

**CALLINEX MINES INC.**

**CONDENSED INTERIM  
FINANCIAL STATEMENTS**  
**(Expressed in Canadian dollars)**

**JUNE 30, 2012**  
(Unaudited)

**CALLINEX MINES INC.**  
**CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION**  
(Expressed in Canadian dollars)  
AS AT  
(Unaudited)

For periods prior to July 13, 2011, the financial statements of Callinex Mines Inc. ("Callinex"), including the results of operations and cash flows, have been prepared on a carve-out basis from Callinan Royalties Corp. (formerly Callinan Mines Limited) as is described in Note 8. These financial statements may not be indicative of the results that would have been attained if Callinex had operated as a stand-alone entity for those periods.

	June 30, 2012	September 30, 2011
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 5,492,602	\$ 9,780,770
Receivables	104,571	508,881
Prepaid expenses	<u>2,149</u>	<u>44,471</u>
<b>Total current assets</b>	5,599,322	10,334,122
<b>Exploration and evaluation assets</b> (Note 4)	33,139,442	28,965,051
<b>Restricted investment</b> (Note 6)	415,350	1,020,000
<b>Long term deposits</b>	74,820	316,216
<b>Equipment</b> (Note 5)	<u>116,106</u>	<u>78,040</u>
<b>Total assets</b>	<u>\$ 39,345,040</u>	<u>\$ 40,713,429</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 136,919	\$ 1,858,639
<b>Other liability – flow through premium</b> (Note 7)	633,035	539,421
<b>Deferred income tax liability</b>	<u>6,309,000</u>	<u>6,735,000</u>
	<u>7,078,954</u>	<u>9,133,060</u>
<b>Capital stock</b> (Note 7)	40,014,776	38,672,357
<b>Equity reserve</b>	3,769,995	3,783,762
<b>Accumulated other comprehensive income</b>	(265,200)	(526,250)
<b>Accumulated deficit</b>	<u>(11,253,485)</u>	<u>(10,349,500)</u>
<b>Total shareholders' equity</b>	<u>32,266,086</u>	<u>31,580,369</u>
<b>Total liabilities and shareholders' equity</b>	<u>\$ 39,345,040</u>	<u>\$ 40,713,429</u>

**Nature and continuance of operations** (Note 1)  
**Subsequent events** (Note 14)

The accompanying notes are an integral part of these financial statements

Approved on August 27, 2012 on behalf of the Board

"Anna Stylianides"  
Director

"Brian Irwin"  
Director

**CALLINEX MINES INC.**  
**CONDENSED INTERIM STATEMENTS OF OPERATIONS AND**  
**COMPREHENSIVE LOSS**  
(Expressed in Canadian dollars)  
**FOR THE THREE AND NINE MONTHS ENDED JUNE 30**  
(Unaudited)

For periods prior to July 13, 2011, the financial statements of Callinex Mines Inc. ("Callinex"), including the results of operations and cash flows, have been prepared on a carve-out basis from Callinan Royalties Corp. (formerly Callinan Mines Limited) as is described in Note 8. These financial statements may not be indicative of the results that would have been attained if Callinex had operated as a stand-alone entity for those periods.

	Three Months		Nine Months	
	2012	2011	2012	2011
<b>EXPENSES</b>				
Annual general meeting	\$ 25	\$ 3,297	\$ 24,202	\$7,439
Audit and accounting	27,504	15,000	129,824	52,134
Bank charges and interest	1,699	1,735	5,980	3,313
Consulting fees	63,591	25,000	80,582	53,229
Donations	-	10,000	6,550	10,000
Equipment depreciation	10,431	908	25,037	15,918
Insurance expense	9,375	3,902	28,125	8,890
Legal fees	21,753	30,000	87,237	110,513
Listing and sustaining fees	500	16,803	14,801	48,493
Mining Tax	-	-	897	897
Property expenses	33,189	12,789	107,301	66,745
Property investigation costs	128,242	17,230	162,533	104,652
Office and administration	5,590	27,028	48,470	55,870
Office rent	5,600	9,533	21,117	24,944
Salaries	174,137	158,406	569,238	470,321
Shareholder relations and news releases	32,233	36,025	113,096	194,719
Share-based compensation	74,563	-	74,563	367,823
Telephone	1,362	6,937	12,452	17,178
Transfer agent	2,539	5,831	14,204	8,936
Travel	16,382	16,711	32,403	42,734
	(608,715)	(397,135)	(1,558,612)	(1,664,748)
<b>Non-operating items</b>				
Interest income	15,218	6,000	76,811	12,000
Other income	9,715	-	9,715	-
Dividend income	4,800	-	12,100	-
<b>Loss before income tax</b>	<u>(578,982)</u>	<u>(391,135)</u>	<u>(1,459,986)</u>	<u>(1,652,748)</u>
<b>Deferred tax recovery/(expense)</b>	<u>415,193</u>	<u>(315,000)</u>	<u>556,001</u>	<u>(893,000)</u>
<b>Loss for the period</b>	<u>(163,789)</u>	<u>(706,135)</u>	<u>\$ (903,985)</u>	<u>\$ (2,545,748)</u>
<b>Change in fair value of restricted investment</b>	\$ 177,788	\$ -	\$ 261,050	\$ -
<b>Comprehensive income (loss) for the period</b>	<u>\$ 13,999</u>	<u>\$ (706,135)</u>	<u>\$ (642,935)</u>	<u>\$ (2,545,748)</u>
<b>Basic and diluted loss per common share</b>	\$ (0.01)	N/A	\$ (0.05)	N/A
<b>Weighted average number of common shares outstanding</b>	18,526,241	-	17,914,706	-

