineral properties	40,000	113,600	-
Stock based compensation	-	-	735,645
<b>Balance at December 31, 2010</b>	<b>46,642,121</b>	<b>\$ 28,268,547</b>	<b>\$ 5,314,015</b>

**CALLINAN MINES LIMITED**  
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**SIX MONTHS ENDED DECEMBER 31, 2010 AND 2009**

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**6. CAPITAL STOCK (cont....)**

**During the six months ended December 31, 2010 the following stock issues occurred.**

- (a) On July 7, 2010 the Company issued 50,000 common shares valued at \$73,000 as an option payment for the Pine Bay property.
- (b) On July 29 2010 the Company issued 25,000 common shares valued at \$37,500 as an option payment for the Herblet Lake property.
- (c) On September 9, 2010 the Company issued 25,000 common shares valued at \$41,000 as an option payment for the Hamell Lake property.
- (d) On October 27, 2010 the Company issued 40,000 shares valued at \$113,600 as an option payment for the Troitsa property.
- (e) 925,000 common share options were exercised for net proceeds of \$640,000.
- (f) 385,000 common share warrants were exercised for net proceeds of \$481,250.

**During the year ended June 30, 2010 the following common stock issues occurred.**

- (a) On July 24, 2009, the Company issued 20,000 common shares valued at \$14,200 as an option payment for the Hamell Lake property.
- (b) On August 17, 2009, the Company issued 50,000 common shares valued at \$35,000 as an option payment for the Pine Bay property.
- (c) On September 16, 2009, the Company issued 50,000 common shares valued at \$46,500 as an option payment for the Island Lake property.
- (d) On December 3, 2009, the Company issued 25,000 common shares valued at \$28,500 as option payment for the Jean Lake property.
- (e) On March 15, 2010, the Company issued 100,000 common shares valued at \$153,000 as option payment for the Berry Creek property.
- (f) On May 12, 2010, the Company issued 50,000 common shares valued at \$90,500 as option payment for the Moak and Norris properties.
- (g) On May 28, 2010, the Company issued 150,000 common shares valued at \$240,000 as option payment for the Gossan Gold property.
- (h) On May 28, 2010, the Company issued 25,000 common shares valued at \$40,000 as option payment for the Rug Claims.
- (i) On June 21, 2010, the Company issued 25,000 common shares valued at \$39,250 as option payment for the Dion property.
- (j) 100,000 common share options were exercised for net proceeds of \$90,500.

**CALLINAN MINES LIMITED  
NOTES TO FINANCIAL STATEMENTS**

**SIX MONTHS ENDED DECEMBER 31, 2010 AND 2009**

**7. CAPITAL STOCK (cont....)**

(k) 125,000 common share purchased warrants were exercised for net proceeds of \$156,250.

**Stock Options**

The Company has a stock option program under which stock options to purchase securities from the Company can be granted to directors, officers, employees and consultants of the Company on terms and conditions acceptable to the TSX Venture Exchange (TSX-V).

Under the stock option program, stock options for up to 10% of the number of issued and outstanding common shares may be granted from time to time, provided that stock options in favor of any one individual may not exceed 5% of the issued and outstanding common shares. No stock option granted under the stock option program is transferable by the optionee other than by will or the laws of descent and distribution, and each stock option is exercisable during the lifetime of the optionee only by such optionee.

The exercise price of all stock options granted under the stock option program must be at least equal to the fair market value (subject to regulated discounts) of such common shares on the date of grant. Options vest at the discretion of the board of directors. Proceeds received by the Company from exercise of stock options are credited to capital stock.

During the period ended December 31, 2010 the Company granted 515,000 (2009 – 15,000) incentive stock options to employees of the Company. The options have a weighted average fair value of \$2.23 (2009 - \$1.20) per option. 40,000 of these stock options are exercisable at \$1.82 until October 6, 2015, 200,000 at \$2.32 until October 22, 2015, 250,000 exercisable at \$2.38 until October 22, 2015 and 25,000 exercisable at \$2.52 until November 5, 2015. Compensation expenses of \$735,645 (2009 - \$10,647) has been recorded during the quarter ended December 31, 2010 under the Black-scholes pricing model in relation to the options granted.

