

CALLINAN ROYALTIES CORPORATION
(formerly Callinan Mines Limited)

CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

CALLINAN ROYALTIES CORPORATION
(Formerly Callinan Mines Limited)
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010
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CALLINAN ROYALTIES CORPORATION
(formerly Callinan Mines Limited)
CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION
AS AT

	September 30, 2011	June 30, 2011	July 1, 2010
ASSETS			
Current assets			
Cash and cash equivalents	\$ 28,986,325	\$ 30,269,465	\$ 13,483,189
Accounts and other receivables	9,671,292	12,468,540	8,380,400
GST receivable	64,008	233,764	77,982
Prepaid expenses	<u>72,930</u>	<u>271,663</u>	<u>218,868</u>
Total current assets	38,794,555	43,243,432	22,160,439
Exploration and evaluation assets (Note 4)			
Net of accumulated depreciation of \$1,148,315 (June 30, 2011 - \$1,144,954, July 1, 2010 - \$1,131,975)	205,168	24,220,885	15,958,678
Equipment (Note 5)			
Net of accumulated depreciation of \$2,913 (June 30, 2011 - \$234,815, July 1, 2010 - 183,440)	51,344	130,226	90,279
Investments (Note 6) (cost \$1,355,096, June 30, 2011 - \$1,355,096, July 1, 2010 - \$966,468)			
	<u>1,139,848</u>	<u>1,266,069</u>	<u>1,585,071</u>
Total assets	<u>\$ 40,190,915</u>	<u>\$ 68,860,612</u>	<u>\$ 39,794,467</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	\$ 233,083	\$ 443,252	\$ 219,052
Income tax payable and accrued	<u>4,308,843</u>	<u>2,951,124</u>	<u>1,005,193</u>
Total current liabilities	4,541,926	3,394,376	1,224,245
Long term liability			
Deferred Income tax liability	<u>516,640</u>	<u>5,580,363</u>	<u>3,781,361</u>
Total liabilities	<u>5,058,566</u>	<u>8,974,739</u>	<u>5,005,606</u>
Shareholders' equity			
Capital stock (Note 7)			
Authorized – unlimited common shares – no par value			
Issued – 49,340,621 common shares (June 30, 2011 – 49,147,121, July 1, 2010 – 45,192,121)	4,542,285	36,627,059	28,505,462
Treasury shares (Note 7)	(1,743,359)	(537,188)	-
Equity reserve	4,100,232	4,113,227	5,032,349
Accumulated other comprehensive income/(loss)	(176,377)	(81,711)	463,952
Retained earnings	<u>28,409,568</u>	<u>19,764,486</u>	<u>787,098</u>
Total shareholders' equity	<u>35,132,349</u>	<u>59,885,873</u>	<u>34,788,861</u>
Total liabilities and shareholders' equity	<u>\$ 40,190,915</u>	<u>\$ 68,860,612</u>	<u>\$ 39,794,467</u>

Nature and continuance of operations (Note 1)
Subsequent events (Note 15)

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

CALLINAN ROYALTIES CORPORATION
(formerly Callinan Mines Limited)
CONDENSED INTERIM STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED SEPTEMBER 30

	2011	2010
INCOME		
Interest	\$ 63,658	\$ 17,069
Royalty – Callinan Mines	<u>6,413,279</u>	<u>4,418,771</u>
	<u>6,476,937</u>	<u>4,435,840</u>
EXPENDITURES		
Annual meeting	19,444	833
Audit and accounting	8,874	15,564
Bank charges and interest	1,806	217
Consulting fees	19,966	40,487
Equipment depreciation	796	-
Insurance expense	8,409	6,067
Legal	99,765	62,308
Listing and sustaining fees	1,255	26
Mineral property depreciation	3,361	3,438
Property investigation costs	45,944	-
Office and administration	20,761	2,985
Office rent	13,325	5,007
Salaries and wages	193,260	12,064
Shareholder and relations and news releases	11,515	11,025
Telephone	4,926	759
Transfer agent	35,545	2,824
Travel	16,810	15,215
Miscellaneous	11,276	29,742
Loss allocated to spin-out (Note 9)	<u>-</u>	<u>292,932</u>
	<u>(517,038)</u>	<u>(501,493)</u>
Net income before taxes	5,959,899	3,934,347
Income tax expense	(1,357,719)	-
Deferred income tax recovery (expense)	<u>5,032,168</u>	<u>85,514</u>
Net income for the period	9,634,348	4,019,861
Fair value adjustment of investments	<u>(94,666)</u>	<u>(115,031)</u>
Comprehensive income for the period	<u>\$ 9,539,682</u>	<u>\$ 3,904,830</u>
Net income per common share (Note 3)		
Basic	\$ 0.19	\$ 0.09
Fully Diluted	\$ 0.19	\$ 0.09
Weighted average number of common shares outstanding		
Basic	49,592,788	45,261,235
Fully Diluted	50,940,760	46,020,403

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

CALLINAN ROYALTIES CORPORATION
(formerly Callinan Mines Limited)
CONDENSED INTERIM STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED SEPTEMBER 30