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

**CALLINEX MINES INC.**  
**CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY**  
(Expressed in Canadian dollars)  
**JUNE 30, 2012**  
(Unaudited)

For periods prior to July 13, 2011, the financial statements of Callinex Mines Inc. ("Callinex"), including the results of operations and cash flows, have been prepared on a carve-out basis from Callinan Royalties Corp. (formerly Callinan Mines Limited) as is described in Note 8. These financial statements may not be indicative of the results that would have been attained if Callinex had operated as a stand-alone entity for those periods.

	Capital Stock		Equity Reserve (Note 7)	Accumulated Other Comprehensive Income	Deficit	Total Shareholders' Equity
	Shares	Amount				
Balance, September 30, 2010	-	\$ -	\$ 20,840,528	\$ -	\$ (6,062,357)	\$ 14,778,171
Share-based compensation	-	-	367,823	-	-	367,823
Loss for the period	-	-	-	-	(2,545,748)	(2,545,748)
Balance June 30, 2011	-	\$ -	\$ 21,208,351	\$ -	\$ (8,608,105)	\$ 12,600,246
Balance, September 30, 2011	16,879,950	\$ 38,672,357	\$ 3,783,762	\$ (526,250)	\$ (10,349,500)	\$ 31,580,369
Stock options exercised	157,191	70,530	-	-	-	70,530
Fair value of options exercised	-	91,180	(91,180)	-	-	-
Private placement – flow through	1,489,100	1,414,645	-	-	-	1,414,645
Flow through share premium	-	(223,365)	-	-	-	(223,365)
Share issue costs – cash (net of tax)	-	(7,721)	-	-	-	(7,721)
Share issue costs – agent warrants	-	(2,850)	2,850	-	-	-
Share-based compensation	-	-	74,563	-	-	74,563
Fair value adjustment of investment	-	-	-	261,050	-	261,050
Loss for the period	-	-	-	-	(903,985)	(903,985)
Balance June 30, 2012	18,526,241	\$ 40,014,776	\$ 3,769,995	\$ (265,200)	\$ (11,253,485)	\$ 32,266,086

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

**CALLINEX MINES INC.**  
**CONDENSED INTERIM STATEMENTS OF CASH FLOWS**  
(Expressed in Canadian dollars)  
**FOR THE NINE MONTHS ENDED JUNE 30**  
(Unaudited)

For periods prior to July 13, 2011, the financial statements of Callinex Mines Inc. ("Callinex"), including the results of operations and cash flows, have been prepared on a carve-out basis from Callinan Royalties Corp. (formerly Callinan Mines Limited) as is described in Note 8. These financial statements may not be indicative of the results that would have been attained if Callinex had operated as a stand-alone entity for those periods.

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the period	\$ (903,985)	\$ (2,545,748)
Items not affecting cash:		
Equipment depreciation	25,037	15,918
Share-based compensation	74,563	367,823
Deferred income tax expense/(recovery)	(556,001)	893,000
Funding by Callinan	-	1,269,007
Changes in non-cash working capital:		
Decreases in receivables	404,310	-
Decreases in prepaids	42,322	-
Decreases in deposits	241,396	-
Decreases in accounts payable and accrued liabilities	<u>(253,390)</u>	<u>-</u>
Net cash used by operating activities	(925,748)	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of exploration and evaluation assets	(4,776,771)	-
Equipment purchases	<u>(63,103)</u>	<u>-</u>
Net cash used in investing activities	<u>(4,839,874)</u>	<u>-</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from the issuance of share capital, net of share issuance costs	<u>1,477,454</u>	<u>-</u>
Net cash provided by financing activities	<u>1,477,454</u>	<u>-</u>
<b>Decrease in cash and cash equivalents during the period</b>	<b>(4,288,168)</b>	<b>-</b>
<b>Cash and cash equivalents, beginning of period</b>	<b><u>9,780,770</u></b>	<b><u>-</u></b>
<b>Cash and cash equivalents, end of period</b>	<b><u>\$ 5,492,602</u></b>	<b><u>\$ -</u></b>
<b>Cash and cash equivalents is comprised of:</b>		
Cash	\$ 387,602	\$ -
Cash equivalents	\$ 5,105,000	\$ -
<b>Cash paid/received during the period for interest and income taxes</b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>

Supplemental information with respect to cash flow (Note 11)

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

## **1. NATURE AND CONTINUANCE OF OPERATIONS**

Callinex Mines Ltd. (“Callinex” or the “Company”) was incorporated on April 21, 2011 under the Corporations Act for the purpose of receiving certain cash, equipment, common shares, and exploration and evaluation assets from Callinan Royalties Corporation (formerly Callinan Mines Limited) (“Callinan”) in exchange for common shares of the Company by way of a plan of arrangement as approved by the shareholders of Callinan on June 7, 2011 (Note 8). The effective date of transaction with Callinan was closed on July 13, 2011.

