

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") of financial position and results of operations of Franco-Nevada Corporation ("Franco-Nevada", the "Company", "we" or "our") has been prepared based upon information available to the Company as at March 26, 2009 and should be read in conjunction with the Company's consolidated audited financial statements and related notes as at and for the periods ended December 31, 2008 and 2007. This financial information has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

All amounts are in thousands of US dollars unless specifically stated otherwise.

Additional information related to the Company, including the Company's Annual Information Form is available on SEDAR at www.sedar.com. In addition, the Company's website can be found at www.franco-nevada.com.

Cautionary Statement on Forward-Looking Information

This Management's Discussion and Analysis ("MD&A") contains certain "forward-looking statements" which may include, but are not limited to, statements with respect to future events or future performance, management's expectations regarding Franco-Nevada's growth, results of operations, estimated future revenues, requirements for additional capital, future demand for and prices of commodities, expected mining sequences, business prospects and opportunities. All statements, other than statements of historical fact, are forward-looking statements. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "predicts", "projects", "intends", "targets", "aims", "anticipates" or "believes" or variations (including negative variations) of such words and phrases or may be identified by statements to the effect that certain actions "may", "could", "should", "would", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of Franco-Nevada to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. A number of factors could cause actual events or results to differ materially from any forward-looking statement, including, without limitation: adverse fluctuations in the prices of the primary commodities that drive the Company's royalty revenue (gold, platinum group metals, copper, nickel, oil and gas); adverse fluctuations in the value of the Canadian and Australian dollar, and any other currency in which the Company generates revenue, relative to the US dollar; changes in national and local government legislation, including permitting regimes and taxation policies; regulations and political or economic developments in any of the countries where the Company holds interests in mineral and oil and gas properties; influence of macroeconomic developments; business opportunities that become available to, or are pursued by us; reduced access to debt and equity capital; litigation; title disputes related to our interests or any of the properties underlying the royalty portfolio; excessive cost escalation as well as operating or technical difficulties on any of the properties underlying the royalty portfolio; risks and hazards associated with the business of development and mining on any of the properties underlying the royalty portfolio, including, but not limited to unusual or unexpected geological and metallurgical conditions, slope-failures or cave-ins, flooding and other natural disasters or civil unrest. The forward-looking statements contained in this MD&A are based upon assumptions management believes to be reasonable, including, without limitation; the ongoing operation of the properties underlying the royalty portfolio by the owners or operators of such properties in a manner consistent with past practice; the accuracy of public statements and disclosures made by the owners or operators of

MD&A

such underlying properties; no material adverse change in the market price of the commodities that underlie the royalty portfolio; and the absence of any other factors that could cause actions, events or results to differ from those anticipated, estimated or intended. However, there can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Franco-Nevada cannot assure investors that actual results will be consistent with these forward-looking statements and readers are cautioned that forward-looking statements are not guarantees of future performance. Accordingly, readers should not place undue reliance on forward-looking statements due to the inherent uncertainty therein. For additional information with respect to risks, uncertainties and assumptions, please also refer to the “Risk Factors” sections of our most recent Annual Information Form filed with the Canadian securities regulatory authorities on www.sedar.com, as well as this MD&A. The forward-looking statements herein are made as of the date of this MD&A only and Franco-Nevada does not assume any obligation to update or revise them to reflect new information, estimates or opinions, future events or results or otherwise, except as required by applicable law.

Our Business

Franco-Nevada is a gold-focused royalty company with additional interests in platinum group metals, oil & gas and other assets. We are the leading gold royalty company as measured by gold revenues, number of gold royalties and margins. The majority of our revenues are derived from a diversified portfolio of high-quality royalty properties located in the United States, Canada and Australia. The Company also holds a pipeline of assets which have the potential to generate future royalty revenues but which are currently under development or in the exploration phase. As at March 26, 2009, we estimate that the royalty portfolio consists of over 300 royalty interests diversified over a range of commodities and stages from exploration through to operating.