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the period	\$ 9,634,348	\$ 4,019,861
Items not affecting cash:		
Exploration and evaluation asset depreciation	3,361	3,438
Equipment depreciation	796	27,062
Future income tax expense (recovery)	(5,032,168)	(85,514)
Changes in non-cash working capital items:		
Decrease in receivables	2,967,004	1,454,006
Decrease in prepaids	198,733	158,385
Decrease in payables and accrued liabilities	<u>1,189,905</u>	<u>836,104</u>
Net cash provided by operating activities	<u>8,961,979</u>	<u>6,413,342</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of exploration and evaluation assets – net of recoveries	(42,131)	(3,722,141)
Equipment purchases	(21,751)	(10,911)
Investments acquired	<u>-</u>	<u>(213,080)</u>
Net cash used in investing activities	<u>(63,882)</u>	<u>(3,946,132)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital stock issued, net of issuance costs	14,200	27,813
Purchase of Treasury stock	(1,206,171)	-
Dividend payment	(989,266)	-
Cash transferred to Callinex (Note 9)	<u>(8,000,000)</u>	<u>-</u>
Net cash (used in) provided by financing activities	<u>(10,181,237)</u>	<u>27,813</u>
(Decrease) Increase in cash and cash equivalents	(1,283,140)	2,495,023
Cash and cash equivalents at beginning of period	<u>30,269,465</u>	<u>13,483,189</u>
Cash and cash equivalents at end of the period	\$ 28,986,325	\$ 15,978,212
Cash and cash equivalents is comprised of:		
Cash	597,568	333,469
Cash equivalents	<u>28,388,757</u>	<u>15,644,743</u>
Cash paid during the year for:		
Interest	-	-
Income taxes	-	-
Supplemental disclosure with respect to cash flows (Note 11)		

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

CALLINAN ROYALTIES CORPORATION
(formerly Callinan Mines Limited)
CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

	<u>Capital Stock</u>		Treasury ¹ Shares	Equity Reserve	Accumulated Other Comprehensive Income	Earnings	Total
	Number of Shares	Amount					
Balance, June 30, 2010 and July 1, 2010	45,192,121	\$ 28,505,462	\$ -	\$ 5,032,349	\$ 463,952	\$ 787,098	\$ 34,788,861
Exercise of warrants	2,250	2,812	-	-	-	-	2,812
Exercise of stock options	25,000	25,000	-	-	-	-	25,000
Acquisition of mineral properties	100,000	151,500	-	-	-	-	151,500
Fair value adjustment for securities	-	-	-	-	(115,031)	-	(115,031)
Income for the period	-	-	-	-	-	4,019,861	4,019,861
Balance, September 30, 2010	45,319,371	\$ 28,684,774	\$ -	\$ 5,032,349	348,921	\$ 4,806,959	\$ 38,873,003
Exercise of warrants	382,750	\$ 478,438	-	-	-	-	478,438
Exercise of stock options	1,355,000	2,809,347	-	(1,654,767)	-	-	1,154,580
Acquisition of mineral properties	90,000	274,500	-	-	-	-	274,500
Private placement	2,000,000	4,380,000	-	-	-	-	4,380,000
Share-based compensation for the period	-	-	-	735,645	-	-	735,645
Repurchase of 169,600 treasury shares	-	-	(537,188)	-	-	-	(537,188)
Fair value adjustment of securities	-	-	-	-	(430,632)	-	(430,632)
Income for the period	-	-	-	-	-	14,957,527	14,957,527
Balance, June 30, 2011	49,147,121	\$ 36,627,059	\$ (537,188)	\$ 4,113,227	\$ (81,711)	\$ 19,764,486	\$ 59,885,873
Exercise of stock options	10,000	27,195	-	(12,995)	-	-	14,200
Repurchase of 442,900 treasury shares	-	-	(1,206,171)	-	-	-	(1,206,171)
Cancellation of treasury stock	(316,500)	-	-	-	-	-	-
Shares issued to Callinex in trust	500,000	-	-	-	-	-	-
Income for the period	-	-	-	-	-	9,634,348	9,634,348
Dividends declared and paid	-	-	-	-	-	(989,266)	(989,266)
Transfer of assets (Note 9)	-	(32,111,969)	-	-	-	-	(32,111,969)
Fair value adjustment of securities	-	-	-	-	(94,666)	-	(94,666)
Balance, September 30, 2011	49,340,621	\$ 4,542,285	\$ (1,743,359)	\$ 4,100,232	\$ (176,377)	\$ 28,409,568	\$ 35,132,349

¹ As at September 30, 2011, 296,000 (June 30, 2011 – 169,600, July 1, 2010 – Nil) shares were held in treasury

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

CALLINAN ROYALTIES CORPORATION (FORMERLY CALLINAN MINES LIMITED)
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

THREE MONTHS ENDED SEPTEMBER 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, and creation of mineral royalties in Canada. The Company 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”). During the current period, (Note 9) the Company spun out its exploration properties to a newly incorporated entity and became a royalty company.

2. BASIS OF PREPARATION

The condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by Canada on January 1, 2011. This represents the Company’s first application of IFRS as at and for the three months ended September 31, 2011, including fiscal 2011 comparative periods. The financial statements have been prepared in accordance with IFRS 1, “First- time Adoption of International Reporting Standards” and with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting”, as issued by the international Accounting Standards Board (“IASB”).

A summary of the Company’s significant accounting policies under IFRS is presented in Note 3. These policies have been applied retrospectively and consistently applied except where specific exemptions permitted an alternative treatment upon transition to IFRS in accordance with IFRS1. Previously, the Company prepared its interim and annual financial statements in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”). The impact of the transition from GAAP to IFRS is explained in Note 14.