The Company’s head office and registered and records office address is 1110 – 555 West Hastings Street, Vancouver, British Columbia, Canada V6Z 1G3.

These condensed interim financial statements of the Company are presented in Canadian dollars, which is the functional currency of the Company.

These condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The condensed interim financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

## **2. BASIS OF PREPARATION**

These condensed interim financial statements have been prepared using accounting policies consistent with IFRS and in accordance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting”, as issued by the International Accounting Standards Board (“IASB”). These condensed 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 condensed interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The preparation of these condensed interim financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, and income and expenses.

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.
- ii) The Black-Scholes stock price valuation model used to value warrants and stock options requires the input of highly subjective assumptions regarding stock price volatility, the expected lives of warrants and stock options, and expected forfeitures.
- iii) The recognition of deferred tax assets and liabilities.
- iv) The recoverability of receivables and prepayments.
- v) The estimated useful lives of equipment, and related depreciation.

All amounts are in Canadian dollars unless otherwise stated.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

#### **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.

#### **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%
Leasehold Improvements	30%

Equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the statement of operations and comprehensive income or loss. Where an item of equipment comprises major components with different useful lives, the components are accounted for as separate items of equipment. Expenditures incurred to replace a component of an item of equipment that is accounted for separately, including major inspection and overhaul expenditures are capitalized.

#### **Exploration and evaluation assets**

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 capitalized by property. These direct expenditures include such costs as materials used, surveying, drilling, and payments made to contractors during the exploration phase. Costs not directly attributed to exploration and evaluation activities, including general administrative overhead costs, are expensed in the period in which they occur.

When a project is deemed to no longer have commercially viable prospects to the Company, exploration and evaluation expenditures in respect of that project are deemed to be impaired. As a result, those exploration and evaluation expenditure costs, in excess of estimated recoveries, are written off to the statement of operations and comprehensive loss/income.

The Company assesses exploration and evaluation assets for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

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." Exploration and evaluation assets are also tested for impairment before the assets are transferred to development properties.

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

#### **Exploration and evaluation assets (cont'd...)**

As the Company currently has no operational income, any incidental revenues earned in connection with exploration activities are applied as a reduction to capitalized exploration costs.

#### **Future reclamation costs**

The Company recognizes liabilities for legal or constructive obligations associated with the retirement of mineral interests (exploration and evaluation assets) and equipment. The net present value of future reclamation cost estimate is capitalized to the related asset 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 increase in the provision due to the passage of time is recognized as interest expense.

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

#### **Foreign exchange**

The Company's functional and reporting currency is the Canadian dollar. Transactions denominated in other currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction date. Carrying values of monetary assets and liabilities denominated in foreign currencies are adjusted at the statement of financial position date to reflect exchange rates prevailing at that date. Non-monetary assets and liabilities are translated at historical exchange rates. Gains and losses on translation are included in determining net loss for the period.

#### **Impairment of long-lived assets**

At each 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



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

**Impairment of long-lived assets (cont'd...)**

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.

**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 installment 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.

**Income taxes**

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the 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.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

**Loss per share**

The Company presents basic loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

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

**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.

**Financial instruments**

Financial assets

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

The Company has classified its cash and cash equivalents as fair value through profit and loss, and receivables, and restricted investment as available-for-sale. The Company's accounts payable and accrued liabilities are classified as other financial liabilities.

The Company classifies the fair value of financial instruments according to a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices; and
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

See Note 12 for relevant disclosures.

**Comprehensive loss**

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 loss includes holding gains and losses from financial instruments classified as available-for-sale.

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

**New accounting pronouncements**

Amendments to IFRS 7, Financial Instruments: Disclosures (“IFRS7”) are effective for annual periods beginning on or after July 1, 2011 and introduce enhanced disclosure around the transfer of financial assets and associated risks. The Company is currently evaluating any impact that this new guidance may have on its financial statements.

In November 2009 and October 2010, the IASB issued IFRS 9, Financial Instruments (“IFRS 9”), which represents the completion of the first part of a three-part project to replace IAS 39, Financial Instruments: Recognition and Measurement, with a new standard. Per the new standard, an entity choosing to measure a liability at fair value will present the portion of the change in its fair value due to changes in the entity’s own credit risk in the other comprehensive income or loss section of the entity’s statement of comprehensive loss, rather than within profit or loss. Additionally, IFRS 9 includes revised guidance related to the de-recognition of financial instruments. IFRS 9 applies to financial statements for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company currently is evaluating any impact that this new guidance may have on the Company’s financial statements.

In May 2011, the IASB issued IFRS 10, Consolidated Financial Statements (“IFRS 10”), which builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of a parent company. IFRS 10 also provides additional guidance to assist in the determination of control where this is difficult to assess. IFRS 10 applies to financial statements for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company currently is evaluating any impact that this new guidance may have on the Company’s financial statements.

