

2011 Annual Report

Management Discussion and Analysis of
Results of Operations and Financial Condition

CALLINAN

ROYALTIES



LETTER TO SHAREHOLDERS

Dear Shareholder,

First of all, thank you for being a shareholder of Callinan and for taking time to review this Annual Report to shareholders.

As a shareholder of Callinan, we hope you have a positive experience in being part owner of this company and that your share ownership helps you to meet your and your family's financial goals.

This has surely been a year of change at Callinan and we have experienced progress on many fronts that are highlighted in this report.

In the past year, times have been good and it's uncertain what the coming year will bring. Rather than make predictions, we simply commit to the work of improving and building Callinan under any market conditions and at all points in economic cycles.

While our progress has been good, we don't want to become complacent. We strive to build something special over time and to outperform our peers by any financial measure that may be applied to Callinan.

To achieve our goals, we need to avoid the easy steps and short term thinking and work diligently on long term value creation initiatives. This is difficult but worth the effort. Fortunately, we enjoy a challenge.

I take this opportunity to express appreciation to Mr. Mike Muzykowski for his valuable contribution during his tenure as CEO, which included some very challenging years. His many career achievements led to his induction into the Canadian Mining Hall of Fame in January. I've witnessed that Mike has built strong and loyal ties with Callinan shareholders and I admire that very much. Following and building on Mike's leadership is therefore an honour. His guidance and advice are appreciated because I know there is no substitute for the wisdom that comes from experience. Thank you, Mike.

Appreciation is also extended to the Board of Directors of Callinan who have steered the company through many changes during the past year with the interests of shareholders foremost in mind. I want to thank our small and dedicated group of employees as well. People who are committed to stewardship of their companies truly make the difference and our connections with each other have grown stronger as we work together.

Today, I count it a privilege to be a shareholder of Callinan and to serve as CEO. The support of the entire Callinan team and your support as a shareholder are appreciated very much. Thanks for being part of the Callinan story.

All the Best,



Roland Butler

CEO, Callinan Royalties Corporation

Lewisporte, NL, Canada, October 30, 2011

CALLINAN – A NEW ROYALTY GENERATION COMPANY

There have been significant changes over the past year at Callinan. These include the reorganization of the corporate structure and attendant management changes as well as the marked increase in financial performance.

However, there have been many positive factors in the past year that are beyond our control and for which we cannot take any credit. These include continued operational excellence at the 777 mine owned by HudBay Minerals Inc. (“HudBay”) and continued high metal prices.

Our strategy at Callinan is simple - to patiently and diligently build value in our royalty portfolio during challenging periods and to harvest that value when times are good. In addition, we have demonstrated a commitment to delivering value to shareholders in tangible ways. Our goal is to build value in our mineral royalty portfolio over time at the lowest possible cost and risk to shareholder capital.

At Callinan, we have been actively making progress on a number of fronts where we can significantly impact the outcome. Below are ten selected highlights of the year:

- Commenced Normal Course Issuer Bid and purchased shares of Callinan on the open market for cancellation
- Began assembling a small but focused professional management team
- Initiated evaluation of royalty acquisition and royalty generation opportunities in Canada and internationally
- Received favorable judgment from Manitoba court regarding access to auditor's working papers
- Completed corporate reorganization and distribution of Callinex shares to Callinan shareholders
- Changed the company name to Callinan Royalties Corporation and launched new branding initiatives
- Declared a quarterly dividend policy of 0.02 per share
- Commenced audit of HudBay's financial records relating to Callinan's royalty interests in Manitoba
- Entered into a standstill agreement with HudBay that holds the Callinan law suit in abeyance during the audit
- Increased the company's cash position to approximately \$30 million through improved financial performance

1. DESCRIPTION OF BUSINESS AND REPORT DATE

Callinan Royalties Corporation (formerly Callinan Mines Limited) (“Callinan”, the “Company”, or the “Corporation”) is principally engaged in the acquisition, exploration and development of mineral properties in the Provinces of Manitoba, Saskatchewan and British Columbia. The Company also holds a \$0.25 per ton royalty interest and a 6.6667% net profits interest in the Callinan Mine and 777 Mine operated by Hudson Bay Mining and Smelting Co., Limited, (“HudBay”) in Flin Flon, Manitoba, which is a wholly-owned operating subsidiary of Hudbay Minerals Inc. Apart from its interests in the Callinan Mine and the 777 Mine, the Company has not yet determined whether its mineral properties contain ore reserves that are economically recoverable. The Company defers all acquisition, exploration and development costs related to mineral properties. The recoverability of these amounts is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development of the property, and any future profitable production, or alternatively upon the Company’s ability to dispose of its interests on an advantageous basis.

The following management discussion is for the year ended June 30, 2011 and includes relevant information up to October 14, 2011 (the “Report Date”). It should be read in conjunction with the interim financial statements and related notes which have been prepared in accordance with generally accepted accounting principles (“GAAP”).

2. EXPLORATION HIGHLIGHTS

Exploration activities for the year consisted of diamond drilling and geophysics conducted on the Company’s Manitoba projects (Flin Flon-Snow Lake area), which included Gossan Hill, Herblet Lake, and Berry Creek.

Diamond drilling at Gossan Hill Project resumed January 12, 2011 with 18 holes completed during the quarter, totalling 3,929 metres. The drilling has continued to define a gold bearing structure (Quartz Carbonate Bearing Shear Zone), associated with a Volcanic-Intrusive contact. All drill holes completed by Callinan, which tested the shear zone have returned anomalous gold values (<http://www.callinan.com/s/GossanHill.asp>). Gold assay highlights from the program include 4.6 g/t Au over 23.81 metres (GOS028), and 9.73 g/t Au over 5.75 metres (GOS025). The gold mineralization at Gossan Hill is open in all directions. The Company plans to resume exploration with a summer program designed to expand the Company’s understanding of the gold-bearing structure, and search for similar structures along the alteration zone. The summer program will consist of mapping, sampling, and diamond drilling to further expand the zone of defined mineralization. Future plans also include a laboratory bench test to determine the recovery rate of the gold and silver.

A drilling program at Herblet Lake completed 20 drill holes for a total of 4,647 metres. The Herblet Project was acquired March 2007, and is located in the Snow Lake Mining Camp (Manitoba), between the past producing Rod and Osborne Lake Mines. The drill program was designed to test anomalies defined by a VTEM survey flown by Callinan in 2007. Sulphides intersected by drilling contained trace amounts of base metals, and Callinan has followed up with some borehole geophysics. Callinan will wait on remaining assays and geophysical results to determine if follow up work is warranted.

A drilling program at Berry Creek completed 2 drill holes for a total of 1,068 metres. The Berry Creek project is located 8 kilometres southwest of the Herblet Lake Project. Two holes were completed during the quarter to follow up on Callinan’s 2010 drill results. Drilling in 2010 defined a thick altered felsic volcanic horizon with a narrow 0.5m massive sulphide horizon (BR-007,1621ppm

Cu, and 6213 ppm Zn). Bore hole geophysics on BR-007 defined an off hole target which was tested during this quarter, drilling intersected similar geology (highly altered felsic volcanics) and a narrow (0.65m) sulphide horizon, assays are pending.

3. CORPORATE STRATEGY

Background

On October 25, 2010 Callinan announced its intention to become a royalty company by reorganizing its exploration assets into a separate corporation (the "Spin-Out Proposal"), with a view to enhancing shareholders' value.

The Corporation currently has two producing royalties. It holds a 6 $\frac{2}{3}$ % Net Profits interest royalty and a \$0.25 per ton royalty in the 777 Mine located in Flin Flon, Manitoba, which produces copper, zinc, gold and silver. The adjacent 777 North Mine, part of the past producing Callinan Mine, is currently being developed and scheduled for production in 2012 by HudBay, also occurs on lands subject to Callinan's royalty interests. Callinan also holds the War Baby property (777 Deeps) that is located in proximity to the 777 Mine and has the option to purchase a 1.5% Net Smelter Returns royalty on the War Baby property (777 Deeps) by paying \$500,000 for each 0.5% or \$1.5 million in total to the underlying property vendor.

Pursuant to the Spin Out Proposal, the assets of Callinan were separated into two corporations through a plan of arrangement, such that one corporation holds the royalties, the outstanding law suit against HudBay and the War Baby mineral claim (the "Royalty Assets") and the other corporation (Callinex Mines Ltd.) was seeded with some capital from Callinan's present cash balances and holds exploration assets in Canada.

The Spin Out Proposal was intended to provide Callinan shareholders the opportunity to continue to participate in both aspects of Callinan's present holdings. Under the terms of the Spin Out Proposal, existing Callinan shareholders received the same percentage interest in the new corporation, Callinex Mines Inc., as they presently hold in Callinan such that, following the implementation of the Spin Out Proposal, the shareholders now hold shares in two corporations, existing Callinan and newly incorporated Callinex Mines Inc., with the Royalty Assets being held by one corporation and the exploration assets being held by the other corporation.

Callinan held a special meeting of shareholders on June 7, 2011 and approved the Spin Out Proposal. Only shareholders of record at the close of business on April 28, 2011 were entitled to receive notice of, and vote at the meeting.

Business Strategy

The Corporation's principal business activities will centre on developing a portfolio of mineral royalties while diligently managing its current royalty interests. To expand its royalty portfolio over time, Callinan will use its high and growing cash flow from producing royalties to acquire mineral royalties and options by direct purchase. It will also generate royalties through investment agreements with companies that hold mineral exploration and development projects of merit. In addition, royalties will be created through its own prospect generation activities.

The Corporation's strategy is to seek royalty creation and acquisition opportunities that are generally smaller and at an earlier stage that normally would not be the target of larger royalty companies. It will pursue these objectives with a small and focused team of technical and commercial professionals and consultants as required. Targeted commodities will include precious

metals, base metals and bulk commodities such as iron ore and energy commodities such as coal and uranium.

The Corporation will create royalties by investing in mineral exploration both indirectly and directly. It will invest in prospect generation companies or groups worldwide that are experts in their chosen region by providing funding toward agreed programs that will result in a royalty being created on projects of interest in favour of Callinan.

The Corporation will also conduct early stage mineral exploration and prospect generation in a small number of selected jurisdictions that exhibit low sovereign risk and where it can develop a competitive advantage. It's technical and commercial team will conduct data reviews, field research, prospecting and exploration to identify drill targets. Third party agreements will be sought at this stage that will result in Callinan retaining a royalty interest or a passive, minority interest that can be converted to a royalty at a later date.

Callinan will also acquire royalties by providing royalty-backed financing or loans for mineral development and mining projects of merit at any stage of development, including production. The Corporation currently has a modest portfolio of investments in mining and mineral exploration companies that are primarily active in parts of Canada and United States of America and it will continue to seek and evaluate attractive investment opportunities. Callinan may also make equity investments in both publicly traded and private companies that hold significant royalty interests with the objective of capital appreciation over time.

Please refer to the Company's website www.callinan.com for more information and updates.