The interim financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit and loss, which are stated at their fair value. In addition, these financial statements have been prepared using the accrual basis of accounting.

The preparation of these condensed interim financial statements in conformity with IAS 34 requires management to make certain estimates, judgments and assumptions that affect the application of policies reported and amounts of assets and liabilities, and income and expenses. Actual results could differ from these estimates.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- i) The carrying value and the recoverability of exploration and evaluation assets, which are included in condensed interim financial statements in conformity with IAS 34.
- ii) The inputs used in accounting for share-based compensation expense included in profit and loss.
- iii) The valuation allowance applied to deferred tax assets.

All amounts are in Canadian dollars unless otherwise stated.

CALLINAN ROYALTIES CORPORATION (FORMERLY CALLINAN MINES LIMITED)
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS
THREE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

3. SIGNIFICANT ACCOUNTING POLICIES

(a) 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.

(b) 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.

(c) Equipment

Equipment is carried at cost, less accumulated depreciation and accumulated impairment losses.

The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. Depreciation is provided at rates calculated to write off the cost of equipment, less its estimated residual value, using the declining balance method at the following rates per annum:

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

(d) Exploration and evaluation assets

During the current period, the Company has prospectively changed its accounting policy with regards to exploration and evaluation assets. In the past, once the Company had legal right to explore a property, costs related to the acquisition, exploration and evaluation of exploration and evaluation assets were capitalized by property. Costs not directly attributed to exploration and evaluation activities were expensed in the period in which they accrued.

Under the new accounting policy, once the legal right to explore a property has been acquired, all costs related to the acquisition, exploration and evaluation of exploration and evaluation assets are expensed in the period in which they occur.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be a mine under development and is classified as "mines under construction."

The decision to change this policy was made as the Company is now primarily a royalty company and will not be engaging in much exploration. This will simplify the presentation of financial information for investors.

CALLINAN ROYALTIES CORPORATION (FORMERLY CALLINAN MINES LIMITED)
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

THREE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

(e) Income taxes

Income tax on profit or loss for the period comprises of current and deferred tax. Current tax is the expected tax paid or payable on the taxable income for the period, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax paid or payable in respect of previous years.

Deferred tax is recorded using the statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. The effect on deferred income tax assets and liabilities of a change in income tax rates is recognized in the period that includes the date of the enactment or substantive enactment of the change. Deferred tax assets and liabilities are presented separately except where there is a right of set-off within fiscal jurisdictions.

(f) Future reclamation costs

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of reclamation of mineral interest (exploration and evaluation assets). The net present value of future rehabilitation cost estimates is capitalized to the related assets along with a corresponding increase in the reclamation provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value.

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to the related assets with a corresponding entry to the reclamation provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to profit and loss for the period.

For the period presented, the Company does not have any significant future reclamation costs.

CALLINAN ROYALTIES CORPORATION (FORMERLY CALLINAN MINES LIMITED)
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

THREE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

(g) Impairment of long-lived assets

At each financial position reporting date the carrying amounts of the Company's long-lived assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use, which is the present value of future cash flows expected to be derived from the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period.

For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(h) Flow-through shares

Canadian income tax legislation permits an enterprise to issue securities referred to as flow-through shares, whereby the investor can claim the tax deductions arising from the renunciation of the related resource expenditures. The Company accounts for flow-through shares whereby the premium paid for the flow-through shares in excess of the market value of the shares without flow-through features at the time of issue is credit to other liabilities and included income at the same time the qualifying expenditures are made.

(i) Financial instruments

All financial instruments are initially recognized at fair value on the statement of financial position. The Company has classified each financial instrument into one of the following categories: (1) financial assets or liabilities at fair value through profit or loss ("FVTPL"), (2) loans and receivables, (3) financial assets available-for-sale, (4) financial assets held-to maturity, and (5) other financial liabilities. Subsequent measurement of financial instruments is based on their classification.

Financial assets and liabilities at FVTPL are subsequently measured at fair value with changes in those fair values recognized in net earnings. Financial assets "available-for-sale" are subsequently measured at fair value with changes in fair value recognized in other comprehensive income (loss), net of tax.

Financial assets "held-to-maturity", "loans and receivables", and "other financial liabilities" are subsequently measured at amortized cost using the effective interest method.

CALLINAN ROYALTIES CORPORATION (FORMERLY CALLINAN MINES LIMITED)
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

THREE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

(i) Financial instruments (cont'd...)

The Company's financial assets and liabilities are recorded and measured as follows:

Asset or Liability	Category	Measurement
Cash and cash equivalents	FVTPL	Fair value
Accounts and other receivable	Loans and receivables	Amortized cost
GST receivable	Loans and receivables	Amortized cost
Investments	Available-for-sale	Fair value
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Income tax payable and accrued	Other financial liabilities	Amortized cost
Deferred Income tax liability	Loans and receivables	Amortized cost

The Company classifies the fair value of financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Cash and cash equivalents and investments have been measured using Level 1 inputs.

See Note 12 for relevant disclosures.

(j) Share-based compensation

The Company grants stock options to buy common shares of the Company to directors, officers, employees and service providers. The Company recognizes share-based compensation expense based on the estimated fair value of the options. A fair value measurement is made for each vesting instalment within each option grant and is determined using the Black-Scholes option-pricing model. The fair value of the options is recognized over the vesting period of the options granted as both share-based compensation expense and other equity reserve. This includes a forfeiture estimate, which is revised for actual forfeitures in subsequent periods. The other equity reserve account is subsequently reduced if the options are exercised and the amount initially recorded is then credited to capital stock.