Our royalty portfolio generates high-margin free cash-flow with lower exposure to operating and capital costs than operating companies. The portfolio also provides us with direct leverage to commodity prices and the exploration potential of world-class ore deposits and mineral exploration trends where we have existing royalty interests. Management has proven successful in both acquiring and managing our portfolio of assets and we intend to utilize our free cash-flow to grow the portfolio and to pay dividends. We believe that a portfolio of royalty interests provides our shareholders with a higher risk adjusted return through the commodity cycle than direct operating interests.

Our History

The royalty portfolio was assembled starting in 1985 by Franco-Nevada Mining Corporation Limited (“Old-Franco”) and predecessor companies. In 2002, Old Franco was acquired by Newmont Mining Corporation (“Newmont”). A number of Old Franco employees remained with Newmont and managed the royalty portfolio as well as created additional royalties on the property portfolio of Newmont and Normandy Mining. In late 2007, a team including some Old Franco employees formed Franco-Nevada Corporation and on December 20, 2007, acquired certain of Newmont’s mineral royalties, oil and gas royalties and working interests, an equity interest in Falconbridge Dominicana, C. Por A. (“Falcondo”) and other properties and interests (collectively known as the “Royalty Portfolio”), completed an initial public offering (“IPO”), completed a bank debt facility and listed on the Toronto Stock Exchange. On December 31, 2007, we applied a portion of the proceeds from the exercise of the underwriters’ over-allotment option to completely repay the Royalty Portfolio acquisition debt. In March 2008, we raised additional equity in order to grow the royalty portfolio and we continue to actively pursue and acquire new royalty assets for the portfolio.

Our Company and How We Operate

Franco-Nevada is a Canadian company headquartered in Toronto with additional offices in Denver, Reno and Perth, Australia, all of which are used to manage our royalty portfolio and pursue new investment opportunities. Franco-Nevada shares trade on the Toronto Stock Exchange under the symbol “FNV” and are part of the S&P/TSX Composite Index. Warrants trade under the symbol “FNV.WT”. Our shareholders consist of mostly large generalist institutional funds in Canada, the United States, Europe and Australia. Management and directors are significant shareholders, and are dedicated to the sustainable maximization of the Company’s share price, holding 6.0% of the common shares, or 8.2% on a fully diluted basis, as at March 26, 2009.

We currently operate with a small organization of up to twenty full-time employees and contractors. Our management team is made up of experienced and proven professionals some of whom have been continuously associated with our royalty and investment portfolio for over 20 years. We operate with a flat management structure similar to that of a small merchant bank. As we do not have any material operational responsibilities, our focus is on new investments and our flat management structure allows many of our team members to take multidisciplinary roles for corporate development opportunities. Our board of directors includes directors associated with Old Franco and the board has significant experience in mining, oil and gas and corporate finance.

Our Vision and Business Model

Our vision is to be the leading resource royalty company dedicated to the maximization of shareholder value. We believe we can achieve this through sound management of our current portfolio and through accretive transactions using a long-term perspective. Our business model is to grow the royalty portfolio with acquisitions of high quality, high margin assets limiting our downside exposure but retaining the full upside potential of higher commodity prices and/or new exploration discoveries.

Our growth strategy is predicated on increasing net asset value (“NAV”) on a per share basis, as we strongly believe that sustainable growth in per share NAV will be reflected in growth in our share price. Accordingly, NAV accretion per share is one of our key acquisition metrics. We are firm believers that maintaining a strong precious metals focus will allow us to preserve our premium valuation; however, we will remain vigilant for opportunities in all resources. Maintaining and managing a diversified, high-margin portfolio with low overheads provides the strong free cash-flow required to fuel organic growth. We believe in maintaining a strong balance sheet to allow us to be opportunistic in any environment. We do not hedge any of our commodity exposures.

Acquisitions are an integral part of the Company’s growth strategy and in late 2008 and early 2009, the Company successfully negotiated and acquired two significant gold royalty assets; the Gold Quarry Royalty Property and the Palmarejo Gold Royalty Stream. (See “Acquisitions” below). These assets are expected to be accretive to our 2009 royalty revenues and NAV on a per share basis.