The following weighted average assumptions were used in calculating the fair market value of stock options granted during the period ended:

	December 31, 2010	June 30, 2010
Risk-free interest rate	1.76%	2.41%
Expected life of options	3.5 years	3.0 years
Annualized volatility	89.03%	91.93%
Dividend rate	0.00%	0.00%

The following tables summarize the Company's outstanding stock options:

	<b>Number of Shares</b>	<b>Weighted Average Exercise Price</b>
Options outstanding at June 30, 2009	3,566,500	1.46
Granted	15,000	1.20
Exercised	<u>(100,000)</u>	<u>0.91</u>
Options outstanding at June 30, 2010	3,481,500	\$ 1.10
Exercised	<u>(25,000)</u>	<u>1.00</u>
Options outstanding at September 30, 2010	3,456,500	\$ 1.11
Granted	515,000	2.32
Exercised	<u>(900,000)</u>	<u>0.68</u>
<b>Options outstanding at December 31, 2010</b>	<b><u>3,071,500</u></b>	<b><u>1.43</u></b>

**CALLINAN MINES LIMITED  
NOTES TO FINANCIAL STATEMENTS**

**SIX MONTHS ENDED DECEMBER 31, 2010 AND 2009**

**6. CAPITAL STOCK (cont....)**

Exercise Prices	Options Outstanding at December 31, 2010	Average Remaining Contractual Life (Years)	Number Exercisable at December 31, 2010	Expiry Date
\$ 0.75	50,000	0.40	50,000	May 25, 2011
0.88	125,000	1.70	125,000	September 13, 2012
0.88	250,000	2.70	250,000	October 9, 2013
1.00	481,000	2.41	481,000	May 29, 2013
1.42	885,500	1.12	885,500	February 13, 2012
1.45	790,000	2.04	790,000	January 14, 2013
1.82	15,000	4.77	15,000	October 6, 2015
2.32	200,000	4.81	200,000	October 22, 2015
2.38	250,000	4.81	250,000	October 22, 2015
2.56	25,000	4.85	25,000	November 5, 2015
	<u>3,071,500</u>		<u>3,071,500</u>	

**Share purchase warrants**

At June 30, 2010 the company had 503,250 outstanding common share purchase warrants at \$1.25 which were exercisable until November 2, 2010 and December 19, 2010. During the period 385,000 share purchase warrants were exercised and 118,250 expired.

	Number of Warrants	Weighted Average Exercise Price
Warrants outstanding at June 30, 2009	628,250	\$ 1.25
Exercised and converted to common shares	<u>(125,000)</u>	<u>1.25</u>
Warrants outstanding at June 30, 2010	503,250	1.25
Exercised and converted to common shares	<u>2,250</u>	<u>1.25</u>
Warrants outstanding at September 30, 2010	501,000	1.25
Exercised and converted to common shares	<u>(385,000)</u>	<u>1.25</u>
Expired	<u>(116,000)</u>	<u>1.25</u>
Warrants outstanding at December 31, 2010	<u>-</u>	<u>-</u>

**7. RELATED PARTY TRANSACTIONS**

During the six months ended December 31, 2010, a director of the Company's management team was paid \$132,500 in remuneration, (2009 - \$95,000). An officer of the Company's management team was paid \$82,882 in remuneration, (2009 - \$62,501). Additionally, \$79,418 was paid out in directors' fees and \$210,000 was paid to a director pursuant to an agreement dated August 1, 2005 whereby the Company was granted an option to acquire a 100% interest in two claims in the Omenica Mining Division of British Columbia. Please refer to item 3.d(iii) for further details of this transaction.

There were no other related party transactions except for the granting and exercising of stock options. These transactions with related parties were in the normal course of operations and were measured at the exchange value which represents the amount of the consideration established and agreed to by the parties.

**CALLINAN MINES LIMITED  
NOTES TO FINANCIAL STATEMENTS**

**SIX MONTHS ENDED DECEMBER 31, 2010 AND 2009**

**8. SEGMENTED INFORMATION**

The Company's one reportable operating segment is the exploration and development of mineral properties in Canada. All of the company's assets are located in Canada and all revenues are earned in Canada.

**9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

The significant non cash transactions for the period ended December 31, 2010 were:

- (a) The issuance of 140,000 common shares with a value of \$265,100 for acquisition of mineral properties (December 31, 2009 – 170,000 common shares with a value of \$124,200).
- (b) Mineral property expenditures recorded in accounts payable and accrued liabilities of \$57,761 (December 31, 2009– \$64,208).