CALLINAN ROYALTIES CORPORATION (FORMERLY CALLINAN MINES LIMITED)
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS
THREE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

(k) 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 common equivalent shares outstanding during the period. 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	48,060,366	45,971,272

(l) Comparative figures

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

(m) Comprehensive income

Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss) and represents the change in shareholders' equity which results from transactions and events from sources other than the Company's shareholders. For the periods presented, comprehensive income includes holding gains and losses from financial instruments classified as available-for-sale.

(n) Revenue recognition

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

(o) Future accounting standards

In November 2009, the IASB published IFRS 9, Financial Instruments, which covers the classification and measurement of financial assets as part of its project to replace IAS 39, Financial Instruments: Recognition and Measurement. In October 2010, the requirements for classifying and measuring financial liabilities were added to IFRS 9. Under this guidance, entities have the option to recognize financial liabilities at fair value through earnings. If this option is elected entities would be required to reverse the portion of the fair value change due to own credit risk out of earnings and recognize the change in other comprehensive income. IFRS 9 is effective for the Company on July 1, 2013. Early adoption is permitted and the standard is required to be applied retrospectively. There is not expected to be a significant impact on the Company upon implementation of the issued standard.

CALLINAN ROYALTIES CORPORATION (FORMERLY CALLINAN MINES LIMITED)
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

THREE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

4. EXPLORATION AND EVALUATION ASSETS

Activity for the Period ended September 30, 2011

	Callinan	Pine Bay	Fox	Gossan	Coles	Berry Creek	Herblet	Other	Total
Acquisition	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 50,000	\$ 50,000
Drilling	-	-	3,556	-	4,500	-	-	-	8,056
Travel	-	-	-	-	567	-	-	-	567
Field & Camp	-	-	-	759	-	-	-	-	759
Miscellaneous	-	-	-	-	295	-	-	-	295
Recovery***	-	-	(59,901)	-	-	-	-	-	(59,901)
Total	-	-	(56,345)	759	5,362	-	-	50,000	(224)
Opening balance at 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
Transferred to Callinex (Note 9)	-	(1,226,446)	(4,173,404)	(1,570,857)	(11,499,007)	(2,034,708)	(1,631,067)	(1,876,643)	(24,012,132)
Depreciation	(3,361)	-	-	-	-	-	-	-	(3,361)
September 30, 2011	\$ 205,168	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 205,168

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 balance at June 30, 2010 and July 1, 2010	221,508	543,185	4,149,499	260,026	7,331,275	1,629,259	387,931	1,435,995	15,958,678
Depreciation	(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

CALLINAN ROYALTIES CORPORATION (FORMERLY CALLINAN MINES LIMITED)
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

THREE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

4. EXPLORATION AND EVALUATION ASSETS (cont'd...)

*** 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.

On July 13, 2011, the Company spun out its exploration properties to Callinex Mines Inc. ("Callinex") pursuant to the plan of arrangement approved by shareholders on June 7, 2011:

Properties transferred to Callinex are: 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. (Note 9)

Title to the remaining exploration and evaluation assets 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 exploration and evaluation assets 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 Minerals Inc. ("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

CALLINAN ROYALTIES CORPORATION (FORMERLY CALLINAN MINES LIMITED)
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THREE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

4. EXPLORATION AND EVALUATION ASSETS (cont'd...)

(a) Callinan (cont'd...)

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 ("Deloitte"), 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. During the current period, the company transferred this interest to Callinex (Note 9).

(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. During the current period, the company transferred this interest to Callinex (Note 9).

(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. During the current period, the company transferred this interest to Callinex (Note 9).

(e) Coles Creek

On August 1, 2005 the Company entered into an agreement with Mike Muzykowski, 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. Muzykowski, was paid \$50,000. If the option is exercised on or before September 1, 2008, \$200,000 will be due to Mr. Muzykowski. During fiscal 2008 Mr. Muzykowski chose to defer this payment date to September 2009, in lieu of a payment of \$5,000. In September 2009 Mr. Muzykowski again chose to defer payment to September 2010 in lieu of a payment of \$5,000. During the 2011 fiscal year the Company exercised this option and paid Mr. Muzykowski \$210,000. If the claims are placed into production, Mr. Muzykowski 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. During the current period, the company transferred this interest to Callinex (Note 9).

CALLINAN ROYALTIES CORPORATION (FORMERLY CALLINAN MINES LIMITED)
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4. EXPLORATION AND EVALUATION ASSETS (cont'd...)

(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. During the current period, the company transferred this interest to Callinex. (Note 9).

(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. . During the current period, the company transferred this interest to Callinex (Note 9).

(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. During the current period, the company transferred this interest to Callinex (Note 9).

(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. During the current period, the company transferred this interest to Callinex (Note 9).

(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. During the current period, the company transferred this interest to Callinex (Note 9).

(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. During the current period, the company transferred this interest to Callinex (Note 9).

CALLINAN ROYALTIES CORPORATION (FORMERLY CALLINAN MINES LIMITED)
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4. EXPLORATION AND EVALUATION ASSETS (cont'd...)