Financial Results

Franco-Nevada was incorporated on October 17, 2007 and commenced operations on December 20, 2007, as described in “Our History” above. The year ended December 31, 2008 was the first full year of activity for the Company and as such, a comparison of financial results for the period ended December 31, 2007 to those for the year ended December 31, 2008, is not meaningful.

Selected Financial Information

Selected annual financial information derived from the Company’s financial statements is set out below:

	For the Year Ended December 31, 2008	For the Period Ended December 31, 2007
Statement of Operations		
Total revenue	\$ 151,041	\$ 3,281
Depletion and depreciation	87,525	2,388
Operating income (loss)	31,637	(30,764)
Net income (loss)		
Basic and diluted earnings (loss) per share	\$ 0.41	\$ (0.38)
Dividends declared and paid per share	C\$ 0.24	C\$ –
Statement of Cash Flows		
Net cash provided by (used in) operating activities, before changes in non-cash assets and liabilities	\$ 132,047	\$ (418)

	As at December 31, 2008	As at December 31, 2007
Balance Sheet		
Cash and cash equivalents	\$ 73,249	\$ 12,894
Short-term investments	141,576	–
Total assets	1,503,786	1,336,656
Future income tax liabilities	60,877	45,685
Total shareholders' equity	1,433,599	1,287,054

Selected quarterly financial information derived from the Company's financial statements is set out below:

	Q4 2008	Q3 2008	Q2 2008	Q1 2008	December 20, 2007 to December 31, 2007
Total revenue	\$ 42,483	\$ 40,023	\$ 40,987	\$ 27,548	\$ 3,281
Costs and expenses	44,555 ⁽²⁾	26,720	27,364	20,765	34,045
Operating income (loss)	(2,072)	13,303	13,623	6,783	(30,764)
Other (income) expenses	(953)	(1,439)	(1,003)	(978)	2,864
Net income (loss)	15,377	9,893	9,876	5,201	(33,079)
Basic and diluted earnings (loss) per share	\$ 0.15	\$ 0.10	\$ 0.10	\$ 0.06	\$ (0.38)
Free cash flow ⁽¹⁾	\$ 37,664	\$ 35,392	\$ 35,334	\$ 23,373	\$ (5,246)
Free cash flow ⁽¹⁾ per share	\$ 0.38	\$ 0.35	\$ 0.35	\$ 0.26	\$ (0.06)
Total assets	\$ 1,503,786	\$ 1,571,200	\$ 1,591,763	\$ 1,579,871	\$ 1,336,656
Interest in mineral properties, net,	806,228	877,666	899,892	913,411	930,808
Interest in oil and natural gas properties, net	361,645	266,739	281,508	283,527	298,608
Total shareholders' equity	\$ 1,433,599	\$ 1,513,503	\$ 1,537,078	\$ 1,528,840	\$ 1,287,054

(1) Free Cash Flow is defined by the Company as operating income plus depletion and depreciation, non-cash charges, and any impairment of investments and royalty interests.

(2) Includes write-down of investments of \$6,454 and write-down of mineral royalty interest of \$2,034.

Financial Performance

Overall

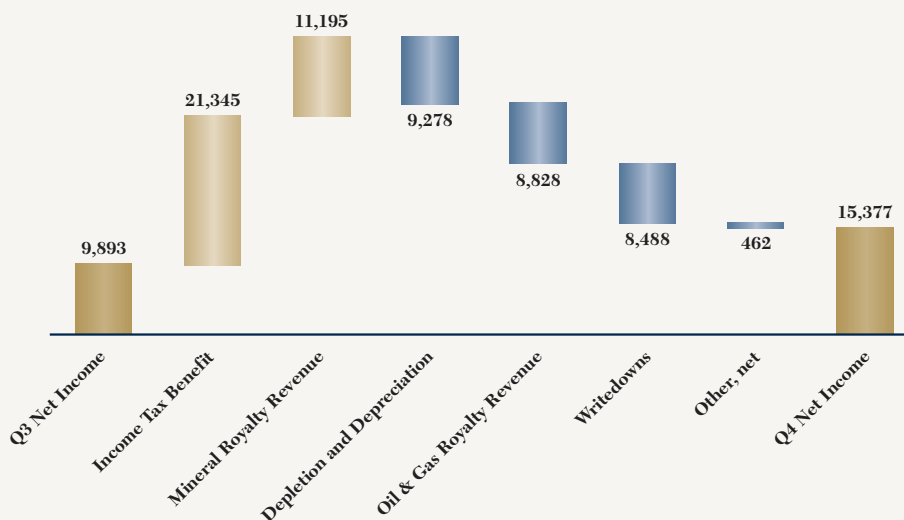
The Company commenced operations on December 20, 2007 with the acquisition of the Royalty Portfolio. During the period ended December 31, 2007, the Company incurred a net loss of \$33,079 or \$0.38 per share. Significant non-recurring expenses contributing to this net loss were as follows:

- A non-cash compensation expense of \$23,075 was recognized upon the issuance of 3,000,000 founders' shares to certain directors and officers of the Company (the "Founders' Shares") for cash consideration less than the IPO ("IPO") price of C\$15.20.
- A non-cash impairment of \$7,296 for an other-than-temporary decline in the value of exchangeable shares in the capital of Newmont Mining Company of Canada Limited (the "Newmont Exchangeable Shares") was recognized as a direct result of the gross-up of the value of the Newmont Exchangeable Shares to record a future tax liability. This future tax liability was recognized to reflect the estimated future taxes payable upon ultimate disposition as a result of book and tax basis differences. After recording this gross-up in value, the shares were written down to market value.
- A foreign exchange loss of \$2,266 was realized upon the repayment of the \$140,000 drawn under the Company's credit facility due to the strengthening of the Canadian dollar in the time between the draw and repayment. The credit facility was drawn to provide a portion of the consideration for the purchase of the Royalty Portfolio and was fully repaid with a portion of the proceeds from the exercise of the underwriters' over-allotment option on the IPO.

Due to the significance of the above non-recurring expenses, results for the period ended December 31, 2007 and the year ended December 31, 2008 are not directly comparable.

Net income for the year ended December 31, 2008 was \$40,347, or \$0.41 per share. Net income for the three months ended December 31, 2008 was \$15,377, or \$0.15 per share.