4. DISCUSSION OF OPERATIONS AND FINANCIAL CONDITIONS

a) Results of Operations

During the year ended June 30, 2011 the Company received/accrued \$29,613,011 (2010 - \$16,540,048) for its \$0.25 per ton royalty and its 6 $\frac{2}{3}$ % net profit interest in the Callinan Mine located in Flin Flon, Manitoba. Of that amount, \$393,343 represents royalty payment (2010 - \$419,188) for the 1,573,370 tons mined during the period, \$6,264,000 for an error adjustment by HudBay and \$22,955,668 (2010 - \$16,120,860) for the 6 $\frac{2}{3}$ % net profit interest for the fiscal year. \$203,868 was received for interest revenue (2010 - \$31,000), and gain on sale of assets was \$22,340 (2010 - \$20,653) for total revenues of \$29,839,219 (2010 - \$16,591,701).

Net income for the year ending June 30, 2011 net of income tax expense is \$18,977,388 compared to \$8,465,076 for the same period in 2010. Income per share is \$0.40 for basic and \$0.39 for fully diluted compared to \$0.19 for basic and \$0.18 for fully diluted in fiscal 2010.

For the quarter ended June 30, 2011 revenues were \$6,173,749 while income net of current and future income tax expenses was \$2,750,935 and income per share was \$0.05 and \$0.06 for basic and fully diluted respectively.

Cash on hand at June 30, 2011 was \$30,269,465, which is \$16,786,276 higher than last year. Funds on hand are invested in short-term securities to generate interest revenue.

There are no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

The following financing transactions took place during the twelve months ended June 30, 2011.

- 385,000 common share purchase warrants were exercised for net proceeds of \$481,250.
- 1,380,000 incentive stock options were exercised for net proceeds of \$1,179,580.
- 2,000,000 units were issued for total proceeds of \$4,380,000 pursuant to private placement. Each unit consisted of one common share and one common share purchase warrant exercisable at \$2.58 until March 4, 2016.

The following transactions took place during the twelve months ended June 30, 2010.

- 125,000 incentive stock options were exercised for net proceeds of \$156,250.
- 100,000 incentive stock options were exercised for net proceeds of \$90,500.

The following table sets forth selected financial data from the Company's annual audited financial statements. These financial statements were prepared in accordance with generally accepted accounting principles and are in Canadian dollars. The following table should be read in conjunction with such statements.

Income Statement Data	June 30, 2011(\$)	June 30, 2010 (\$)	June 30, 2009 (\$)
Revenues (Interest & Other income)	29,839,219	16,591,701	12,835,880
Income (loss) before discontinued operations taxes and extraordinary items	24,404,944	10,968,932	6,134,043
Income tax expense	(3,446,666)	(1,555,725)	(940,057)
Future income tax recovery/(expense)	(1,980,890)	(948,131)	(815,127)
Net income net of taxes for the period	18,977,388	8,465,076	4,378,859
Income (loss) per common share outstanding			
Basic	0.40	0.19	0.10
Diluted	0.39	0.18	0.10
Balance Sheet Data			
Total assets	68,860,612	39,794,467	27,517,167
Total long-term financial liabilities	5,580,363	3,781,361	2,653,647
Dividends	-	-	-

Factors That Affect the Comparability of the Financial Data Disclosed Above

In November 2007, the Company received its first net profit interest payment from HudBay for its 6% interest in the 777 Mine. To date the Company has received \$63,146,562 and accrued \$3,062,260 for a total of \$66,208,822 for this interest.

The Company received an additional \$6,264,000 from HudBay during the current fiscal year due to an error in how the zinc revenue due to Callinan had been calculated. This additional payment is unrelated to the outstanding litigation against HudBay.

Revenue for the fiscal year is higher than last year by \$13,247,518, and net income, net of income tax expense for the period, is higher by \$10,512,312. Administrative expenses of \$5,434,275 include a non-cash expense of \$735,645, (2010 - \$151,826) for stock based compensation. Additionally, current and future income tax expense is \$5,427,556 compared to \$2,503,856 in fiscal 2010.

The increase of \$29,066,145 in total assets over the same period last year reflects an increase of \$21,082,993 in current assets balances and an increase of \$8,262,207 in mineral assets. Total long-term liabilities of \$5,580,363 are for the future income tax expense as the Company's book value is higher than its tax value in investments and mineral properties.

During the fiscal year ended June 30, 2011 the Company did not declare nor pay dividends on its common shares. On August 9, 2011 the Company declared a dividend which was paid out on September 15, 2011.

The following table sets forth selected quarterly financial information at the end of the periods shown below. The financial information is derived from the financial statements of the Company, which are prepared in accordance with generally accepted accounting principles and are in Canadian dollars.

	For the Three Months Ending							
	Fiscal 2011				Fiscal 2010			
	Jun 30 (\$)	Mar 31 (\$)	Dec 31 (\$)	Sep 30 (\$)	Jun 30 (\$)	Mar 31 (\$)	Dec 31 (\$)	Sep 30 (\$)
Income Statement Data								
Total revenues	6,173,749	13,055,616	6,169,014	4,440,840	4,536,539	4,347,853	4,850,147	2,857,162
Income (loss) before discontinued operations, taxes and extraordinary item	3,786,486	12,027,686	4,656,425	3,934,347	649,950	3,865,419	4,053,613	2,399,950
Income tax (expense)/recovery	47,614	(1,346,587)	(2,147,693)	-	(1,555,725)	-	-	-
Future income tax (expense)/recovery	(1,083,165)	(897,725)	-	-	(1,086,631)	334,979	(272,142)	75,663
Net income (loss)	2,750,935	9,783,374	2,508,732	3,934,347	(1,992,406)	4,200,398	3,781,471	2,475,613
Income (loss) per common share outstanding								
Basic	0.050	0.210	0.050	0.090	(0.030)	0.090	0.080	0.050
Diluted	0.060	0.200	0.050	0.080	(0.040)	0.090	0.080	0.050

All other quarters except the quarter ending September 30, 2010 include an accrual for the remaining 25% net interest profits held back by HudBay as per the agreement, and paid to the Company 130 business days after the end of the calendar year. Revenues for the quarter ended March 31, 2011 include an additional payment of \$6,264,000 due to an error in calculation discovered by HudBay.

b) Trend Information

Other than the financial obligations as set out in item 7 below, there are no identifiable trends, demands, commitments, events or uncertainties that will result in, or that are reasonably likely to result in, the Company's liquidity either increasing or decreasing at present or in the foreseeable future. The Company will require sufficient capital in the future to meet its acquisition payments and other obligations under mineral property option agreements for those properties it considers worthy to incur continued holding and exploration costs upon. The need to make such payments is a trend

as it is unlikely that all such obligations will be eliminated from the Company's future business activities. The Company intends to utilize its cash on hand in order to meet its obligations under mineral property option agreements and exploration activities. As the Company is now receiving net profit interest payments from HudBay it is likely that the Company will generate sufficient operating cash flow to meet all of these ongoing obligations in the foreseeable future. Understandably, even though the 777 Mine is expected to be operational until 2020, the continuance of the net profit interest payments is directly dependent on such factors as, the continued mining of the 777 Mine, metal prices and global consumption patterns. At this time the Company has no plan or intention to issue any debt in order to raise capital for future requirements.

It is the opinion of the Company that its liquidity will be most affected by the results of its own acquisition, exploration, development activities, and the profitability of the 777 Mine operated by HudBay in which Callinan has a 6 $\frac{2}{3}$ % interest. The acquisition or discovery of an economic mineral deposit on one of its mineral properties may have a favourable effect on the Company's liquidity, and conversely, the failure to acquire or find one may have a negative effect.

c) Risk Factors

The Company, and thus the securities of the Company, should be considered a highly speculative investment and investors should carefully consider all of the information disclosed in this report prior to making an investment in the Company. In addition to the other information presented in this report, the following risk factors should be given special consideration when evaluating an investment in the Company's securities.

General

Resource exploration and development is a speculative business, characterized by a number of significant risks including, among other things, unprofitable efforts resulting not only from the failure to discover mineral deposits but also from finding mineral deposits, which, though present, are insufficient in quantity and quality to return a profit from production.

The Company evaluates its property interests on an ongoing basis and intends to abandon properties that fail to remain prospective. The Company is confident that it will be able to meet its earn-in obligations on those properties which management considers to be of merit. At the time of writing the Company expects to incur further property exploration and acquisition expenses.

In addition, the Company is reliant upon revenues from the 777 Mine which is operated by HudBay. The Company has no influence over such operations and is at the risk of suffering loss of revenues if the operation is shut down, additional capital expenses are incurred or if supplies of ore are exhausted.

The Company's business is subject to exploration and development risks

All of the Company's properties are in the exploration stage of development and no known reserves have been discovered on such properties. There is no certainty that the expenditures to be made by the Company or its joint venture partners in the exploration of its properties described herein will result in discoveries of metals in commercial quantities or that any of the Company's properties will be developed. Most exploration projects do not result in the discovery of economic deposits of metals and no assurance can be given that any particular level of recovery of metals will in fact be realized or that any identified resource will ever qualify as a commercially mineable (or viable) resource which can be legally and economically exploited. Estimates of reserves, mineral deposits and production costs can also be affected by such factors as environmental permit regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or

unexpected geological formations and work interruptions. In addition, the grade of metals ultimately discovered may differ from that indicated by drilling results. There can be no assurance that metals recovered in small-scale tests will be duplicated in large-scale tests under on-site conditions or in production scale.

Political and economic instability may affect the Company's business

The Company's activities in Canada are subject to risks common to operations in the mining industry in general.

The Company's properties are subject to title risks

The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties, and properties that it has the right to acquire or earn an interest in are in good standing. However, the Company's properties may be subject to prior unregistered agreements or transfers and title may be affected by undetected defects. These defects could adversely affect the Company's title to such properties or delay or increase the cost of the development of such properties.

The Company's properties may also be subject to aboriginal or other historical rights that may be claimed on Crown properties or other types of tenure with respect to which mineral rights have been conferred. The Company is not aware of any aboriginal land claims having been asserted or any legal actions relating to first nations issues having been instituted with respect to any of the mineral properties in which the Company has an interest. The Company is aware of the mutual benefits afforded by co-operative relationships with indigenous people in conducting exploration activity and is supportive of measures established to achieve such co-operation.

Environmental Risk

Environmental legislation on a global basis is evolving in a manner that will ensure stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessment of proposed development and a higher level of responsibility for companies and their officers, directors and employees. There is no assurance that future changes to environmental legislation in Canada will not adversely affect the Company's operations. Environmental hazards may exist on properties in which the Company holds interests which are unknown at present and which have been caused by previous or existing owners or operators. Furthermore, future compliance with environmental reclamation, closure and other requirements may involve significant costs and other liabilities. In particular, the Company's operations and exploration activities are subject to Canadian national and provincial laws and regulations governing protection of the environment. Such laws are continually changing and, in general, are becoming more restrictive.

The mineral exploration industry is extremely competitive

The resource industry is intensely competitive in all of its phases, and the Company competes with many companies possessing greater financial resources and technical facilities than itself. Competition could adversely affect the Company's ability to acquire suitable new producing properties or prospects for exploration in the future. Competition could also affect the Company's ability to raise financing to fund the exploration and development of its properties or to hire qualified personnel.