In May 2011, the IASB issued IFRS 11, Joint Arrangements (“IFRS 11”), which enhances accounting for joint arrangements, particularly by focusing on the rights and obligations of the arrangement, rather than the arrangement’s legal form. IFRS 11 also addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities and prohibits proportionate consolidation. IFRS 11 applies to financial statements for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company currently is evaluating any impact that this new guidance may have on the Company’s financial statements.

In May 2011, the IASB issued IFRS 12, Disclosure of Interests in Other Entities (“IFRS 12”), which is a comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles. IFRS 12 applies to financial statements for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company currently is evaluating any impact that this new guidance may have on the Company’s financial statements.

In May 2011, the IASB issued IFRS 13, Fair Value Measurement (“IFRS 13”), which defines fair value, sets out in a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 does not determine when an asset, a liability or an entity’s own equity instrument is measured at fair value. Rather, the measurement and disclosure requirements of IFRS 13 apply when another IFRS requires or permits the item to be measured at fair value (with limited exceptions). IFRS 13 applies to financial statements for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company currently is evaluating any impact that this new guidance may have on the Company’s financial statements.

**CALLINEX MINES INC.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
(Expressed in Canadian dollars)  
JUNE 30, 2012  
(Unaudited)

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

**New accounting pronouncements (cont'd...)**

In June 2011, the IASB amended IAS 1, Presentation of Financial Statements (“IAS 1”), to change the disclosure of items presented in other comprehensive income into two groups, based on whether those items may be recycled to profit or loss in the future. The amendments to IAS 1 apply to financial statements for annual periods beginning after July 1, 2012, with early adoption permitted. The Company currently is evaluating any impact that this new guidance may have on the Company’s financial statements.

Amendments to IAS 32, Financial Instruments: Presentation, are effective for annual periods beginning on or after January 1, 2014. This provides for amendments relating to offsetting financial assets and financial liabilities. The Company is currently evaluating any impact that this new guidance may have on its financial statements.

**CALLINEX MINES INC.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
(Expressed in Canadian dollars)  
**JUNE 30, 2012**  
(Unaudited)

**4. EXPORATION AND EVALUATION ASSETS**

Activity for the period ended June 30, 2012

	Berry Creek	Coles/Troitsa	Fox	Hamell Lake	Gossan	Herblet	Pine Bay	Rug	Other	Total
Acquisition	\$ -	\$ 248,991	\$ -	\$ -	\$ 45,000	\$ -	\$ 528,315	\$ 163,644	\$ 12,450	\$ 998,400
Geochemical	-	3,907	-	-	9,397	-	-	-	-	13,304
Geophysical	-	239,355	-	-	-	-	19,300	-	136,546	395,201
Line-cutting	-	-	-	-	-	-	-	-	81,134	81,134
Drilling	-	384,776	-	-	1,793,672	-	7,828	-	-	2,186,276
Consulting	-	115,504	-	-	-	-	8,497	-	10,976	134,977
Travel	-	4,545	-	-	9,406	-	-	-	899	14,850
Field & Camp	-	177,104	-	-	153,838	-	-	-	-	330,942
Vehicle	-	140	-	-	8,815	-	-	-	-	8,955
Prospecting	10,256	3,150	-	-	18	235	-	-	51,094	64,753
Miscellaneous	-	6,985	1,493	-	12,684	-	10,325	-	7,625	39,112
Recovery***	(35,225)	-	-	-	(58,288)	-	-	-	-	(93,513)
<b>Total</b>	<b>(24,969)</b>	<b>1,184,457</b>	<b>1,493</b>	<b>-</b>	<b>1,974,542</b>	<b>235</b>	<b>574,265</b>	<b>163,644</b>	<b>300,723</b>	<b>4,174,391</b>
<b>Opening</b>	<b>2,028,794</b>	<b>15,903,167</b>	<b>4,173,403</b>	<b>459,720</b>	<b>1,784,229</b>	<b>1,635,267</b>	<b>1,489,945</b>	<b>115,667</b>	<b>1,374,859</b>	<b>28,965,051</b>
<b>June 30, 2012</b>	<b>\$ 2,003,825</b>	<b>\$17,087,624</b>	<b>\$ 4,174,896</b>	<b>\$ 459,720</b>	<b>\$3,578,771</b>	<b>\$1,635,502</b>	<b>\$2,064,210</b>	<b>\$ 279,311</b>	<b>\$ 1,675,58</b>	<b>\$33,139,442</b>

\*\*\*From the Mineral Exploration Assistance Program (MEAP) which provides assistance for non-fuel exploration in Manitoba.