(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 Native Bands. During the current period, the company transferred this interest to Callinex (Note 9).

(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. During the current period, the company transferred this interest to Callinex (Note 9).

(n) Stag Claim

On May 29, 2010 the Company staked claims at Stag Lake in Manitoba. During the current period, the company transferred this interest to Callinex (Note 9).

(o) Pulver Lake

During the current fiscal year the Company staked claims in Snow Lake, Manitoba. During the current period, the company transferred this interest to Callinex (Note 9).

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.

CALLINAN ROYALTIES CORPORATION (FORMERLY CALLINAN MINES LIMITED)
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5. EQUIPMENT

	Machinery & Equipment	Office Furniture	Computer Equipment	Total
Cost at June 30, 2011	\$ 158,082	\$ 82,234	\$ 124,725	\$ 365,041
Current period additions	-	751	21,000	\$ 21,751
Transfer to Callinex (Note 9)	(158,082)	(69,406)	(105,047)	\$ (332,535)
Cost at September 30, 2011	\$ -	\$ 13,579	\$ 40,678	\$ 54,257
Accumulated depreciation at June 30, 2011	\$ 117,052	\$ 51,288	\$ 66,475	\$ 234,815
Current period depreciation	-	8	788	\$ 796
Transfer to Callinex (Note 9)	(117,052)	(50,647)	(64,999)	(232,698)
Accumulated depreciation at September 30, 2011	\$ -	\$ 649	\$ 2,264	\$ 2,913
Net book value at June 30, 2011	\$ 41,030	\$ 30,946	\$ 58,250	\$ 130,226
Net book value at September 30, 2011	\$ -	\$ 12,930	\$ 38,414	\$ 51,344

	Machinery & Equipment	Office Furniture	Computer Equipment	Total
Cost at July 1, 2010	\$ 154,999	\$ 62,583	\$ 56,137	\$ 273,719
Current period additions	3,083	19,651	68,588	91,322
Cost at June 30, 2011	\$ 158,082	\$ 82,234	\$ 124,725	\$ 365,041
Accumulated depreciation at July 1, 2010	\$ 100,129	\$ 46,008	\$ 37,303	\$ 183,440
Current period depreciation	16,923	5,280	29,172	51,375
Accumulated depreciation at June 30, 2011	\$ 117,052	\$ 51,288	\$ 66,475	\$ 234,815
Net book value at July 1, 2010	\$ 54,870	\$ 16,575	\$ 18,834	\$ 90,279
Net book value at June 30, 2011	\$ 41,030	\$ 30,946	\$ 58,250	\$ 130,226

CALLINAN ROYALTIES CORPORATION (FORMERLY CALLINAN MINES LIMITED)
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6. 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 \$11,621 (June 30, 2011 - \$16,602; July 1, 2010 - \$4,704).
- b. 1,320,000 common shares of Bell Copper Corporation with a carrying value at fair market value of \$217,800 (June 2011 - \$270,600; July 1, 2010 - \$363,000).
- c. 1,950,000 common shares of Constantine Metals with a carrying value at fair market value of \$263,250 (June 30, 2011 - \$331,500; July 1, 2010 - \$341,250).
- d. 100 common shares of HudBay Minerals Inc. with a carrying value at fair market value of \$977 (June 30, 2011 - \$1,167; July 1, 2010 - \$1,117).
- e. 5,850,000 common shares of Copper Reef with a carrying value at fair market value of \$585,000 (June 30, 2011 - \$ 585,000; July 1, 2010 - 5,000,000 shares at \$875,000).
- f. 6,000,000 common shares of Ironwood Gold Corp. with a carrying value at fair market value of \$61,200 (June 30, 2011 - \$61,200, July 1, 2010 - Nil shares at \$Nil).

There were no purchases or sales of investments during the period ended September 30, 2011.

7. CAPITAL STOCK AND EQUITY RESERVE

Authorized

Unlimited common voting shares, no par value

During the period ended September 30, 2011 the following common stock issues occurred.

- a) On July 13, 2011 the Company issued 500,000 common shares to Callinex in trust pursuant to a plan of arrangement whereby the Company's properties were spun out into a new Company, Callinex. Callinex will use the common shares to satisfy options obligations and shares not used will be returned to the Company.
- b) 10,000 common share options were exercised for net proceeds of \$14,200.
- c) During the period the Company purchased 442,900 of its common shares at a cost of \$1,206,171. To date the Company has cancelled 316,500 of the common shares purchased. 296,000 are being held as treasury shares.

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.

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7. CAPITAL STOCK AND EQUITY RESERVE (cont'd...)

- 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.
- j) The Company purchased 169,600 of its common shares at a cost of \$537,188. These common shares were held as treasury shares.

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.

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7. CAPITAL STOCK AND EQUITY RESERVE (cont'd...)

Stock options (cont'd...)

	Shares	Exercise Price Weighted Average
Options outstanding at June 30, 2010 and July 1, 2010	3,481,500	\$ 1.10
Granted	515,000	2.30 ⁽¹⁾
Exercised	(1,380,000)	0.85
Options outstanding at June 30, 2011	2,616,500	\$ 1.47
Exercised	(10,000)	1.42
Options outstanding at September 30, 2011	2,606,500	\$ 1.48

⁽¹⁾ These options were repriced to during the period, with a weighted average price of 2.30 changed from 2.32.