Metal prices affect the success of the Company's business

The mining industry in general is intensely competitive and there is no assurance that, even if commercial quantities of mineral resources are developed, a profitable market will exist for the sale of such product. Factors beyond the control of the Company may affect the marketability of any minerals discovered. No assurance may be given that metal prices will remain stable. Significant price fluctuations over short periods of time may be generated by numerous factors beyond the control of the Company, including domestic and international economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates, global or regional consumption patterns, speculative activities and increased production due to improved mining and production methods. The effect of these factors on the price of minerals and therefore the economic viability of any of the Company's exploration projects cannot accurately be predicted. As the Company is in the exploration stage, the above factors have had no material impact on present operations or income.

d) Exploration Programs and Expenditures

During the fiscal year ended June 30, 2011 the Company incurred mineral property acquisition costs of \$937,108 by way of cash and share payments, (2010 - \$1,383,738). For the quarter ended June 30, 2011 acquisition costs were \$128,448 compared to \$592,014 during the same period in fiscal 2010. Exploration expenditures for the quarter were \$710,934 and \$7,338,078 for the twelve months ended June 30, 2011, (2010 - \$1,216,862 and \$4,928,654 respectively), comprised mainly of expenditures for drilling, field and camp costs and geophysical expenses on the three main programs that the Company focused on during the fiscal year.

Of the above amounts \$3,957,320 was spent on the Coles Creek project, (2010 - \$1,150,372); \$1,169,948 on the Gossan property, (2010 - \$0); \$1,213,478 on the Herblet Lake project, (2010 - \$71,893); \$316,649 on the Berry Creek project, (2010 - \$674,603); and \$497,842 on the Pine Bay project, (2010 - \$308,185). The remaining \$102,541 was spent on the Company's other projects during the twelve months ended June 30, 2011.

(i) Callinan

The Company holds a 6 $\frac{2}{3}$ % net profits interest in the Callinan Mine and 777 Mine, operated by Hudson Bay Mining and Smelting Co., Limited, ("HudBay") - a wholly-owned operating subsidiary of Hudbay Minerals Inc., as well as a royalty of \$0.25 per ton of ore milled, effective January 1, 1988. During fiscal 2008 the Company received its first net profits interest payments from Hudbay. To date \$60,228,139 has been received or accrued pursuant to the net profits interest, and the Company receives approximately \$400,000 per year pursuant to the \$0.25 per ton royalty. 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 Queen's Bench against HudBay in relation to the 6 $\frac{2}{3}$ % net profit interests in the Callinan Mine.

The Company's review of the audited financial statements from HudBay, audited by Deloitte & Touche LLP revealed that the audit reports beginning in 2003 had changed from previous years and included the following statement:

"These financial statements, which have not been, and were not intended to be, prepared in accordance with Canadian generally accepted accounting principles, is solely for the information and use of Hudson Bay Mining and Smelting Co., Limited for

complying with the Net Profits Interest and Royalty Agreement between Hudson Bay Mining and Smelting Co., Limited, Consolidated Callinan Flin Flon Mines Limited, and Hudson Bay Exploration and Development Company Limited, dated January 1, 1988. The financial statement is not intended to be and should not be used by anyone other than the specified users or for any other purpose.”

This was a departure from the financial statements received from 1989 to 2002, which stated:

“In our opinion, this financial statement presents fairly, in all material respects, the net profits interest and royalty for the year ended June 30, xxxx in accordance with Canadian generally accepted accounting principles and the Net Profits Interest and Royalty Agreement dated January 1, 1988.”

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 NPI 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.

HudBay initially refused to produce any financial documentation. The Company successfully applied to the Manitoba Court of Queen's Bench for an order directing HudBay to produce all relevant documents. HudBay then produced certain financial records but did not produce any documents exchanged with its auditors, Deloitte & Touche, concerning the calculation of the NPI. The Company also demanded Deloitte produce its working papers. Deloitte refused. On December 11, 2008, the Company filed a motion against both HudBay and Deloitte to compel production of Deloitte's working papers and any other documentation in respect to the NPI calculation. There have been several court appearances in respect of the motion. The hearing of the motion was greatly delayed by the attempts of HudBay and Deloitte to strike an affidavit relied on by the Company. The Company prevailed on that issue. The final argument on the merits of the motion was heard on May 27, 2010. On October 15, 2010 a Master of the Manitoba Court of Queen's Bench decided not to order Deloitte to produce its working papers to Callinan because production was premature. On July 3, 2011 the ruling was overturned and the Company was granted access to Deloitte's working paper. On September 9, 2011 the Company announced that it has executed an agreed standstill with HudBay while the Company conducts its independent audit.

For more information on this please see the Company's website, www.callinan.com

(ii) Fox River

On March 15, 2003 the Company acquired an option to purchase the Fox River Property. The option stated that the Company can earn a 50% interest by expending \$500,000 by March 15, 2005; a further 10% by expending \$1,000,000 to March 15, 2007; and a further 10% by producing a feasibility study by March 15, 2008. The seller retains a 2 1/2% net smelter return royalty (NSR). The Company may buy back 1% of the NSR for \$1,000,000.

On March 15, 2006, an amendment was made to the agreement whereby, the deadline for the Company expending \$1,000,000 to acquire the 60% interest was extended to March 15, 2008, and the deadline for the feasibility study and the Company acquiring a further 10% extended to March 15, 2010. The Company has so far expended \$5,825,659 on this project thereby, meeting all obligations for the property to date. \$1,982,840 of the expended amount has been recovered through the MEAP program and the joint venture with Bell Resources ("Bell").

On March 19, 2004 the Company assigned half of its interest in the Fox River property to Bell in exchange for Bell making cash payments to the Company of \$25,000 and by expending \$250,000 on the property by March 15, 2005. Bell had the option to acquire a further 5% by expending \$500,000 on the property by March 15, 2007. Bell could earn a further 5% property interest from the Company by paying 50% of the cost of a feasibility study prior to March 15, 2008. Bell met the expenditure requirements to date on the project, thus earning an additional 5%. The above amendment on March 15, 2006 also extended to this joint venture with Bell.

On February 21, 2005 the agreement with Bell was amended to allow Bell to pay the Company 1,250,000 common shares of Bell at a deemed price of \$0.20 per share in lieu of expending \$250,000 before March 15, 2005. By doing so Bell earned 25% of the Company's interest in the property. The TSX Venture Exchange approved the transaction on April 22, 2005.

On April 14, 2008 the agreement with Bell was again amended to allow Bell to withdraw from the joint venture with Callinan. As Bell will no longer be participating in the project, its 30% interest in the property will be diluted based on the dilution provisions in the original agreement of March 19, 2004 as Callinan continues to explore this property. Callinan has agreed to keep Bell apprise of results of exploration and the funds expended on the property.

Bell can re-affirm its participation at the start of each exploration season and can do so at the percentage it then has, taking into account the dilution which has taken place. If Bell's interest in the property drops below 5% it will be deemed to have no interest in the property. If a discovery is made, provided that Bell still has an interest in the property it may sell its interest after giving Callinan a right of first refusal or start funding its percentage share of the joint venture with the provision that if it falls below 5% the provision above will apply.

On October 9, 2009 the Company again amended its agreement for the Fox River property. The new agreement now states that the Company can earn a further 10% interest, for a total of 70% interest in the Mineral Claims by paying an additional \$200,000 by October 30, 2009, which the Company did. All other terms remains the same, except the deadline for the feasibility study has been removed. After all requirements have been satisfied, the Company will have an 80% interest in the property subject to the interest of Bell, if any.

(iii) Coles Creek

On August 1, 2005 Callinan 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 two claims in the Omenica Mining Division of British Columbia. The claims are located approximately 80 km South West of Houston, British Columbia. Under the terms of the agreement, Mr. Muzylowski, who has owned the claims since September of 1994, prior to his appointment as

President of Callinan, has been paid \$50,000 which has been accepted by the TSX Venture Exchange as reimbursement for expenses incurred. If the option was exercised on or before September 1, 2008, \$200,000 was to be due to Mr. Muzyłowski. Mr. Muzyłowski agreed to defer this payment date to September 1, 2009 in consideration for a payment of \$5,000. In September 2009 Mr. Muzyłowski again agreed to defer this payment in lieu of a payment of \$5,000. During August 2010 payment of the full amount was made to Mr. Muzyłowski. 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 \$12,728,842 thereby meeting its obligation. If the claims are placed into production, Mr. Muzyłowski 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. \$1,551,162 of the expended amount has been recovered from BCMETC. TSX Venture Exchange approved the agreement on November 3, 2005.

(iv) 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 an initial payment of \$10,000 and 25,000 common shares on receipt of regulatory approval (received and paid/issued). The Company had the right to earn 100% interest in the property, subject to a 2% NSR, by paying an additional \$15,000 and issuing an 25,000 common shares within 12 months of the effective date (paid/issued), a further \$25,000 and 25,000 common shares within 24 months (paid/issued) and \$50,000 and 25,000 common shares within 36 (issued/paid) months of the effective date. One half of the NSR royalty can be purchased for \$1,000,000. To date the Company has expended \$189,965 on this property and the Company now has 100% interest in this property.

(v) Herblet Lake

On March 15, 2007 the Company entered into an option agreement for the Herblet Lake property in Manitoba. The agreement called for an initial payment of \$10,000 and 25,000 common shares on receipt of regulatory approval (received and paid/issued), a further \$10,000 and 25,000 common shares within 12 months (paid and issued), another \$10,000 and 25,000 common shares within 24 months, (paid and issued) and a further \$20,000 and 25,000 common shares within 36 months from the effective date of the agreement (paid and issued). In order to maintain the working option in good standing the Company must incur cumulative expenditure of \$50,000 within 12 months, \$100,000 within 24 months and \$250,000 within 36 months from the effective date of the agreement. To date the Company has expended \$1,455,568 on this project. The Company had the right to earn 100% interest in the property, which it has, subject to a 2.5% NSR, and has the option to purchase 50% of the NSR for \$1,250,000.

(vi) Moak and Norris Lake

On May 14, 2007 the Company entered into an option agreement for the Moak Claims and Norris Lake property in Manitoba. This agreement calls for \$10,000 and 50,000 common shares upon regulatory approval, (received and paid/issued) a further \$20,000 and 50,000 common shares within 12 months (paid/issued), a further \$30,000 and 50,000 common shares within 24 months (paid/issued) and \$40,000 and 50,000 common shares (paid/issued) within 36 months of approval.

To maintain the option in good standing and earn 100% interest in the property the Company must incur cumulative expenditures of \$100,000 within 12 months, \$250,000 within 24 months and \$450,000 within 36 months. To date the Company has expended \$147,160 on this project of which \$14,816 has been recovered from the MEAP program. The date to accumulate the required

expenditures is being discussed with the optionor. The optionor is entitled to royalty of 2% NSR. The Company may purchase 1% of the NSR for \$1,000,000 at any time.