**CALLINEX MINES INC.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
(Expressed in Canadian dollars)  
**JUNE 30, 2012**  
(Unaudited)

**4. EXPORATION AND EVALUATION ASSETS**

Activity for the year ended September 30, 2011

	Berry Creek	Coles	Fox	Hamell Lake	Gossan	Herblet	Pine Bay	Rug	Other	Total
Acquisition	\$ 88,800	\$ -	\$ -	\$ 53,736	\$ 140,150	\$ -	\$ 261,169	\$ 30,000	\$ 151,133	\$ 724,988
Geochemical	-	16,362	-	-	9,239	35,568	-	-	-	61,169
Geophysical	15,911	247,642	-	-	47,949	74,083	58,586	-	33,778	477,949
Line-cutting	2,960	-	-	-	-	37,880	-	-	-	40,840
Drilling	300,010	2,426,071	36,031	-	1,096,440	909,832	407,261	-	-	5,175,645
Consulting	-	72,956	1,200	-	28,524	40,550	4,400	-	54,650	202,280
Travel	-	31,549	-	-	-	-	-	-	153	31,702
Field & Camp	6,369	2,198,427	-	-	169,865	70,313	31,007	-	-	2,475,981
Vehicle	1,600	36,497	-	-	1,500	3,402	2,800	-	-	45,799
Prospecting	3,861	17,017	-	-	15,290	12,950	8,537	-	70,048	127,703
Miscellaneous	-	1,037	37,498	-	15,272	-	-	96	5,958	59,861
Recovery***	(9,775)	-	(59,901)	-	-	-	-	-	-	(69,676)
<b>Total</b>	<b>409,736</b>	<b>5,047,558</b>	<b>14,828</b>	<b>53,736</b>	<b>1,524,229</b>	<b>1,184,578</b>	<b>773,760</b>	<b>30,096</b>	<b>315,720</b>	<b>9,354,241</b>
<b>Opening</b>	<b>1,619,058</b>	<b>10,855,609</b>	<b>4,158,575</b>	<b>405,984</b>	<b>260,000</b>	<b>450,689</b>	<b>716,185</b>	<b>85,571</b>	<b>1,059,139</b>	<b>19,610,810</b>
<b>September 30, 2011</b>	<b>\$ 2,028,794</b>	<b>\$15,903,167</b>	<b>\$ 4,173,403</b>	<b>\$ 459,720</b>	<b>\$1,784,229</b>	<b>\$1,635,267</b>	<b>\$1,489,945</b>	<b>\$ 115,667</b>	<b>\$1,374,859</b>	<b>\$28,965,051</b>

\*\*\*From the Mineral Exploration Assistance Program (MEAP) which provides assistance for non-fuel exploration in Manitoba.

**4. EXPORATION AND EVALUATION ASSETS (cont'd...)**

By way of the plan of arrangement approved by the shareholders of Callinan on July 13, 2011, Callinan transferred its exploration and evaluation assets to Callinex. All rights to purchase a royalty or a portion of a royalty attached to any of the exploration and evaluation assets transferred remains with Callinan, (Note 8). 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) Fox River

On March 15, 2003 the option to purchase the Fox River Property was acquired. Callinex had a 70% interest in this property and could earn an additional 10% by producing a feasibility study. On March 15, 2006 half of the interest in this property was assigned to Bell Resources Corporation ("Bell"). Bell's interest is based on a dilution clause contained in the agreement of March 15, 2006.

b) Coles Creek/Troitsa

On August 1, 2005 Callinan entered into an agreement with Mike Muzylowski, President of Callinan, under which Callinan 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 a total of \$270,000 for the property. If the claims are placed into production, Mr. Muzylowski will be entitled to a 5% royalty on net smelter returns, of which one half or 2.5% can be repurchased for \$1,500,000.

In order to maintain the option in good standing and to earn the 100% interest in the property, Callinan had to incur cumulative expenditures of \$80,000 within 12 months, \$160,000 within 24 months, and \$240,000 within 36 months and \$320,000 within 48 months from the effective date of the agreement. All obligations have been met to keep the option in good standing.

On September 24, 2010 Callinan increased its holding in British Columbia by entering into an agreement to acquire the Troitsa claim. The agreement called for payment of \$40,000 (paid) and issuance of 40,000 common shares (issued) within 5 days of acceptance by the TSX Venture Exchange, a further \$50,000 and 60,000 shares within 12 months (issued and paid, see Note 6); 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.

The costs associated with these claims have been included with Coles Creek, as this is in the same geographical area.

**4. EXPORATION AND EVALUATION ASSETS (cont'd....)**

c) Herblet Lake

On March 15, 2007 Callinan 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.

d) Moak and Norris Lake

On May 14, 2007 Callinan entered into an option agreement whereby, payments of \$100,000 and issuance of 200,000 shares within 36 months after regulatory approval was required. All obligations have been met.

e) Dion Lake

On June 26, 2007 Callinan 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. All obligations required to keep the holding in good standing have been met.

f) Berry Creek

On March 15, 2008 Callinan 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 Callinan had to 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. In March of 2011 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. In March 2012, 20,000 shares were issued and \$20,000 paid, in order to defer the payment to May 2012.

g) Tramping Lake

Between March 28 and April 10, 2008 these claims were staked by Callinan in the Snow Lake area of Manitoba.

h) Hamel Lake

On July 9, 2008 Callinan received Toronto Stock Exchange ("Exchange") approval for the option agreement entered into for the Hamel Lake claims located near Flin Flon, Manitoba. The 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 Callinan may purchase half for \$1,000,000 subject to further Exchange review and acceptance. All obligations have been met.