Net Income Reconciliation - Q3 to Q4 2008

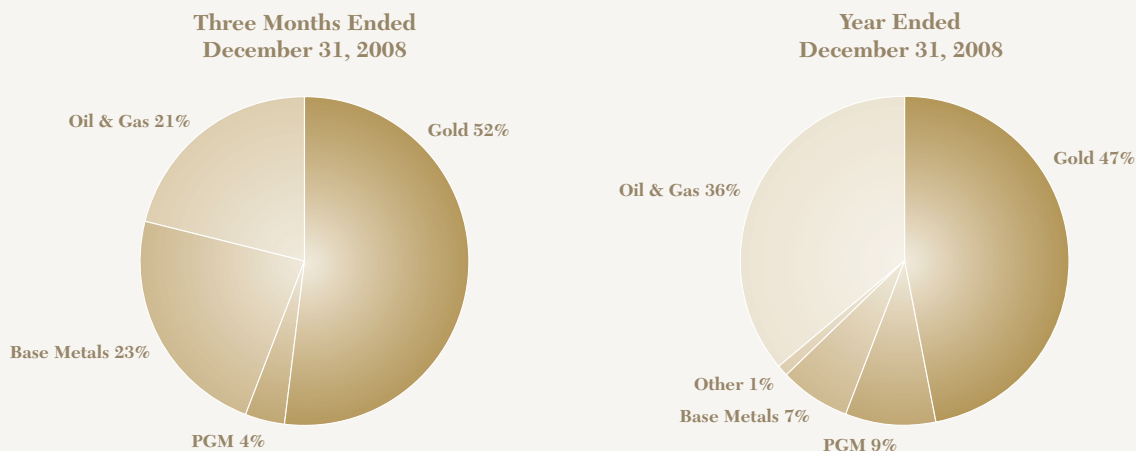


Revenue

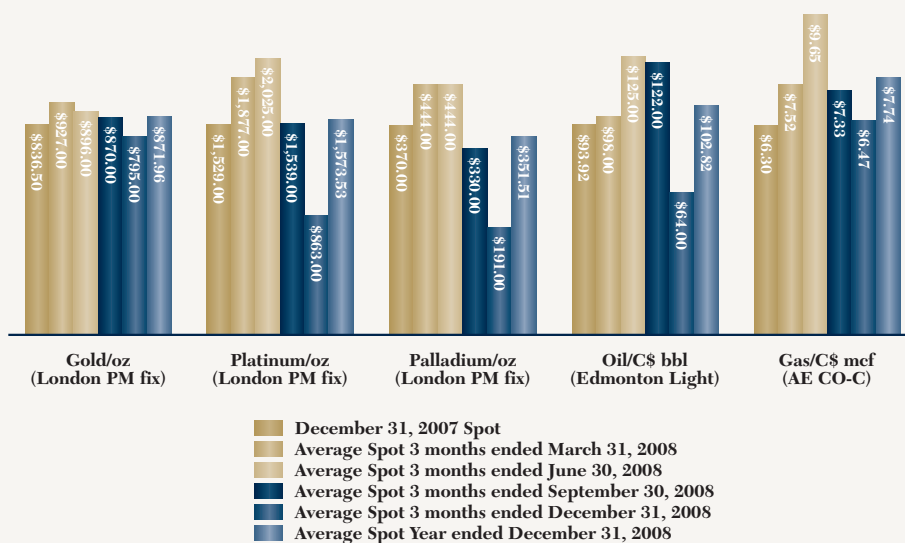
For the year ended December 31, 2008, consolidated revenue was \$151,041 which was earned 56% from precious metals (47% gold and 9% platinum group metals), 36% from oil and gas (23% oil and 13% gas), 7% from base metals and less than 1% from other.

For the three months ended December 31, 2008, consolidated revenue rose by 6.2% to \$42,483 from \$40,023 for the three months ended September 30, 2008. Revenue for the fourth quarter of 2008 was 56% from precious metals (52% gold and 4% platinum group metals), 21% from oil and gas (14% oil and 7% gas), 23% from base metals and less than 1% from other.

Revenue by Commodity

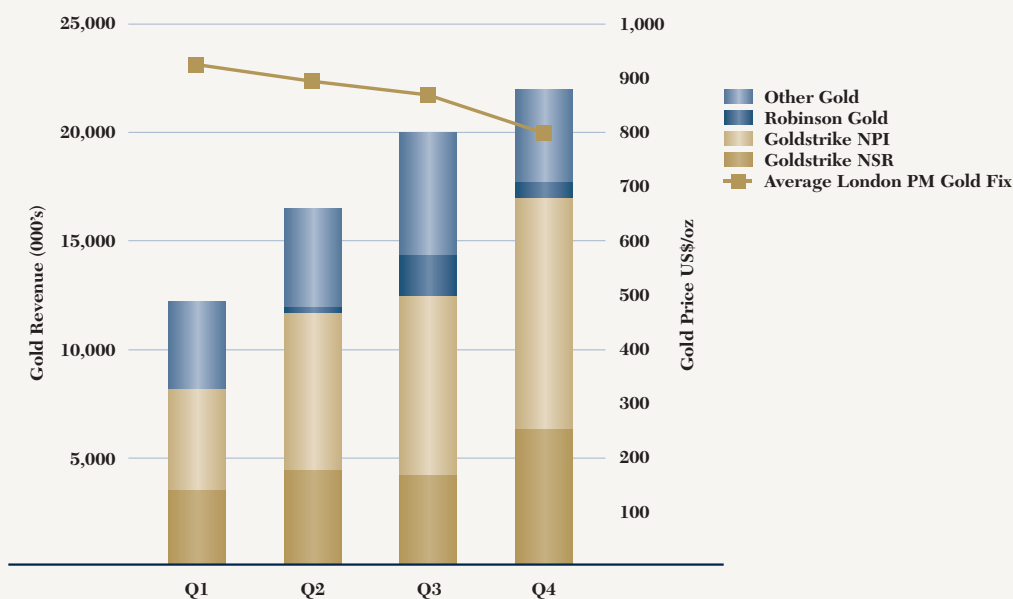


All of the key commodities underlying the Company's royalty interests experienced declines in their average spot prices for the fourth quarter of 2008 when compared to the third quarter of 2008 and as at December 31, 2007, other than gas which saw a slight increase over December 31, 2007 levels.