(vii) Berry Creek

On March 15, 2008 the Company optioned the Berry Creek Claims which affords it the right to acquire 100% interest in the mineral claims, subject only to the royalty interest of 2% NSR. In order to acquire 100% interest the Company must pay \$20,000 and issue 25,000 common shares on receipt of regulatory approval (received, paid/issued), a further \$10,000 and 25,000 common shares within 12 months of the effective date (paid/issued), a further \$10,000 and 100,000 common shares within 24 months (paid/issued) and \$20,000 and 250,000 shares within 36 months (paid/issued). To date the Company has expended \$1,735,437 on this project of which \$68,134 has been recovered from MEAP. During the current fiscal year the agreement was amended whereby, the payment to be made in March 2011 was deferred to March 2012 while management decides if the Company will continue with this project. Management issued 20,000 shares and paid \$20,000 in lieu of its obligations on this property this fiscal year.

(viii) Tramping Lake

Between March 28 and April 10, 2008 the Company staked the Tramping Lake Property in the Snow Lake area of Manitoba. A total of 1,036 hectares were staked. To date \$99,241 has been expended on the property.

(ix) Hamell Lake

In July 2008 the Company optioned the Hamell Lake claims in Saskatchewan. This agreement called for an initial payment of \$20,000 and issuance of 15,000 shares of common shares (paid/issued), a further payment of \$20,000 and common shares within 6 months of the effective date (paid/issued), a further \$20,000 and 20,000 common shares within 12 months of the effective date (paid/issued), a further \$40,000 and 25,000 common shares within 24 months (paid/issued) and \$50,000 and 75,000 common shares within 36 months of the effective date. Upon completion of the payments and issuance of the common shares, the Company will have earned a 100% interest in, and to the mineral claims. 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 TSX Venture Exchange review and acceptance. To date the Company has expended \$177,785 on this property.

(x) 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 \$20,000 and issue 50,000 shares within 5 days of acceptance by the TSX Venture Exchange (paid and issued), a further \$50,000 and 75,000 shares within 12 months, (paid/issued), a further \$150,000 and 100,000 shares within 24 months and a further \$180,000 and 175,000 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. The dates to make the payment and to incur the expenditures on the claim have been deferred, as the Company has not yet received permit to drill the property.

(xi) 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 \$20,000 (paid) on execution of the agreement, \$180,000 and 50,000 shares within 5

days of acceptance by the TSX Venture Exchange (paid/issued) a further \$100,000 and 50,000 shares within 12 months, (paid/issued), a further \$50,000 and 75,000 shares within 24 months, a further \$25,000 and 125,000 within 30 months and 125,000 shares within 36 months of the effective date of the agreement. To date the Company has expended \$804,527 on this property.

(xii) Rug Claims

On May 12, 2010 the Company entered into an agreement to acquire a 100% interest in the Rug Claims for payments of \$25,000 and 25,000 shares within 5 days of acceptance by the TSX Venture Exchange, (received, paid/issued); a further \$30,000 and 30,000 shares within 12 months; a further \$45,000 and 45,000 shares within 24 months and \$100,000 and 100,000 shares within 36 months of the effective date of the agreement. The Company must incur cumulative expenditures of \$100,000 within 12 months, \$250,000 within 24 months and \$450,000 within 36 months from the effective date of the agreement. These claims are grouped with the Gossan claims and the total amount expended on both programs to date is \$1,169,947.

(xiii) Gossan

On April 10, 2010 the Company entered into an agreement to acquire a 100% interest in the Gossan Gold Property. To acquire the property the Company must make payments of \$20,000 and issue 150,000 shares within 5 days of acceptance by the TSX Venture Exchange (paid/issued). To date the Company has expended \$1,169,947 on this project.

(xiv) Stag Claim

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

(xv) Troitsa Claim

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 payments of \$40,000 and issuance of 40,000 common shares within 5 days of acceptance by the TSX Venture Exchange, (received, paid/issued); a further \$50,000 and 60,000 shares within 12 months; a further \$60,000 and 80,000 shares within 24 months; a further \$80,000 and 100,000 shares within 36 months and a further \$90,000 and 120,000 shares within 48 months from the effective date of the agreement.

In order to maintain the option in good standing and to earn the 100% interest in the property, the Company must incur cumulative expenditures of \$80,000 within 12 months, \$160,000 within 24 months, \$240,000 within 36 months and \$320,000 within 48 months from the effective date of the agreement. \$92,915 has been expended on this project to date.

(xvi) Pulver Lake

During the fiscal year the Company staked additional claims in the Snow Lake area of Manitoba.

e) Administration Expenses

General and Administration expenses of \$5,434,275 (2010 - \$5,622,769) for the year were in line with fiscal 2010, however, fiscal 2010 included \$3,131,859 in mineral properties write-off. After adjusting for the write off of mineral properties, there is an unfavourable variance of \$2,943,365 when comparing the two years. This unfavourable variance is mainly attributed to increases in audit and accounting expenses, consulting fees, legal fees, office and administration expenses, property

investigation costs, salary expenses, shareholders' relations, stock-based compensation and travel costs.

Increases of \$108,991 in audit and accounting expenses, \$737,339 in consulting fees and \$312,506 in legal fees can be attributed to the strategic undertakings of the Company during the year. The increases of \$112,110 in office and administration expenses is due to the opening of the Newfoundland office in January 2011 and addition of staff in Vancouver while increases of \$119,181 in property investigation costs is a result of the Company's investigation for new investments. The addition of five employees and annual salary increases resulted in salary expenses being higher than fiscal 2010 by \$627,563. Shareholders' relations expenses increased by \$157,179 as a result of increased promotion of the Company at trade shows and one on one meeting while stock-based compensation for the period is \$584,559 higher than the same period in fiscal 2010 as 515,000 incentive stock options were granted (2010 – 15,000).

5. CRITICAL ACCOUNTING POLICIES

The Company's accounting policies are set out in Note 2 of its Annual Financial Statements.

There are two policies that, due to the nature of the mining business, are significant to the financial results of the Company. These policies relate to the capitalization of mineral exploration expenditures and the use of estimates:

Under Canadian GAAP, the Company defers all costs relating to the acquisition and exploration of its mineral properties. Any revenues received from such properties are credited against the costs of the property. When commercial production commences on any of the Company's properties, any previously capitalized costs would be charged to operations over the life of the property using a unit-of-production method. The Company regularly reviews deferred exploration costs to assess their recoverability and when the carrying value of a property exceeds the estimated net recoverable amount, provision is made for impairment in value.

The existence of uncertainties during the exploration stage and the lack of definitive empirical evidence with respect to the feasibility of successful commercial development of any exploration property do create measurement uncertainty concerning the calculation of the amount of impairment to the value of any mineral property. The Company relies on its own or independent estimates of further geological prospects of a particular property and also considers the likely proceeds from a sale or assignment of the rights before determining whether or not impairment in value has occurred.

Conversion to International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB 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 Canadian GAAP. This 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, 2010 will require the restatement for comparative purposes of amounts reported by the Company for the year ended June 30, 2011.

The Company completed a preliminary IFRS transition assessment which highlighted several key areas of difference between existing Canadian GAAP and IFRS, specifically, presentation of financial statements, impairment of assets and share-based payments.

The Company developed an IFRS project plan assigning responsibilities and outlining the proposed timing of execution of key IFRS conversion projects. The Company's IFRS project plan stipulates several project phases. The first phase, including initial training and education for key finance staff, has been completed.

The next phase of the Company's IFRS project was the "impact assessment" phase, whereby the project team reviewed each of the significant areas of difference highlighted by the initial diagnostic. In this phase, the project team determined the potential qualitative differences between Canadian GAAP and IFRS and assessed the impact of these differences on the Company's accounting policies, information systems, internal controls over financial reporting and other business processes. To-date, the Company has identified the following key areas of potential difference with respect to the accounting for:

- Share-based payments – Canadian GAAP allows the preparer to choose from two options, namely a) treating all options granted at a particular date and with the same terms and conditions as one pool (pooling method) and b) treating options with different vesting dates as different grants (vesting method). The cost of such options is calculated according to Black-Scholes for both methods. For the pooling method, the total expense is amortized on a straight line basis over the longest vesting period of all of the options in the pool resulting in equal charges to income over the period. The vesting method looks at each vesting tranche and the expense associated with that particular vesting tranche and amortizes that in a straight line. This latter method front end loads the expense so that although available, this method is rarely used under Canadian GAAP. Under IFRS, the vesting method is the only method that may be used.
- Impairment of assets – IAS 36, Impairment of Assets ("IAS 36"), uses a one-step approach for testing and measuring asset impairments with asset carrying values being compared to the higher of value in use and fair value less costs to sell. Value in use is defined as being equal to the present value of future cash flows expected to be derived from the asset in its current state. In the absence of an active market, fair value less costs to sell may also be determined using discounted cash flows. The use of discounted cash flows under IFRS to test and measure asset impairment differs from Canadian GAAP where undiscounted future cash flows are used to compare against the asset's carrying value to determine if impairment exists. This may result in more frequent write-downs in the carrying value of assets under IFRS since asset carrying values that were previously supported under Canadian GAAP based on undiscounted cash flows may not be supported on a discounted cash flow basis under IFRS. However, under IAS 36, previous impairment losses may be reversed where circumstances change such that the impairment has been reduced. This also differs from Canadian GAAP, which prohibits the reversal of previously recognized impairment losses.
- Mineral property costs – The Company has evaluated its existing policy for exploration cost accounting and does not expect any of the differences between IFRS and Canadian GAAP to impact its accounting for exploration costs.

On changing to IFRS, the Company will be eligible to make elections under the standard for the transition to IFRS, namely IFRS 1 – First Time Adoption. In some cases, the changes that would otherwise have been retrospective are, with election, applicable from the date of transition and prospectively; in a number of other cases, there is a mandatory approach to deal with the effects of the changes. Where an election is available, the Company is currently reviewing the selection of a suitable option. Typically, IFRS requires significantly more disclosure than is the case under current Canadian GAAP, particularly with respect to the notes to the financial statements. The Company,

as part of the Plan, will be reviewing its data collection and reporting systems to ensure that the requisite information will be available and reliable.

The above changes are not expected to have a significant impact on the Company's information and data systems, business processes, internal controls over financial reporting, disclosure controls and business activities.

6. LIQUIDITY AND CAPITAL RESOURCES

During the year ended June 30, 2011 the following shares were issued for properties and cash proceeds:

- (a) On July 7, 2010 the Company issued 50,000 common shares at a deemed cost of \$1.46 per share as an option payment for the Pine Bay property.
- (b) On July 29, 2010 the Company issued 25,000 common shares at a deemed cost of \$1.50 per share as an option payment for the Herblet Lake property.
- (c) On September 9, 2010 the Company issued 25,000 common shares at a deemed cost of \$1.64 per share as an option payment for the Hamell Lake property.
- (d) On October 27, 2010 the Company issued 40,000 common shares at a deemed cost of \$2.84 per share as an option payment for the Troitsa property.
- (e) On March 4, 2011 the Company issued 2,000,000 units at \$2.19 per unit for net proceeds of \$4,380,000. Each unit consists of one common share and one common share purchase warrant exercisable at \$2.58 per share until March 4, 2016.
- (f) On March 25, 2011 the Company issued 20,000 shares at a deemed cost of \$3.44 per share as an option payment for the Berry Creek property.
- (g) On May 10, 2011 the Company issued 30,000 common shares at a deemed cost of \$3.07 per share as an option payment for the Gossan property.
- (h) 1,380,000 common share options were exercised for net proceeds of \$1,179,580.
- (i) 385,000 common share purchased warrants were exercised for net proceeds of \$481,250.
- (j) The Company purchased 169,600 of its common shares at a cost of \$537,188. These common shares are being held as treasury shares until cancelled at the end of each month.