Exercise Prices	Average Remaining Contractual Life (Years)	Average Remaining Contractual Life (Years)	Number Exercisable at September 30, 2011	Expiry Date
\$ 1.43 ⁽²⁾	751,500	0.37	751,500	February 13, 2012
0.93 ⁽³⁾	125,000	0.96	125,000	September 13, 2012
1.46 ⁽⁴⁾	690,000	1.29	690,000	January 14, 2013
1.04 ⁽⁵⁾	300,000	1.66	300,000	May 29, 2013
0.93 ⁽⁶⁾	250,000	1.95	250,000	October 9, 2013
1.80 ⁽⁷⁾	15,000	4.02	15,000	October 6, 2015
2.27 ⁽⁸⁾	200,000	4.06	200,000	October 22, 2015
2.33 ⁽⁹⁾	250,000	4.06	250,000	October 22, 2015
2.56	25,000	4.10	25,000	November 5, 2015
	2,606,500		2,606,500	

⁽¹⁾ During the period, these options were repriced from 1.42 to 1.43.

⁽³⁾ During the period, these options were repriced from 0.88 to 0.93.

⁽⁴⁾ During the period, these options were repriced from 1.45 to 1.46.

⁽⁵⁾ During the period, these options were repriced from 1.00 to 1.04.

⁽⁶⁾ During the period, these options were repriced from 0.88 to 0.93.

⁽⁷⁾ During the period, these options were repriced from 1.82 to 1.80.

⁽⁸⁾ During the period, these options were repriced from 2.32 to 2.27.

⁽⁹⁾ During the period, these options were repriced from 2.38 to 2.33

CALLINAN ROYALTIES CORPORATION (FORMERLY CALLINAN MINES LIMITED)
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THREE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

7. CAPITAL STOCK AND EQUITY RESERVE (cont'd...)

Stock options (cont'd...)

Share purchase warrants

At September 30, 2011 there were 2,000,000 common share purchase warrants outstanding.

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

	Number of Warrants	Weighted Average Exercise Price
Warrants outstanding at June 30, 2010 and July 1, 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 and September 30, 2011	<u>2,000,000</u>	<u>\$ 2.58</u>

8. RELATED PARTY TRANSACTIONS

During the period ended September 30, 2011, a director of the Company's management team was paid \$45,000 in remuneration, (2010 - \$60,000) recorded in salaries and wages. An officer of the Company's management team was paid \$45,876 in remuneration, (2010 - \$34,250) recorded in salaries and wages.

9. PLAN OF ARRANGEMENT

The Company entered into a plan of arrangement to reorganize the Company's exploration and evaluation assets in an effort to maximize shareholder value. On July 13, 2011, under the terms of the plan of arrangement, the Company spun out the following properties to a new company incorporated under the name 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 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.

The Company's statement of operations and comprehensive income for the three month period ended September 30, 2010 is the result of a "carve-out" of an allocation of general and administrative expenses for the period to Callinex. The allocation of the Company's general and administrative expenses was calculated on the basis of each company's share of the expenditures on a line-by-line basis.

CALLINAN ROYALTIES CORPORATION (FORMERLY CALLINAN MINES LIMITED)
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

THREE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

9. PLAN OF ARRANGEMENT (cont'd...)

The aggregate value of the assets transferred from the Company to Callinex are as follows:

Asset	
Cash	\$ 8,000,000
Exploration and evaluation assets	24,012,132
Equipment	<u>99,837</u>
Total	<u>\$32,111,969</u>

10. SEGMENTED INFORMATION

The Company's one reportable operating segment is the acquisition and creation of royalties from exploration and evaluation assets. All of the Company's assets are currently located in Canada and all revenues are earned in Canada.

11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The significant non cash transactions for the period ended September 30, 2011 were:

- a) 10,000 options were exercised with a fair value of \$12,995.
- b) Exploration and evaluation asset expenditures recorded in accounts payable and accrued liabilities at September 30, 2011 is \$Nil (June 30, 2011 - \$42,355).

The significant non cash transactions for the period ended September 30, 2010 were:

- a) 100,000 common shares were issued for the acquisition of exploration and evaluation assets, valued at \$151,500.
- b) Exploration and evaluation asset expenditures recorded in account payable and accrued liabilities at September 30, 2010 is \$1,006,159 (June 30, 2010 - \$207,293).

12. 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, accounts payable and accrued liabilities, and income tax payable and accrued. 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)
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12. FINANCIAL INSTRUMENTS (cont'd...)

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:

	September 30, 2011	June 30, 2011	July 1, 2010
Due from Hudbay Minerals Inc.			
Less than 31 days	\$ 4,836,496	\$ 4,306,406	\$ 4,456,865
Between 31 and 60 days	1,576,873	-	-
	-		
Between 61 and 90 days	1,405,913	1,656,397	1,057,742
Over 90 days	<u>1,656,397</u>	<u>6,496,853</u>	<u>2,856,446</u>
		12,459,656	8,371,053
Other receivables	<u>196,513</u>	<u>30,453</u>	<u>9,347</u>
	\$ 9,671,292	\$ 12,468,540	\$ 8,380,400

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 September 30, 2011, the Company had a cash balance of \$597,568 and cash equivalents of \$28,388,757 (June 30, 2011 - \$8,320,528, \$21,948,937, July 1, 2010 - \$269,339, \$13,213,850 respectively) to settle current liabilities of \$4,025,912 (June 30, 2011 - \$3,394,376, July 1, 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.