**4. EXPORATION AND EVALUATION ASSETS (cont'd....)**

i) Pine Bay

On July 8, 2009 an agreement was entered into to acquire a 100% interest in the Pine Bay Claims and a 90% interest in the Sour Claims. To acquire the claims, payments of \$375,000 and issuance of 500,000 common shares of Callinan (200,000 of these have been issued) within 36 months of the effective date is required. All obligations have been met to keep the claims in good standing.

j) Island Lake

On July 31, 2009 Callinan optioned the Island Lake claims. In order to acquire an 80% interest in the claims, payment of \$400,000 and issuance of 400,000 shares within 36 months of the effective date of the agreement was required. Cumulative expenditure of \$100,000 within 12 months, \$1,000,000 within 24 months and \$1,900,000 within 36 months was also required to keep the option in good standing. This project has been put on hold while negotiations proceed with the First Nations.

k) Gossan

On April 10, 2010 100% interest in this property was acquired for payment of \$20,000 and issuance of 150,000 shares.

l) Rug Claims

On May 12, 2010 Callinan entered into an agreement to acquire a 100% interest in the Rug Claims for payment of \$200,000 and issuance of 200,000 shares, (45,000 of these shares have been issued) within 36 months of the effective date. Cumulative expenditures of \$100,000 within 12 months, \$250,000 within 24 months and \$450,000 within 36 months must be made to keep the option in good standing. All obligations have been met to keep this option in good standing.

m) Stag Claim

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

n) Pulver Lake

During 2011 the claims at Pulver Lake in Snow Lake, Manitoba were staked.

m) Cameco

During the period the Company staked property in Saskatchewan.

**CALLINEX MINES INC.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
(Expressed in Canadian dollars)  
JUNE 30, 2012  
(Unaudited)

**5. EQUIPMENT**

June 30, 2012:

	<b>Machinery &amp; Equipment</b>	<b>Office Furniture</b>	<b>Computer Equipment</b>	<b>Leasehold Improve- ments</b>	<b>Total</b>
Cost at September 30, 2011	\$ 162,686	\$ 69,406	\$ 107,828	\$ -	\$ 339,920
Current period additions	5,000	9,357	5,255	43,491	63,103
Cost at June 30, 2012	\$ 167,686	\$ 78,763	\$ 113,083	\$ 43,491	\$ 403,023
Accumulated depreciation at September 30, 2011	\$ 130,052	\$ 54,398	\$ 77,430	\$ -	\$ 261,880
Current period depreciation	8,468	3,654	8,022	4,893	\$ 25,037
Accumulated depreciation at June 30, 2012	138,520	\$ 58,052	\$ 85,452	\$ 4,893	\$ 286,917
Net book value at September 30, 2011	\$ 32,634	\$ 15,008	\$ 30,398	\$ -	\$ 78,040
Net book value at June 30, 2012	\$ 29,166	\$ 20,711	\$ 27,631	\$ 38,597	\$ 116,106

September 30, 2011:

	<b>Machinery &amp; Equipment</b>	<b>Office Furniture</b>	<b>Computer Equipment</b>	<b>Total</b>
Cost at September 30, 2010	\$ 158,082	\$ 62,583	\$ 56,137	\$ 276,802
Current period additions	4,604	6,823	51,691	63,118
Cost at September 30, 2011	\$ 162,686	\$ 69,406	\$ 107,828	\$ 339,920
Accumulated depreciation at September 30, 2010	\$ 100,130	\$ 46,007	\$ 37,304	\$ 183,441
Current period depreciation	29,922	8,391	40,126	78,439
Accumulated depreciation at September 30, 2011	\$ 130,052	\$ 54,398	\$ 77,430	\$ 261,880
Net book value at September 30, 2010	\$ 57,952	\$ 16,576	\$ 18,833	\$ 93,361
Net book value at September 30, 2011	\$ 32,634	\$ 15,008	\$ 30,398	\$ 78,040

**6. INVESTMENTS**

By way of the transfer, 500,000 shares of Callinan were transferred to Callinex in order to satisfy property option commitments on some of the properties transferred (Note 4). These shares are held in trust by Callinan and any not used will be returned to Callinan after all obligations transferred are satisfied, or if the Company decides to abandon any of the properties. 200,000 of these shares have been issued for the Pine Bay option agreement, 60,000 shares have been issued for the Troitsa property and 45,000 have been issued for the Rug claims. 195,000 shares were remaining at June 30, 2012.

## **7. CAPITAL STOCK**

### **Authorized:**

Unlimited common shares with no par value

During the period ended June 30, 2012, the Company entered into the following capital stock transactions:

- The Company issued 1,489,100 flow-through units at a price of \$0.95 per unit for gross proceeds of \$1,414,645. Each flow-through unit is comprised of one flow-through common share of the Company and one half of one share purchase warrant. Each warrant is exercisable to purchase one non-flow through common share of the Company at a price of \$1.00 until December 30, 2013. On the date of issue of these shares, the Company's common shares were trading at \$0.80 per share. As a result, a flow-through premium of \$223,365 was recorded in 'other liability –flow through premium' on the statement of financial position. In connection with the share issuance, the Company paid agent's fees of \$7,721 and issued 8,128 agents warrants with a value of \$2,850. Each agent warrant is exercisable to purchase one non-flow through common share of the Company at a price of \$1.00 per share until December 30, 2013.
- The Company issued 157,191 common shares upon exercise of stock option for proceeds of \$70,530 with a fair value of \$91,180.