During the year ended June 30, 2010 the following shares were issued for properties and cash proceeds:

- (a) On July 24, 2009 the Company issued 20,000 common shares at a deemed cost of \$0.71 per share as an option payment for the Hamell Lake property.
- (b) On August 17, 2009 the Company issued 50,000 common shares at a deemed cost of \$0.70 per share as an option payment for the Pine Bay property.
- (c) On September 16, 2009 the Company issued 50,000 common shares at a deemed cost of \$0.93 per share as an option payment for the Island Lake property.

- (d) On December 3, 2009 the Company issued 25,000 common shares at a deemed cost of \$1.14 per share as an option payment for the Jean Lake property.
- (e) On March 15, 2010 the Company issued 100,000 common shares at a deemed cost of \$1.53 per share as an option payment for the Berry Creek property.
- (f) On May 12, 2010 the Company issued 50,000 common shares at a deemed cost of \$1.81 per share as option payment for the Moak and Norris properties.
- (g) On May 28, 2010 the Company issued 150,000 common shares at a deemed cost of \$1.60 per share as option payment for the Gossan Gold property.
- (h) On May 28, 2010 the Company issued 25,000 common shares at a deemed cost of \$1.60 per share as option payment for the Rug Claims.
- (i) On June 21, 2010 the Company issued 25,000 common shares at a deemed cost of \$1.57 per share as option payment for the Dion Lake property.
- (j) 100,000 common shares options were exercised for net proceeds of \$90,500.
- (k) 125,000 common share purchased warrants were exercised for net proceeds of \$156,250.

7. SECURITIES AS AT THE END OF THE REPORTING PERIOD

At June 30, 2011, there were 49,147,121 common shares of the Company issued and outstanding. Other securities outstanding are:

(a) Warrants

During the year ending June 30, 2011, 385,000 share purchase warrants were exercised while 115,750 expired on November 2, 2010 and 2,500 on December 19, 2010. 2,000,000 share purchase warrants issued pursuant to a private placement on March 4, 2011 were outstanding at the end of the year.

The following table summarizes warrants activities during the period:

	<u>Number of Warrants</u>	<u>Weighted Average Exercise Price</u>
Warrants outstanding at June 30, 2009	628,250	\$ 1.25
Exercise and converted to common shares	<u>(125,000)</u>	<u>1.25</u>
Warrants outstanding at June 30, 2010	503,250	1.25
Granted	2,000,000	2.58
Exercise and converted to common shares	<u>(385,000)</u>	<u>1.25</u>
Expired	<u>(118,250)</u>	<u>1.25</u>
Warrants outstanding at June 30, 2011	<u>2,000,000</u>	<u>\$ 2.58</u>

(b) Incentive Stock Options

During the year ended June 30, 2011 the Company granted incentive stock options for the purchase 515,000 common shares at an average price of \$2.32. 40,000 of these common stock incentive options are exercisable on or before October 6, 2015, 450,000 are exercisable on or before October 22, 2015 and 25,000 are exercisable on or before November 5, 2015. Stock based compensation expense of \$735,645 was recorded during the period.

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

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>
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
Granted	515,000	2.32
Exercised	<u>(1,380,000)</u>	<u>0.85</u>
Options outstanding at June 30, 2011	<u>2,616,500</u>	<u>\$ 1.48</u>

8. DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The Company occupies leased office space at Suite 110 – 736 Granville Street in Vancouver, B.C. and at 508 Main Street in Lewisporte, Newfoundland. The office lease in Vancouver will expire January 31, 2016, while the lease in Newfoundland expires in December 31, 2011. For the year ended June 30, 2011 rental expenses, including taxes and operating expenses were \$62,406. For the period ended June 30, 2010 the monthly rent including taxes and operating expenses was \$4,111 per month.

9. CORPORATE GOVERNANCE

The Company has evaluated its internal controls over financial reporting and believes that as of the report date, its systems of internal controls over financial reporting as defined under MI 52-109 are sufficiently designed and maintained to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Certain weaknesses in its systems are apparent. These weaknesses arise primarily from the limited number of personnel employed in the accounting and financial reporting area, a situation that is common in smaller companies. As a consequence of this situation:

- a) It is not feasible to achieve the complete segregation of duties; and
- b) The Company does not have full competency in house in complex areas of financial accounting, such as taxation.

The Company believes these weaknesses are mitigated by:

- a) the nature and present levels of activities and transactions within the Company being readily transparent;

- b) the thorough review of the Company's financial statements by senior management and the audit committee of the board of directors;
- c) by the assistance and advice rendered by the Company's auditors; and,
- d) by the active participation of senior management in monitoring financial reporting.

Nevertheless, these mitigating factors cannot eliminate the possibility that a material misstatement will occur as a result of the aforesaid weaknesses in the Company's internal controls over financial reporting. A cost effective system of internal controls over financial reporting, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the internal controls over financial reporting are achieved.

10. SUBSEQUENT EVENTS

Subsequent to June 30, 2011 the Company received \$5,090,932 from HudBay representing the balance owing plus interest for the 2010 calendar year and \$4,217,740 for the quarter ending June 30, 2011. These amounts are included in accounts receivable at June 30, 2011.

On July 13, 2011, the Company spun out the following properties to Callinex Mines Inc. ("Callinex"): Coles Creek; Gossan Gold; Sneath Lake; CAL; Herblet Lake; Dion Lake; Moak and Norris Lake; Elliot Lake; Tramping Lake; Cook Lake; Lobar Lake; Pulver Lake; Berry Creek; Fox River; Troitsa; Hamell Lake; Rug; Stag; Pine Bay; Island Lake; Keputch; Assean Lake; and Pine Lake. The right to earn any royalties in the above properties remained with the Company, and was not transferred to Callinex. The Company also transferred its equipment and \$8 million in cash to Callinex. Shareholders of the Company received one new Callinan common share for each Callinan share held, and one Callinex common share for every 4.5 Callinan common shares held. As a result of this transaction, the Company changed its name to Callinan Royalties Corporation.

On August 10, 2011, Callinan announced it will pay an inaugural quarterly dividend of two cents per common share to all shareholders of record at the close of business on September 1, 2011. The first dividend payment was made on September 15, 2011. The correct ex-dividend date was August 30, 2011 rather than September 1, 2011 as announced in the August 10 release.

On September 9, 2011 the Company executed a standstill agreement with HudBay which places in abeyance the Company's law suit in respect of its Net Profits Interest and Royalty agreement with HudBay while the Company conducts an independent audit.

Under the standstill agreement, Callinan will initially audit the NPI calculations for four selected years, namely 1993, 2003, 2004 and 2007. Callinan has retained Grant Thornton LLP to conduct the independent audit. HudBay has agreed to cooperate with the auditors and to supply all available documents reasonably requested for the audit.

In return, Callinan has agreed to hold the law suit in abeyance during the conduct of the audit while retaining the right at its sole discretion to terminate the audit and proceed with the law suit on reasonable notice in writing to HudBay of not less than 30 days.

11. RELATED PARTY TRANSACTIONS

During the year ended June 30, 2011 a director of the Company's management team has been paid \$264,500 in remuneration (2010 - \$183,750). An officer of the Company has been paid \$241,670 in remuneration (2010 - \$126,490). Additionally, \$254,418 was paid out in directors' fees, (2010 - \$245,000). These amounts are included in salaries and wages expenses.

On August 1, 2005 Callinan Mines Limited entered into an agreement with an officer and director of the Company whereby the Company has been granted the option to acquire a 100% interest in two claims in the Omenica Mining Division of British Columbia. \$210,000 was paid in relation to this agreement during the year ended June 30, 2011. Please refer to item 4d.iii for details of this transaction.

A vice-president of the Company purchased two million units of the Company's common share, pursuant to a private placement, at a price of \$2.19 per unit. Each unit consisted of one common share of the Company and one common share purchase warrant. Each warrant will entitle the holder to purchase one additional common share of the Company until March 4, 2016 at the price of \$2.58 per common share.

There were no other related party transactions except for the grant and/or exercise of incentive stock options.

12. LIST OF DIRECTORS AND OFFICERS

Roland Butler	Director	President & CEO
Mike Muzylowski	Director	Chairman
Frank Dembinsky	Director	--
Mervyn Shnider	Director	--
Gordon Slade	Director	--
Brian Irwin	Director	--
Anna Stylianides	Director	--
Roland Butler	Director	--
Carlo G. Civelli	--	Vice President Finance/Europe
Tamara Edwards	--	Chief Financial Officer
Cheri Pedersen	--	Corporate Secretary

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of Callinan Royalties Corporation were prepared by management in accordance with Canadian generally accepted accounting principles. Management acknowledges responsibility for the preparation and presentation of the financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances. The significant accounting policies of the Company are summarized in Note 2 of the financial statements.

Management has established processes, which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the financial statements and (ii) the financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the financial statements.

The Board of Directors is responsible for reviewing and approving the financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, applicable laws and regulations, and for maintaining proper standards of conduct for its activities.



Roland Butler
President and Chief Executive Officer



Tamara Edwards
Chief Financial Officer

October 24, 2011
Vancouver, British Columbia Canada

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Callinan Royalties Corporations
(formerly Callinan Mines Ltd.)