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12. FINANCIAL INSTRUMENTS (cont'd....)

The Company monitors the investments in short term deposits and is satisfied with the credit ratings of its banks. As of September 30, 2011, the Company did not have any investments with maturities in excess of ninety days. The Company has no investments in asset backed commercial paper or similar investments.

b) Foreign currency risk

The Company conducts the majority of its business in Canada, and is therefore 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.

13. CAPITAL MANAGEMENT

In order to support the acquisition, exploration, evaluation and operation of its exploration and evaluation assets, 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 capital stock, equity reserves and retained earnings. There are no capital requirements imposed on the Company by statute or contractual agreements.

The Company spun out its exploration and evaluation assets into Callinex Mines Ltd. during the current period (Note 9). The Company plans to continue as a royalty corporation, and hence will receive its income from royalties.

Management and the Board of Directors review capital management on an ongoing basis and believe that this approach, given the relative size of the Company, is reasonable. There has been no change to the Company's approach to capital management during the period ended September 30, 2011

CALLINAN ROYALTIES CORPORATION (FORMERLY CALLINAN MINES LIMITED)
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THREE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

14. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARD (“IFRS”)

As stated in Note 2, these financial statements are the Company’s first interim condensed financial statements prepared in accordance with IFRS. The accounting policies in Note 3 have been applied in preparing the condensed interim financial statements for the period ended September 30, 2011 and 2010, the financial statements for the year ended June 30, 2011 and the opening IFRS statement of financial position on July 1, 2010, the "Transition Date".

In preparing the opening IFRS statement of financial position, the Company has adjusted amounts reported previously in financial statements that were prepared in accordance with GAAP. An explanation of how the transition from GAAP to IFRS has affected the Company’s financial position is set out in the following table. The guidance for the first time adoption of IFRS is set out in IFRS 1. IFRS 1 provides for certain mandatory exceptions and optional exemptions for first time adopters of IFRS. The Company has elected to take the following IFRS 1 optional exemption:

- The Company has elected to apply IFRS 3 “Business combinations” on a prospective basis from the date of Transition

There is a possibility that the opening statement of financial position may require adjustment before constituting the external statement of financial position as at July 1, 2010 due to factors such as changes in accounting standards, including exposure drafts and final determination by management.

There are no significant differences between IFRS and Canadian GAAP in connection with the Company’s statements of operations and comprehensive income or cash flows for the period ended September 30, 2010 or the year ended June 30, 2010.

CALLINAN ROYALTIES CORPORATION (FORMERLY CALLINAN MINES LIMITED)
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

THREE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

14. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARD (“IFRS”) (cont’d...)

The reconciliation between the Canadian generally accepted accounting principles (“GAAP”) and IFRS statement of financial position as at July 1, 2010 is provided below:

	July 1, 2010			
	Note	GAAP	Effect of transition to IFRS	IFRS
ASSETS				
CURRENT ASSETS				
Cash and Cash Equivalents		\$ 13,483,189	\$ -	\$ 13,483,189
Accounts and Other Receivables		8,380,400	-	8,380,400
GST Receivable		77,982	-	77,982
Prepaid Expenses		<u>218,868</u>	-	<u>218,868</u>
TOTAL CURRENT ASSETS		<u>22,160,439</u>	-	<u>22,160,439</u>
EXPLORATION AND EVALUATION ASSETS		15,958,678	-	15,958,678
EQUIPMENT		90,279	-	90,279
INVESTMENTS		<u>1,585,071</u>	-	<u>1,585,071</u>
TOTAL ASSETS		<u>\$39,794,467</u>	\$ -	<u>\$39,794,467</u>
LIABILITIES AND SHAREHOLDERS’ EQUITY				
CURRENT LIABILITIES				
Accounts Payable and Accrued Liabilities		\$ 219,052	\$ -	\$ 219,052
Income Tax Payable and Accrued		<u>1,005,193</u>	-	<u>1,005,193</u>
		1,224,245	-	1,224,245
LONG TERM LIABILITY			-	
Deferred Income Tax liability		<u>3,781,361</u>	-	<u>3,781,361</u>
TOTAL LIABILITIES		5,005,606	-	5,005,606
SHAREHOLDERS’ EQUITY				
CAPITAL STOCK	(i)	26,428,218	2,077,244	28,505,462
EQUITY RESERVE		5,032,349	-	5,032,349
ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)		463,952	-	463,952
RETAINED EARNINGS	(i)	<u>2,864,342</u>	<u>(2,077,244)</u>	<u>787,098</u>
TOTAL SHAREHOLDERS EQUITY		<u>34,788,861</u>	-	<u>34,788,861</u>
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY		<u>\$ 39,794,467</u>	\$ -	<u>\$ 39,794,467</u>

CALLINAN ROYALTIES CORPORATION (FORMERLY CALLINAN MINES LIMITED)
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS
THREE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

14. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARD (“IFRS”) (cont’d...)