During the year ended September 30, 2011, the Company entered into the following capital stock transactions:

- The Company issued 10,877,728 shares to Callinan by way of the plan of arrangement (Note 8)
- The Company issued 6,000,000 flow-through common shares at a price of \$1.10 per share for gross proceeds of \$6,600,000. On the date of issue of these shares, the Company's common shares were trading at \$0.90 per share. As a result, a flow-through premium of \$1,200,000 was recorded in "other liability-flow through premium" on the statement of financial position. This has been reduced for eligible expenditures made. In connection with the share issuance, the Company paid the agent a cash commission of \$528,000, and issued 480,000 agent options valued at \$167,058 using the Black-Scholes pricing model with a volatility of 93.20%, discount rate of 2.75%, expected life of 1.5 years, and dividend rate of 0%. The agent options are exercisable into one non flow-through common share of the Company at a price of \$1.10 per share until February 26, 2013.
- The Company issued 2,222 common shares upon the exercise of stock options with a fair value of \$2,889.

### **Stock options**

The Company has a stock option plan under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. Under the plan, the exercise price of each option equals the market price of the Company's stock, less an applicable discount, as calculated on the date of grant. The options can be granted for a maximum term of 10 years and vest at the discretion of the board of directors.

During the period ended June 30, 2012, 250,000 stock options were issued to directors and employees of the Company.

**CALLINEX MINES INC.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
(Expressed in Canadian dollars)  
**JUNE 30, 2012**  
(Unaudited)

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

**Stock options (cont'd...)**

Share-based compensation expense of \$74,563 (2011 - \$367,823 has been recorded during the period ended June 30, 2012 under the Black-scholes pricing model in relation to the options granted. The weighted average fair value of the options granted is \$0.30 (2011 - \$1.43) per option.

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

	Number of Shares	Weighted Average Exercise Price
Options outstanding, September 30, 2010	-	\$ -
Issued in connection with the plan of arrangement (Note 8)	581,428	0.48
Granted	1,115,000	0.90
Exercised	<u>(2,222)</u>	<u>0.46</u>
Options outstanding, September 30, 2011	1,694,206	0.76
Granted	250,000	0.50
Exercised	(157,191)	0.45
Expired	<u>(140,913)</u>	<u>0.54</u>
Options outstanding, June 30, 2012	<u>1,646,102</u>	<u>\$ 0.76</u>

Exercise price	Options outstanding and exercisable at June 30, 2012	Average Remaining Contractual Life (Years)	Expiry Date
0.30	11,111	0.20	September 12, 2012
0.75	55,556	0.28	October 12, 2012
0.47	116,663	0.54	January 13, 2013
0.34	44,441	0.91	May 29, 2013
0.30	55,555	1.28	October 9, 2013
0.90	1,112,776	4.21	September 14, 2016
0.50	<u>250,000</u>	4.88	May 15, 2017
	1,646,102		

The following weighted average assumptions were used for the Black-Scholes method of valuation of stock options granted during the nine months ended June 30, 2012 and 2011:

	June 30, 2012	June 30, 2011
Risk-free interest rate	2.75%	1.71%
Expected life of options	5 years	3.5 years
Annualized volatility	84.9%	166.6%
Dividend rate	0%	0%
Forfeiture rate	0%	0%

**CALLINEX MINES INC.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
(Expressed in Canadian dollars)  
**JUNE 30, 2012**  
(Unaudited)

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

**Warrants**

The following is a summary of warrants outstanding:

	Number of warrants	Weighted Average Exercise Price
Warrants outstanding, September 30, 2010	-	\$ -
Issued	<u>480,000</u>	<u>1.10</u>
Warrants outstanding, September 30, 2011	480,000	1.10
Issued	<u>782,628</u>	<u>1.00</u>
Warrants outstanding, June 30, 2012	<u><u>1,262,628</u></u>	<u><u>\$ 1.04</u></u>

The following is a summary of the outstanding warrants, with their respective expiry dates and exercise prices:

June 30, 2012				
Exercise Price	Number Outstanding	Remaining Life (Years)	Expiry Date	
\$ 1.10	480,000 <sup>(1)</sup>	0.7	February 26, 2013	
1.00	774,500	1.5	December 30, 2013	
1.00	8,128 <sup>(1)</sup>	1.5	December 30, 2013	
<u>\$ 1.04</u>	<u>1,262,628</u>			

<sup>(1)</sup> Agent warrants

The following weighted average assumptions were used for the Black-Scholes method of valuation of agents warrants granted during the nine months ended June 30, 2012, and the year ended September 30, 2011:

	June 30, 2012	September 30, 2011
Risk-free interest rate	0.95%	2.75%
Expected life of options	2 years	1.5 years
Annualized volatility	93.2%	93.2%
Dividend rate	0%	0%
Forfeiture rate	0%	0%

**CALLINEX MINES INC.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
(Expressed in Canadian dollars)  
JUNE 30, 2012  
(Unaudited)

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

**Equity Reserve**

The following is a summary of changes in equity reserve:

	Funding by Callinan	Options and agent's warrants	Total
<b>Balance at September 30, 2010</b>	\$ -	\$ -	\$ -
Funding by Callinan	20,840,528	-	20,840,528
Share-based compensation	-	367,823	367,823
<b>Balance at June 30, 2011</b>	<b>\$ 20,840,528</b>	<b>\$ 367,823</b>	<b>\$ 21,208,351</b>

	Funding by Callinan	Options and agent's warrants	Total
<b>Balance at September 30, 2011</b>	<b>\$ 2,660,523</b>	<b>\$ 1,123,239</b>	<b>\$ 3,783,762</b>
Share-based compensation	-	74,563	74,563
Fair value of options exercised	-	(91,180)	(91,180)
Fair value of agent's warrants	-	2,850	2,850
<b>Balance at June 30, 2012</b>	<b>\$ 2,660,523</b>	<b>\$ 1,109,472</b>	<b>\$ 3,769,995</b>

**8. PLAN OF ARRANGEMENT**

On July 13, 2011, the shareholders of Callinan approved a plan of arrangement to reorganize Callinan's exploration and evaluation assets in an effort to maximize shareholder value. Under the terms of the plan of arrangement, Callinan 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 Callinan, and was not transferred to Callinex. Callinan also transferred equipment valued at \$99,837 and \$8 million in cash to Callinex. Shareholders of Callinan received one new Callinan common share for each Callinan share held, and one Callinex common share for every 4.5 Callinan common shares held. Concurrently, Callinan transferred certain cash and securities to the Company to provide working capital and exploration funding along with certain property, plant, and equipment.

The reorganization was designed to allow Callinan's shareholders to realize the value of the Callinan Royalty property through continued ownership of Callinan's common shares, while retaining the upside potential associated with Callinan's other exploration and evaluation assets through the ownership of the Company's shares.

The Company's Statement of Operations and Comprehensive Loss for the period ended June 30, 2011 is the result of a "carve-out" of an allocation of general and administrative expenses for that period to the Company. The

**CALLINEX MINES INC.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
(Expressed in Canadian dollars)  
JUNE 30, 2012  
(Unaudited)

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**8. PLAN OF ARRANGEMENT (cont'd...)**

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.

The aggregate value of the assets and liabilities transferred from Callinan to the Company are as follows:

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Asset (liability)	
Cash and cash equivalents	\$ 8,000,000
Restricted investment	1,745,000
Equipment	99,837
Exploration and evaluation assets	<u>24,012,132</u>
	<b>\$ 33,856,969</b>

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**9. RELATED PARTY TRANSACTIONS**

During the period, three directors and an officer of the Company's management team were paid a total of \$340,111 in remuneration (2011 - \$419,994).

**10. SEGMENTED INFORMATION**

The Company's one reportable operating segment is the exploration and evaluation of exploration and evaluation assets in Canada. All of the Company's assets are located in Canada.

**11. SUPPLEMENTAL INFORMATION WITH RESPECT TO CASH FLOW**

The significant non cash transactions for the nine month period ended June 30, 2012 were:

- (a) Exploration and evaluation assets expenditures recorded in accounts payable and accrued liabilities of \$38,760, (September 30, 2011 - \$1,507,090).
- (b) Reallocation of fair value of options exercised from equity reserve to capital stock of \$91,180.
- (c) 8,128 agent warrants were issued with a value of \$2,850 included as share issue costs.
- (d) The issuance of 230,000 common shares of Callinan Royalties shares held in trust with a value of \$865,950 for the option payment to Troitsa and Pine Bay for the acquisition of exploration and evaluation assets.

There were no significant non-cash transactions affecting cash flows from operating, financing or investing activities for the period ended June 30, 2011 other than the plan of arrangement (Note 8).

## **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 receivables 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 restricted investment, under the fair value hierarchy are based on level one quoted prices in active markets for identical assets and liabilities and are measured at fair value.

### *Credit risk*

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

The Company's cash and cash equivalents are held at large Canadian financial institutions in interest bearing accounts. The Company has no investments in asset-backed commercial paper. The Company's receivables consist mainly of HST receivable due from the Government of Canada. The Company does not believe it is exposed to significant credit risk.

### *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company manages liquidity risk through its capital management as outlined in Note 13 to these financial statements. Accounts payable relating to exploration and evaluation assets and other accounts payable and accrued liabilities are due within one year. As at June 30, 2012, the Company had cash and cash equivalents balance of \$5,492,602 to settle current liabilities of \$136,919. Management believes the Company has sufficient funds to meet its liabilities as they become due.

### *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, 2012, 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.



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

*Market risk (cont'd...)*

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.

**13. CAPITAL MANAGEMENT**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the exploration and evaluation of its exploration and evaluation assets, acquire additional mineral property interests and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes its components of shareholders' equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

At this stage of the Company's development, in order to maximize ongoing development efforts, the Company does not pay out dividends.

The Company currently is not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management.

**14. SUBSEQUENT EVENTS**

On June 21, 2012 the Company announced that it has arranged a private placement of up to 5,000,000 common shares of the Company at a price of \$0.40 per share for total proceeds of up to \$2,000,000. Net proceeds of the private placement will be used to advance the Company's exploration activities and for working capital. The Company intends to close this placement in the fourth quarter.