We have audited the accompanying financial statements of Callinan Royalties Corporations (formerly Callinan Mines Ltd.) which comprise the balance sheets as at June 30, 2011 and 2010 and the statements of operations, comprehensive income, accumulated other comprehensive income (loss) and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of Callinan Royalties Corporations (formerly Callinan Mines Ltd.) as at June 30, 2011 and 2010 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Accountants

October 19, 2011



CALLINAN ROYALTIES CORPORATION (FORMERLY CALLINAN MINES LIMITED)
BALANCE SHEETS
AS AT

	June 30, 2011	June 30, 2010
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 30,269,465	\$ 13,483,189
Accounts and Other Receivables	12,468,540	8,380,400
GST Receivable	233,764	77,982
Prepaid Expenses	<u>271,663</u>	<u>218,868</u>
TOTAL CURRENT ASSETS	43,243,432	22,160,439
MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (Note 3)		
Net of Accumulated Amortization of \$1,144,954 (June 30, 2010 - \$1,131,975)	24,220,885	15,958,678
EQUIPMENT (Note 4)		
Net of Accumulated Amortization of \$234,815 (June 30, 2010 - \$183,440)	130,226	90,279
INVESTMENTS (Note 5)	<u>1,266,069</u>	<u>1,585,071</u>
TOTAL ASSETS	<u>\$ 68,860,612</u>	<u>\$ 39,794,467</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable and Accrued Liabilities	\$ 443,252	\$ 219,052
Income Tax Payable and Accrued	<u>2,951,124</u>	<u>1,005,193</u>
TOTAL CURRENT LIABILITIES	3,394,376	1,224,245
LONG-TERM LIABILITY		
Future Income Tax Liability (Note 8)	<u>5,580,363</u>	<u>3,781,361</u>
TOTAL LIABILITIES	<u>\$ 8,974,739</u>	<u>\$ 5,005,606</u>
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 6)		
Authorized - Unlimited Common Shares – No Par Value Issued – 49,147,121 Common Shares (June 30, 2010 – 45,192,121)	34,549,815	26,428,218
TREASURY SHARES (Note 6)	(537,188)	-
CONTRIBUTED SURPLUS (Note 6)	4,113,227	5,032,349
ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)	(81,711)	463,952
RETAINED EARNINGS	<u>21,841,730</u>	<u>2,864,342</u>
TOTAL SHAREHOLDERS' EQUITY	<u>59,885,873</u>	<u>34,788,861</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 68,860,612</u>	<u>\$ 39,794,467</u>

Nature and continuance of operations (Note 1)

Subsequent events (Note 13)

The accompanying notes are an integral part of these financial statements

Approved on behalf of the board by Robert Smith Director McMurray Director

CALLINAN ROYALTIES CORPORATION (FORMERLY CALLINAN MINES LIMITED)
STATEMENTS OF OPERATIONS AND DEFICIT
YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
INCOME		
Interest	\$ 203,868	\$ 31,000
Royalty – Callinan Mines	29,613,011	16,540,048
Gain on Sale of Investments	<u>22,340</u>	<u>20,653</u>
	29,839,219	16,591,701
EXPENDITURES		
Annual Meeting	30,392	23,889
Audit and Accounting	300,822	191,831
Bank Charges & Interest	9,584	4,976
Consulting Fees	1,003,204	265,865
Donation	22,000	26,000
Equipment Amortization	51,374	33,964
Insurance Expense	30,225	35,083
Legal	690,608	378,102
Listing and Sustaining Fees	90,215	29,430
Mineral Property Amortization	12,979	14,729
Mining Tax Expense	897	1,021
Property Investigation Costs	329,373	210,192
Office and Administration	165,473	53,363
Office Rent	62,406	49,331
Salaries and Wages	1,359,067	731,504
Shareholder Relations and News Releases	359,188	202,009
Stock-based Compensation (Note 6)	735,645	151,086
Telephone	34,712	21,159
Transfer Agent	26,068	18,895
Travel	120,043	48,481
Write-off of Mineral Properties (Note 3)	<u>-</u>	<u>3,131,859</u>
	(5,434,275)	(5,622,769)
NET INCOME BEFORE TAXES	24,404,944	10,968,932
Income Tax Expense (Note 8)	(3,446,666)	(1,555,725)
Future Income Tax Expense (Note 8)	<u>(1,980,890)</u>	<u>(948,131)</u>
Net Income for the Year	18,977,388	8,465,076
Retained Earnings at Beginning of Year	<u>2,864,342</u>	<u>(5,600,734)</u>
Retained Earnings at End of Year	<u>\$ 21,841,730</u>	<u>\$ 2,864,342</u>
NET INCOME PER COMMON SHARE (Note 2)		
Basic	\$ 0.40	\$ 0.19
Fully Diluted	\$ 0.39	\$ 0.18
Weighted Average Number of Common Shares Outstanding		
Basic	46,935,233	45,336,795
Fully Diluted	48,060,366	45,971,272

The accompanying notes are an integral part of these financial statements

CALLINAN ROYALTIES CORPORATION (FORMERLY CALLINAN MINES LIMITED)
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
CASH PROVIDED BY (USED FOR)		
OPERATING ACTIVITIES		
Net Income for the year	\$ 18,977,388	\$ 8,465,076
Items not affecting cash:		
Mineral property amortization	12,979	14,729
Equipment amortization	51,374	33,964
Gain on Sale of Investments	(22,340)	(20,653)
Stock-based compensation	735,645	151,086
Income Tax Expense	3,446,666	1,005,193
Future income tax expense	1,980,890	948,131
Write-off of mineral properties	-	3,168,854
Changes in non-cash working capital items:		
(Increase) in receivables	(4,243,922)	(1,155,757)
(Increase) in prepaids	(52,795)	(116,800)
(Decrease)/increase in accounts payable and accrued liabilities	(1,111,596)	55,778
 Net cash flow provided by operating activities	 19,774,289	 12,549,601
INVESTING ACTIVITIES		
Mineral properties and deferred exploration costs - net of recoveries	(8,014,124)	(5,625,443)
Equipment purchases	(91,321)	(8,317)
Proceeds from sale of investments	29,840	34,453
Investments acquired	(416,050)	(550,000)
Cash used in investing activities	(8,491,655)	(6,149,307)
FINANCING ACTIVITIES		
Capital stock issued, net of issuance costs	6,041,100	246,750
Purchase of treasury stock	(537,458)	-
Cash provided by financing activities	5,503,642	246,750
 INCREASE IN CASH AND CASH EQUIVALENTS	 16,786,276	 6,647,044
Cash and cash equivalents at beginning of year	13,483,189	6,836,145
 CASH AND CASH EQUIVALENTS AT END OF THE YEAR	 <u>\$ 30,269,465</u>	 <u>\$ 13,483,189</u>
 Cash and cash equivalents is comprised of:		
Cash	8,320,528	269,339
Cash equivalents	21,948,937	13,213,850
Cash paid during the year for:		
Interest	-	-
Income taxes	1,500,735	-

Supplemental disclosure with respect to cash flows (Note 10)

The accompanying notes are an integral part of these financial statements

CALLINAN ROYALTIES CORPORATION (FORMERLY CALLINAN MINES LIMITED)
STATEMENTS OF COMPREHENSIVE INCOME AND ACCUMULATED OTHER
COMPREHENSIVE INCOME, (LOSS)
YEARS ENDED JUNE 30, 2011 AND 2010

Statements of Comprehensive Income

	2011	2010
Net Income for the Year	\$ 18,977,388	\$ 10,968,932
Other Comprehensive Income, Net of Tax	<u>(545,663)</u>	<u>538,752</u>
Comprehensive Income for the year	<u>\$ 18,431,725</u>	<u>\$ 11,507,684</u>

Statements of Accumulated Other Comprehensive Income (Loss)

Accumulated Other Comprehensive Income/(loss)		
Beginning of Year	\$ 463,952	\$ (74,800)
Adjustment on disposition of shares	(18,750)	-
Fair value adjustment for available-for-sale securities	<u>(708,802)</u>	<u>718,336</u>
	(263,600)	643,536
Future income taxes (expense)/recovery	<u>181,889</u>	<u>(179,584)</u>
Accumulative Other Comprehensive Income (Loss) End of Year	<u>\$ (81,711)</u>	<u>\$ 463,952</u>

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

CALLINAN ROYALTIES CORPORATION (FORMERLY CALLINAN MINES LIMITED)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

1. NATURE AND CONTINUANCE OF OPERATIONS

The principal activity of Callinan Royalties Corporation (formerly Callinan Mines Limited) (the "Company") is the acquisition, exploration and evaluation of mineral properties in Canada. The Company also holds a \$0.25 per ton royalty interest and a 6.6667% net profits interest in the Callinan Mine operated by Hudson Bay Mining and Smelting Co. Limited ("Hudbay"). Subsequent to the year end, (Note 13) the Company spun out its exploration properties to a newly incorporated entity and became a royalty company.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles 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.

Management believes the Company has sufficient working capital to maintain its operations and activities for the next fiscal year.

All amounts are in Canadian dollars unless otherwise stated.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Areas requiring the use of estimates include impairment of long lived assets inputs used in calculating stock-based compensation, and calculation of future income tax liability. Actual results could differ from those estimates.

(b) Cash and cash equivalents

The Company considers cash and cash equivalents to include cash on deposit and highly liquid short term interest bearing variable rate Guaranteed Investment Certificates and Bankers' Acceptance Papers.

(c) Receivables

Receivables are reported at face value less any provision for uncollectible accounts considered necessary. Receivables relate primarily to the timing of receipts from HudBay for the 25% holdback of the net profits interest as per the agreement between the companies. The agreement states that 75% of the net profits interest is to be made quarterly and the remaining 25% is to be paid 130 days after December 31st of each year.

(d) Equipment

Equipment is recorded at acquisition cost. Amortization is recorded at year end on a declining balance basis at the following annual rates:

Machinery & Equipment	30%
Office Furniture	20%
Computer Equipment	30%

CALLINAN ROYALTIES CORPORATION (FORMERLY CALLINAN MINES LIMITED)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

2. SIGNIFICANT ACCOUNTING POLICIES (cont....)

(e) Mineral properties and deferred exploration costs

All costs related to the acquisition, exploration and development of mineral properties are capitalized by property. If economically recoverable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. When a property is abandoned, all related costs are written off to operations. If, after management review, it is determined that the carrying amount of a mineral property is impaired, that property is written down to its estimated net realizable value.

A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

The amounts shown for mineral properties do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

(f) Income Taxes

Future income taxes relate to the expected future income tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax values. Future tax assets, if any, are recognized only to the extent that, in the opinion of management, it is more likely than not, that future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment or substantive enactment.

(g) Asset retirement obligations

The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease to the carrying amount of the liability and the related long-lived asset.

The Company does not have any significant asset retirement obligations.

(h) Impairment of long-lived assets

A long-lived asset is tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of a long-lived asset exceeds its fair value. For purposes of recognition and measurement of an impairment loss, a long-lived asset is grouped with other assets and liabilities to form an asset group at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Estimates of future cash flows used to test recoverability of a long-lived asset include only the future cash flows that are directly associated with, and that are expected to arise as a direct result of, its use and eventual disposition.

CALLINAN ROYALTIES CORPORATION (FORMERLY CALLINAN MINES LIMITED)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

2. SIGNIFICANT ACCOUNTING POLICIES (cont....)

(i) Flow-through shares

Canadian tax legislation permits a company to issue flow-through shares whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investors rather than the Company. Recording these expenditures for accounting purposes gives rise to temporary taxable differences.

When flow-through expenditures are renounced, a portion of the future income tax assets that were not recognized in previous years, due to the recording of a valuation allowance, are recognized as a recovery of income taxes in the statement of operations.

(j) Financial instruments

All financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired.

The Company has classified its cash and cash equivalents as held-for-trading. Accounts and other receivables and GST receivable are classified as loans and receivables. Investments are classified as available-for-sale. Accounts payable and accrued liabilities are classified as other liabilities, which are measured at amortized costs.

The Company also provides required disclosure about the inputs used in making fair value measurements, including their classification within a hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets and liabilities
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; an
- Level 3 – Inputs that are not based on observable market data.

See Note 11 for relevant disclosures.

(k) Stock-based compensation

The fair value of stock options granted is determined using the Black-Scholes option pricing model and recorded as stock-based compensation expense over the vesting period of the stock options.

(l) Earnings per common share

Basic earnings per share, is calculated using the weighted average number of common shares outstanding.