The reconciliation between the Canadian generally accepted accounting principles (“GAAP”) and IFRS statement of financial position as at September 30, 2010 is provided below:

		September 30, 2010		
	Note	GAAP	Effect of transition to IFRS	IFRS
ASSETS				
CURRENT ASSETS				
Cash and Cash Equivalents		\$ 15,978,212	\$ -	\$ 15,978,212
Accounts and Other Receivables		6,595,741	-	6,595,741
GST Receivable		408,635	-	408,635
Prepaid Expenses		<u>60,483</u>	-	<u>60,483</u>
TOTAL CURRENT ASSETS		<u>23,043,071</u>	-	<u>23,043,071</u>
EXPLORATION AND EVALUATION ASSETS		19,828,880	-	19,828,880
EQUIPMENT		74,128	-	74,128
INVESTMENTS		1,642,704	-	1,642,704
TOTAL ASSETS		<u>\$44,588,783</u>	\$ -	<u>\$39,794,467</u>
LIABILITIES AND SHAREHOLDERS’ EQUITY				
CURRENT LIABILITIES				
Accounts Payable and Accrued Liabilities		\$ 1,055,156	\$ -	\$ 1,055,156
Income Tax Payable and Accrued		<u>1,005,193</u>	-	<u>1,005,193</u>
		1,224,245	-	1,224,245
LONG TERM LIABILITY				
Deferred Income Tax liability		<u>3,655,431</u>	-	<u>3,655,431</u>
TOTAL LIABILITIES		5,715,780	-	5,715,780
SHAREHOLDERS’ EQUITY				
CAPITAL STOCK	(i)	26,607,530	2,077,244	28,684,774
EQUITY RESERVE		5,032,349	-	5,032,349
ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)		348,921	-	348,921
RETAINED EARNINGS	(i)	<u>6,884,203</u>	<u>(2,077,244)</u>	<u>4,806,959</u>
TOTAL SHAREHOLDERS EQUITY		<u>38,873,003</u>	-	<u>38,873,003</u>
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY		<u>\$ 44,588,783</u>	\$ -	<u>\$ 44,588,783</u>

CALLINAN ROYALTIES CORPORATION (FORMERLY CALLINAN MINES LIMITED)
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

THREE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

14. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARD (“IFRS”) (cont’d...)

The reconciliation between the Canadian generally accepted accounting principles (“GAAP”) and IFRS statement of financial position as at June 30, 2011 is provided below:

June 30, 2011				
	Note	GAAP	Effect of transition to IFRS	IFRS
ASSETS				
CURRENT ASSETS				
Cash and Cash Equivalents		\$ 30,269,465	\$ -	\$ 30,269,465
Accounts and Other Receivables		12,468,540	-	12,468,540
GST Receivable		233,764	-	233,764
Prepaid Expenses		<u>271,663</u>	<u>-</u>	<u>271,663</u>
TOTAL CURRENT ASSETS		43,243,432	-	43,243,432
EXPLORATION AND EVALUATION ASSETS		24,220,885	-	24,220,885
EQUIPMENT		130,226	-	130,226
INVESTMENTS		1,266,069	-	1,266,069
TOTAL ASSETS		<u>\$ 68,860,612</u>	<u>\$ -</u>	<u>\$ 68,860,612</u>
LIABILITIES AND SHAREHOLDERS’ EQUITY				
CURRENT LIABILITIES				
Accounts Payable and Accrued Liabilities		\$ 443,252	\$ -	\$ 443,252
Income Tax Payable and Accrued		<u>2,951,124</u>	<u>-</u>	<u>2,951,124</u>
		3,394,376	-	3,394,376
LONG TERM LIABILITY				
Deferred Income Tax liability		<u>5,580,363</u>	<u>-</u>	<u>5,580,363</u>
TOTAL LIABILITIES		8,974,739	-	8,974,739
SHAREHOLDERS’ EQUITY				
CAPITAL STOCK	(i)	34,549,815	2,077,244	36,627,059
TREASURY SHARES		(537,188)	-	(537,188)
EQUITY RESERVE		4,113,227	-	4,113,227
ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)		(81,711)	-	(81,711)
RETAINED EARNINGS	(i)	<u>21,841,730</u>	<u>(2,077,244)</u>	<u>19,764,486</u>
TOTAL SHAREHOLDERS EQUITY		<u>59,885,873</u>	<u>-</u>	<u>59,885,873</u>
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY		<u>\$ 68,860,612</u>	<u>\$ -</u>	<u>\$ 68,860,612</u>

CALLINAN ROYALTIES CORPORATION (FORMERLY CALLINAN MINES LIMITED)
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

THREE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

14. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARD (“IFRS”) (cont’d...)

Notes to the IFRS reconciliations:

i) Flow through shares

The treatment of the tax effect of flow-through shares differs under Canadian GAAP and IFRS.

Under Canadian GAAP, capital stock is recorded at net proceeds less the deferred tax liability related to the renounced expenditures.

Under IFRS, the increase to share capital when flow-through shares are issued is measured based on the current market price of common shares. The incremental proceeds, or "premium", are recorded as another liability. When expenditures are renounced, a flow-through share premium is recognized and the other liability is reversed. The net amount is recognized as a flow-through premium. As at July 1, 2010; September 30, 2010; and June 30, 2011, this accounting policy change resulted in an increase in capital stock of \$2,077,244 and a decrease in the retained earnings of \$2,077,244 in the amount of the flow-through share premium.

15. SUBSEQUENT EVENTS

Subsequent to September 30, 2011 the Company received \$4,836,406 for the quarter ending September 30, 2011. This amount is included in accounts receivable at September 30, 2011.

On November 17, 2011 the Company announced that it will pay quarterly dividends of two cents per share to all shareholders of record at close of business on December 31, 2011.