**10. FINANCIAL INSTRUMENTS**

Financial instruments are those assets and liabilities that will be settled in cash either by payment by the Company or on the receipt of cash from another party. Financial instruments held by the Company include cash and cash equivalents, accounts receivables and other receivables, GST receivable, investments and accounts payable and accrued liabilities. The Company has reviewed the estimated fair market value of these instruments and concluded that the fair value of these financial instruments approximate their carrying value.

**Credit risk exposure**

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to the amount receivable from HudBay.

The aging of the receivable from Hudbay is shown below:

	December 31, 2010	December 31, 2009
Due from Hudbay Minerals Inc.		
Less than 31 days	\$ 6,133,238	\$ 2,971,842
Between 31 and 60 days	-	981,826
Between 61 and 90 days	1,079,221	914,961
Over 90 days	<u>2,146,517</u>	<u>937,118</u>
	9,358,976	5,805,747
Other receivables	<u>162,279</u>	<u>1,439</u>
	<u>\$ 9,521,255</u>	<u>\$ 5,807,186</u>

The aging of the receivable due from Hudbay indicates that payment is made in a timely manner. 25% of the total payable from Hudbay is payable 130 days after December 31 of each year.

**Liquidity risk**

The Company's approach to managing liquidity risk is to ensure that it will have sufficient cash available to meet liabilities as they come due. As at December 31, 2010, the Company had a cash balance of \$433,512

**CALLINAN MINES LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

**SIX MONTHS ENDED DECEMBER 31, 2010 AND 2009**

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**10. FINANCIAL INSTRUMENTS (cont....)**

and cash equivalents of \$15,355,576 (2009 - \$144,468, \$12,173,742), to settle current liabilities of \$118,391 (2009 - \$140,692). All of the Company's financial liabilities have contractual maturities 30 days or less and are subject to normal trade terms.

**Market risk**

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

a) Interest rate risk

The Company has cash balances and no interest-bearing debt liabilities. The Company's current policy is to invest excess cash in short-term deposit certificates issued by its banking institutions. The period to maturity of these short-term deposit certificates rarely exceeds ninety days; deposits within these parameters are considered equivalent to cash equivalents.

The Company monitors the investments in short term deposits and is satisfied with the credit ratings of its banks. As of December 31, 2010, the Company did not have any investments with maturities in excess of ninety days. The Company has no investments in asset backed commercial paper or similar investments.

b) Foreign currency risk

The Company is not exposed to significant foreign currency risk.

c) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of gold, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company. The Company currently maintains investments in certain publicly listed companies. There can be no assurance that the Company can exit these positions as required, resulting in proceeds approximating carrying value of the securities.

**Sensitivity analysis**

The carrying amount of cash and cash equivalents, accounts and other receivables, GST receivable and accounts payable and accrued liabilities approximates their fair value due to their short term nature. The Company does not have significant exposure to changing interest rates or foreign exchange rates.

**11. CAPITAL MANAGEMENT**

In order to support the acquisition, exploration, development and operation of its mineral properties, the Company manages its capital structure and makes adjustments to it, based on the funds available. The Board of Directors' does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

**CALLINAN MINES LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

**SIX MONTHS ENDED DECEMBER 31, 2010 AND 2009**

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**11. CAPITAL MANAGEMENT (cont.....)**

The Company considers its capital to be the sum of the constituent parts of equity, namely share capital and contributed surplus less the accumulated deficit. There are no capital requirements imposed on the Company by statute or contractual agreements.

With the exception of the Callinan Mine, the properties in which the Company currently has an interest are at the exploration or development stage; as such, if the royalty payments from the 777 Mine decreases or is discontinued, the Company will be dependent on external financing to fund its exploration and development activities excluding the Callinan Mine property. External financing may be in the form of any of additional public offerings, private placements, loan agreements or proceeds from the sale of some or all of its properties including joint venture arrangements.

The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic and economic potential and if it has or can raise adequate financial resources to do so.

Management and the Board of Directors review capital management on an ongoing basis and believe that this approach, given the relative size of the Company, is reasonable. There has been no change to the Company's approach to capital management during the period ended December 31, 2010

**12. SUBSEQUENT EVENTS**

Subsequent to December 31, 2010 the Company received \$4,524,342 from HudBay which is included in accounts receivable at December 31, 2010.