The Company uses the treasury stock method for the calculation of diluted earnings per share. Diluted earnings per share, is computed using the weighted average number of common and

CALLINAN ROYALTIES CORPORATION (FORMERLY CALLINAN MINES LIMITED)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

2. SIGNIFICANT ACCOUNTING POLICIES (cont....)

common equivalent shares outstanding during the year. Common equivalent shares consist of the incremental common shares arising upon the assumed exercise of stock options and warrants, but are excluded from the computation if their effect is anti-dilutive.

The following weighted average number of shares was used for computation of earnings per share:

	2011	2010
Weighted average shares used in computation of basic earnings per share	46,935,233	45,336,795
Effect of diluted securities		
Stock options and warrants	<u>1,125,133</u>	<u>634,477</u>
Weighted average shares used in computation of diluted earnings per share	<u>48,060,366</u>	<u>45,971,272</u>

(m) Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

(n) Comprehensive income

Comprehensive income is defined as the change in equity (net assets) from transactions and other events from non-owner sources. Other comprehensive income is defined as revenues, expenses, gains and losses that, in accordance with primary sources of GAAP, are recognized in comprehensive income, but excluded from net income. This would include holding gains and losses from financial instruments classified as available-for-sale.

(o) Revenue recognition

Revenue from the royalty on the Callinan Mine is recognized on an accrual basis and when ultimate collection is reasonably assured.

Future accounting standards

(p) 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, 2010 will require the restatement for comparative purposes of amounts reported by the Company for the year ended June 30, 2011.

CALLINAN ROYALTIES CORPORATION (FORMERLY CALLINAN MINES LIMITED)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

2. SIGNIFICANT ACCOUNTING POLICIES (cont....)

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. The Company is prepared to adopt IFRS effective July 1, 2011.

3. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS

Activity for the Year ended June 30, 2011

	Callinan	Pine Bay	Fox	Gossan	Coles	Berry Creek	Herblet	Other	Total
Acquisition	\$ -	185,419	\$ -	\$ 140,124	\$ 205,000	\$ 88,800	\$ 29,658	\$ 288,107	\$ 937,108
Geochemical	-	-	-	9,239	16,362	-	47,178	-	72,779
Geophysical	-	58,586	-	-	191,842	15,911	74,083	11,500	351,922
Linecutting	-	-	-	-	-	2,960	40,130	-	43,090
Drilling	-	401,049	41,551	1,035,859	2,555,926	289,809	909,831	-	5,234,025
Consulting	-	4,400	1,200	28,524	55,670	-	40,550	31,976	162,320
Travel	-	-	-	-	23,503	-	-	-	23,503
Field & Camp	-	31,007	-	78,754	1,038,263	6,369	69,963	2,296	1,226,652
Vehicle	-	2,800	-	1,500	66,452	1,600	3,402	-	75,754
Prospecting	-	-	-	800	9,352	-	28,341	54,005	92,498
Miscellaneous	-	-	37,499	15,272	-	-	-	2,764	55,535
Total	-	683,261	80,250	1,310,072	4,162,370	405,449	1,243,136	390,648	8,275,186
Opening	221,508	543,185	4,149,499	260,026	7,331,275	1,629,259	387,931	1,435,995	15,958,678
Amortization	(12,979)	-	-	-	-	-	-	-	(12,979)
June 30, 2011	\$ 208,529	\$ 1,226,446	\$ 4,229,749	\$ 1,570,098	\$ 11,493,645	\$ 2,034,708	\$ 1,631,067	\$ 1,826,643	\$ 24,220,885

Activity for the Year ended June 30, 2010

	Callinan	Pine Bay	Fox	Berry Creek	Coles	Jean Lake	Watts River	Other	Total
Acquisition	\$ -	\$ 235,000	\$ 249,524	\$ 163,000	\$ 5,000	\$ 24,250	\$ 14,250	\$ 692,714	\$ 1,383,738
Geochemical	-	-	51,598	-	62,228	-	-	11,359	125,185
Geophysical	-	275,612	41,571	104,521	216,475	269,557	8,422	32,519	948,677
Linecutting	-	19,144	-	(1,625)	24,255	197,256	-	-	239,030
Drilling	-	2,118	1,226,954	522,982	3,441	734,743	397,575	53,374	2,941,187
Consulting	-	9,966	20,835	31,980	49,099	27,025	18,850	17,375	175,130
Travel	-	-	1,220	-	9,973	-	-	-	11,193
Field & Camp	-	100	60,315	9,595	508,432	27,264	8,529	1,947	616,182
Vehicle	-	145	2,331	2,550	44,681	1,090	528	100	51,425
Prospecting	-	1,100	-	4,600	221,853	4,025	1,350	8,315	241,243
Miscellaneous	-	-	-	-	9,935	-	-	5,694	15,629
Recovery***	-	-	(20,364)	(68,134)	(347,729)	-	-	-	(436,227)
Total	-	543,185	1,633,984	769,469	807,643	1,285,210	449,504	823,397	6,312,392
Opening	236,237	-	2,515,515	859,790	6,523,632	-	-	2,694,695	12,829,869
W/O Mineral Property	-	-	-	-	-	(1,285,210)	(449,504)	(1,434,140)	(3,168,854)
Amortization	(14,729)	-	-	-	-	-	-	-	(14,729)
June 30, 2010	\$ 221,508	\$ 543,185	\$ 4,149,499	\$ 1,629,259	\$ 7,331,275	\$ -	\$ -	\$ 2,083,952	\$ 15,958,678

*** 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 (BCMETC) for exploration in British Columbia.

CALLINAN ROYALTIES CORPORATION (FORMERLY CALLINAN MINES LIMITED)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

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 Queen's 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

HudBay initially refused to produce any financial documentation. The Company successfully applied to the Manitoba Court of Queen's Bench for an Order directing HudBay to produce all relevant documents. HudBay then produced certain financial records but did not produce any documents exchanged with its auditors, Deloitte & Touche, concerning the calculation of the NPI. There have been several court appearances in respect of the motion. On July 3, 2011 the Company was granted access to Deloitte's working paper. On September 9, 2011 the Company announced that it has executed an agreed standstill with HudBay while the Company conducts its independent audit.

(b) 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 to keep the claims in good standing.

CALLINAN ROYALTIES CORPORATION (FORMERLY CALLINAN MINES LIMITED)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

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

(c) 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. Bell's interest is now based on a dilution clause contained in the agreement of March 15, 2006.

(d) 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 (paid) and issuance of 150,000 shares (issued) payable within 5 business days from acceptance of the agreement by the TSX Venture Exchange.

(e) 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 is exercised on or before September 1, 2008, \$200,000 will 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. During the current fiscal year the Company exercised this option and paid Mr. Muzylowski \$210,000. 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.

(f) 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), and a further \$40,000 and 375,000 shares within 36 months of the effective date. During the current fiscal year the agreement was amended whereby, the payment to be made in March 2011 was deferred to March 2012 while management decides if the Company will continue with this project. Management issued 20,000 shares and paid \$20,000 in lieu of its obligations on this property this fiscal year.

(g) Herblet Lake

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

CALLINAN ROYALTIES CORPORATION (FORMERLY CALLINAN MINES LIMITED)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

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

(h) 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.

(i) Moak and Norris Lake

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

(j) Tramping Lake

Between March 28 and April 10, 2008 the Company staked claims in the Snow Lake area of Manitoba. To date \$99,241 has been expended on this property.

(k) 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.

(l) 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. This project has been put on hold while negotiations proceed with the First Nations.

(m) 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.

(n) Stag Claim

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

(o) Pulver Lake

During the current fiscal year the Company staked claims in Snow Lake, Manitoba.

CALLINAN ROYALTIES CORPORATION (FORMERLY CALLINAN MINES LIMITED)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

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

During the fiscal 2010 management determined that it had no plans to pursue further work on Sneath Lake, Cal Mine, Jean Lake and Watts River and accordingly wrote off all costs associated with these projects to operations.

4. EQUIPMENT

Activity for the year ended June 20, 2011

	Opening Net Balance	Additions	Cost	Amortization	June 30 2011 Net Book Value
Machinery & Equipment	54,870	3,083	57,953	16,923	41,030
Office Furniture	16,576	19,651	36,227	5,280	30,947
Computer Equipment	18,833	68,587	87,420	29,171	58,249
Totals	90,279	91,321	181,600	51,374	130,226

Activity for the year ended June 30, 2010

	Opening Net Balance	Additions	Cost	Amortization	June 30 2010 Net Book Value
Machinery & Equipment	78,385	-	78,385	23,515	54,870
Office Furniture	20,532	167	20,699	4,123	16,576
Computer Equipment	17,008	8,150	25,158	6,325	18,833
	115,925	8,317	124,242	33,963	90,279

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 \$16,602 (June 30, 2010 - \$4,704). There were no purchases or sales during the year ended June 30, 2011.
 - b. 1,320,000 common shares of Bell Copper Corporation with a carrying value at fair market value of \$270,600 (June 2010 - \$363,000).
 - c. 1,950,000 common shares of Constantine Metals with a carrying value at fair market value of \$331,500 (June 30, 2010 - \$341,250).
 - d. 100 common shares of HudBay Minerals Inc. with a carrying value at fair market value of \$1,167 (June 30, 2010 - \$1,117). There were no purchases or sales during the year.
 - e. 5,850,000 common shares of Copper Reef with a carrying value at fair market value of \$585,000 (June 30, 2010, 5,000,000 shares at - \$ 875,000). 1,000,000 were purchased at a cost of \$100,000 during the year and 150,000 were sold for total proceeds of \$29,840.
 - f. 6,000,000 common shares of Ironwood Gold Corp. with a carrying value at fair market value of \$61,200 (June 30, 2010 - \$0). These shares were purchased during the current fiscal year at a cost of \$316,050.
-

CALLINAN ROYALTIES CORPORATION (FORMERLY CALLINAN MINES LIMITED)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

6. CAPITAL STOCK AND CONTRIBUTED SURPLUS

Authorized Unlimited common voting shares, no par value Common shares issued	Number of Shares	Capital Stock	Contributed Surplus
Balance June 30, 2009	44,472,121	\$ 25,451,085	\$ 4,924,695
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
Balance June 30, 2010	<u>45,192,121</u>	<u>\$ 26,428,218</u>	<u>\$ 5,032,349</u>
Exercise of warrants	385,000	481,250	-
Exercise of stock options	1,380,000	2,834,347	(1,654,767)
Acquisition of mineral properties	190,000	426,000	-
Private placement	2,000,000	4,380,000	-
Stock based compensation	-	-	735,645
Gross balance at June 30, 2011	<u>49,147,121</u>	<u>\$ 34,549,815</u>	<u>\$ 4,113,227</u>
Treasury stock	(169,600)	(537,188)	-
Net balance at June 30, 2011	<u>48,977,521</u>	<u>\$ 34,012,627</u>	<u>\$ 4,113,227</u>

During the year ended June 30, 2011 the following common 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 common shares valued at \$113,600 as an option payment for the Troitsa property.
 - (e) On March 4, 2011 the Company issued 2,000,000 units at \$2.19 per unit for total proceeds of \$4,380,000 pursuant to a private placement. Each unit consisted of one common share and one common share purchase warrant exercisable at \$2.58 until March 4, 2016.
 - (f) On March 25, 2011 the Company issued 20,000 common shares valued at \$68,800 as an option payment for the Berry Creek property.
 - (g) On May 10, the Company issued 30,000 common shares valued at \$92,100 as an option payment for the Gossan property.
 - (h) 1,380,000 common share options were exercised for net proceeds of \$1,179,580.
 - (i) 385,000 common share warrants were exercised for net proceeds of \$481,250.
-

CALLINAN ROYALTIES CORPORATION (FORMERLY CALLINAN MINES LIMITED)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

6. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont....)

- (j) During the fiscal year the Company purchased 169,600 of its common shares at a cost of \$537,188. These common shares are being held as treasury shares.

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

CALLINAN ROYALTIES CORPORATION (FORMERLY CALLINAN MINES LIMITED)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

6. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont....)

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 can be granted for a maximum of term of 10 years, and 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 year ended June 30, 2011 the Company granted 515,000 (2010 – 15,000) incentive stock options to an employee of the Company. The options have a weighted average fair value of \$1.37 (2010 - \$1.20) per option. 40,000 of these common stock options are exercisable at \$1.82 on or before October 6, 2015, 250,000 are exercisable at \$2.38 on or before October 22, 2015, 200,000 are exercisable at \$2.32 on or before October 22, 2015 and 25,000 are exercisable at \$2.56 on or before November 5, 2015. Compensation expense of \$735,645 (2010 – \$151,086) has been recorded during the year ended June 30, 2011 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 year ended:

	June 30, 2011	June 30, 2010
Risk-free interest rate	1.71%	2.41%
Expected life of options	3.5 years	3.5 years
Annualized volatility	89.03%	91.93%
Dividend rate	0.00%	0.00%
Weighted average fair value	\$1.37	\$0.45

CALLINAN ROYALTIES CORPORATION (FORMERLY CALLINAN MINES LIMITED)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

6. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont....)

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

	Number of Shares	Weighted Average Exercise Price
Options outstanding at June 30, 2009	3,566,500	\$ 1.46
Granted	15,000	1.20
Exercised	(100,000)	0.91
Options outstanding at June 30, 2010	3,481,500	1.10
Granted	515,000	2.32
Exercised	(1,380,000)	0.85
Options outstanding at June 30, 2011	2,616,500	\$ 1.48

Exercise Prices	Options Outstanding at June 30, 2011	Average Remaining Contractual Life (Years)	Number Exercisable at June 30, 2011	Expiry Date
\$ 0.88	125,000	1.21	125,000	September 13, 2012
0.88	250,000	2.28	250,000	October 9, 2013
1.00	300,000	1.92	300,000	May 29, 2013
1.42	761,500	0.62	761,500	February 13, 2012
1.45	690,000	1.55	690,000	January 14, 2013
1.82	15,000	4.27	15,000	October 6, 2015
2.32	200,000	4.32	200,000	October 22, 2015
2.38	250,000	4.32	250,000	October 22, 2015
2.56	25,000	4.35	25,000	November 5, 2015
	2,616,500		2,616,500	

Share purchase warrants

During the year ended June 30, 2011 385,000 common share purchase warrants were exercised, 118,250 expired, and 2,000,000 common share purchase warrants were granted.

The following table summarizes warrants outstanding at the end of the period:

	Number of Warrants	Weighted Average Exercise Price
Warrants outstanding at June 30, 2009	628,250	\$ 1.25
Exercised and converted to common shares	(125,000)	1.25
Warrants outstanding at June 30, 2010	503,250	1.25
Exercised and converted to common shares	(385,000)	1.25
Granted	2,000,000	2.58
Expired	(118,250)	1.25
Warrants outstanding at June 30, 2011	2,000,000	\$ 2.58

CALLINAN ROYALTIES CORPORATION (FORMERLY CALLINAN MINES LIMITED)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

7. RELATED PARTY TRANSACTIONS

During the year ended June 30, 2011, a director of the Company's management team was paid \$264,500 in remuneration, (2010 - \$183,750). An officer of the Company's management team was paid \$241,670 in remuneration, (2010 - \$126,490) In addition, \$254,418 was paid in directors' fees, (2010 - \$245,000) which is included in salaries and wages.

Additionally, \$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 Note 3(e) for further details of this transaction. Consulting fees totalling \$37,000 were paid to two directors of the Company. No such amounts were paid during the year ended June 30, 2010.

A vice-president of the Company purchased two million units of the Company's common shares pursuant to a private placement, at a price of \$2.19 per unit. Each unit consisted of one common share and one common share purchase warrant. Each warrant will entitle the holder to purchase one additional common share of the Company until March 4, 2016 at the price of \$2.58 per common share. (Note 6).

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. There were no other related party transactions.

8. INCOME TAXES

A reconciliation of income taxes at statutory rates is as follows:

	<u>2011</u>	<u>2010</u>
<u>Income for the year before income taxes</u>	\$ 24,404,944	\$ 10,968,932
Expected income tax expense	6,711,360	3,276,968
Items not deductible for income tax purposes	224,932	989,157
Items deductible for income tax purposes	(1,858,798)	(1,635,006)
Items not deductible for future income tax purposes	2,152,211	605,295
Recognized benefit of income tax attributes	(1,802,149)	(732,555)
<u>Total income taxes</u>	\$ 5,427,556	\$ 2,503,859

Total income tax is comprised of:

Income tax expense	\$ 3,446,666	\$ 1,555,728
Future income tax expense	1,980,890	948,131

CALLINAN ROYALTIES CORPORATION (FORMERLY CALLINAN MINES LIMITED)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

8. INCOME TAXES (cont....)

The significant components of the Company's future income tax assets and liabilities are as follows:

	2011	2010
Future income tax assets (liabilities)		
Capital assets	\$ 39,893	\$ 9,494
Share issue costs	-	15,755
Investments	11,128	(80,418)
Other tax credits	(158,346)	(205,115)
Cumulative exploration and development expenses	(5,473,038)	(3,521,077)
	(5,580,363)	(3,781,361)
Valuation allowance	-	-
Net future income tax liabilities	\$ (5,580,363)	\$ (3,781,361)

The Company has no non-capital losses available for deduction against future taxable income.

9. 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.

10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The significant non cash transactions for the year ended June 30, 2011 were:

- (a) The issuance of 190,000 common shares with a value of \$426,000 for acquisition of mineral properties (June 30, 2010 – 495,000 common shares with a value of \$686,950).
- (b) Mineral property expenditures recorded in accounts payable and accrued liabilities of \$42,355 (June 30, 2010– \$207,293).
- (c) Reallocation of fair value of options exercised from contributed surplus to capital stock of \$1,654,767 (2010 - \$43,433).

11. 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 accounts and other receivables, GST receivable 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 due to their short term nature.

The Company's other financial instruments, cash and cash equivalents and investments, under the fair value hierarchy are based on level one quoted prices in active markets for identical assets and liabilities.

CALLINAN ROYALTIES CORPORATION (FORMERLY CALLINAN MINES LIMITED)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

11. FINANCIAL INSTRUMENTS (cont....)

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:

	June 30, 2011	June 30, 2010
Due from Hudbay Minerals Inc.		
Less than 31 days	\$ 4,306,406	\$ 4,456,865
Between 31 and 60 days	-	-
Between 61 and 90 days	1,656,397	1,057,742
Over 90 days	<u>6,496,853</u>	<u>2,856,446</u>
	12,459,656	8,371,053
Other receivables	<u>8,884</u>	<u>9,347</u>
	<u>\$ 12,468,540</u>	<u>\$ 8,380,400</u>

The aging of the receivable due from HudBay indicates that payment is made in a timely manner. 25% of the quarterly payment from HudBay is due 130 days business days after December 31st 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 June 30, 2011, the Company had a cash balance of \$8,320,528 and cash equivalents of \$21,948,937 (2010 - \$269,339, \$13,213,850), to settle current liabilities of \$3,394,376 (2010 - \$1,224,245). 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 June 30, 2011, the Company did not have any investments with

CALLINAN ROYALTIES CORPORATION (FORMERLY CALLINAN MINES LIMITED)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

11. FINANCIAL INSTRUMENTS (cont....)

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.

12. 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.

The Company considers its capital to be the sum of the constituent parts of equity, namely share capital, contributed surplus and retained earnings. 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 the Company is 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 year ended June 30, 2011.

CALLINAN ROYALTIES CORPORATION (FORMERLY CALLINAN MINES LIMITED)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

13. SUBSEQUENT EVENTS

Subsequent to June 30, 2011 the Company received \$5,090,932 from HudBay representing the balance owing plus interest for the 2010 calendar year and \$4,217,740 for the quarter ending June 30, 2011. These amounts are included in accounts receivable at June 30, 2011.

On July 13, 2011, the Company spun out the following properties to Callinex Mines Inc. ("Callinex"): Coles Creek; Gossan Gold; Sneath Lake; CAL; Herblet Lake; Dion Lake; Moak and Norris Lake; Elliot Lake; Tramping Lake; Cook Lake; Lobar Lake; Pulver Lake; Berry Creek; Fox River; Troitsa; Hamell Lake; Rug; Stag; Pine Bay; Island Lake; Keputch; Assean Lake; and Pine Lake. The right to earn any royalties in the above properties remained with the Company, and was not transferred to Callinex. The Company also transferred its equipment and \$8 million in cash to Callinex along with 500,000 common shares of Callinan for use by Callinex to satisfy share issuance obligations in connection with certain exploration properties. These shares will be returned to Callinan and cancelled if Callinex decides not to maintain its interests in the properties. Shareholders of the Company received one new Callinan common share for each Callinan share held, and one Callinex common share for every 4.5 Callinan common shares held. As a result of this transaction, the Company changed its name to Callinan Royalties Corporation.

On August 10, 2011, Callinan announced it will pay an inaugural quarterly dividend of two cents per common share to all shareholders of record at the close of business on September 1, 2011. The first dividend payment was made on September 15, 2011.

CORPORATE INFORMATION

CORPORATE OFFICE

Suite 110 - 736 Granville Street
Vancouver, BC V6Z 1G3
Tel +1 604 605 0885

508 Main Street
Lewisporte, NL A0G 3A0
Tel +1 709 535 3433

LIST OF DIRECTORS AND OFFICERS

Mike Muzylowski	Chairman
Roland Butler	Director/CEO
Anna Stylianides	Director
Brian Irwin	Director
Frank Dembinsky	Director
Gordon Slade	Director
Mervyn Shnider	Director
Tamara Edwards	Chief Financial Officer
Cheri Pedersen	Corporate Secretary

REGISTRAR AND TRANSFER AGENT

CIBC Mellon
1600-1066 W. Hastings Street Vancouver, BC V6E 3X1

SOLICITORS

Boughton Law Corporation
Suite 700 - 595 Burrard Street Vancouver, BC V7X 1S8

AUDITORS

Davidson & Company LLP Chartered Accountants
1200 - 609 Granville Street P.O. Box 10372, Pacific Center
Vancouver, BC V7Y 1G6

LISTING

TSX Venture Exchange: CAA

CALLINAN
ROYALTIES



INFO@CALLINAN.com

CALLINAN.com