However, even with a declining commodity price environment, the Company experienced growth in overall royalty revenues, with the most notable increase in revenue derived from gold royalties. None of Franco-Nevada's revenues are hedged.

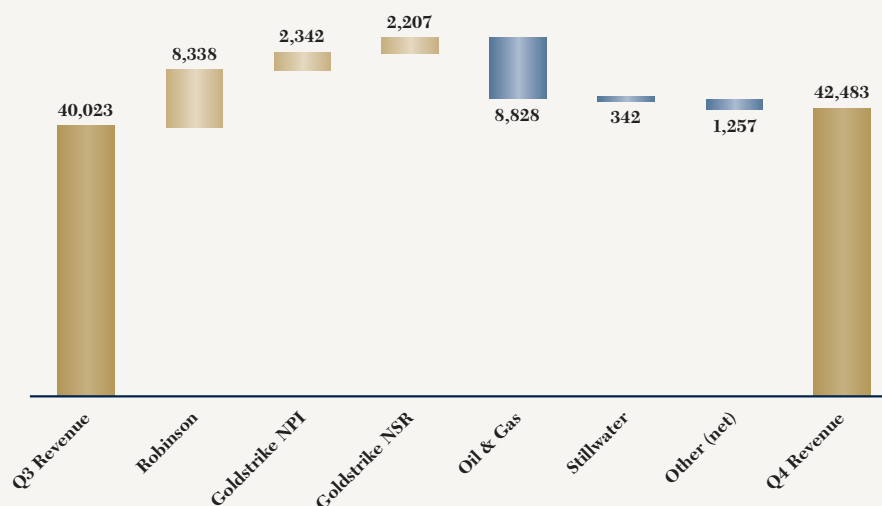
Gold Revenue to Average Quarterly Spot Gold Price



Royalty revenue for the three months and year ended December 31, 2008 was comprised of the following.

Property	Interest	Operator	Revenue	
			Three months ended December 31, 2008	Year ended December 31, 2008
Gold				
Goldstrike - NSR	NSR 2-4%	Barrick Gold	\$ 6,425	\$ 18,727
Goldstrike - NPI	NPI 2.4-6%	Barrick Gold	10,645	30,963
Robinson	NSR/Other 0.225%/0.25%	Quadra Mining	804	2,868
Marigold	NSR 1.75-5%	Barrick Gold/Goldcorp	1,581	6,111
Bald Mountain	NSR 1-4%	Barrick Gold	533	2,546
Cerro San Pedro	GR 1.95%	New Gold	305	1,706
Mesquite	NSR 0.5-2%	Western Goldfields	491	1,859
North Lanut	NSR 5%	Avocet Mining	306	1,640
Eskay Creek	NSR 1%	Barrick Gold	–	330
Mouska	GR 2%	IAMGOLD	196	822
New Celebration	NSR 1.75%	Dioro Exploration	241	677
Henty	ORR 1-10%	Barrick Gold	116	506
Holloway/Holt	NSR 2-10%	St Andrew Goldfields	–	104
Bronzewing	NSR 1%	View Resources	(2)	240
Hollister (Ivanhoe)	NSR 3-5%	Great Basin Gold Limited	238	671
Mt. Muro	NSR 3-7%	Straits Resources Limited	137	587
Other	Various	Various	14	321
			22,030	70,678
PGMs				
Stillwater	NSR 5%	Stillwater Mining	1,559	13,553
Pandora	NPI 5%	Lonmin PLC	–	13
			1,559	13,566
Base Metals				
Robinson	NSR/Other 0.225%/0.25%	Quadra Mining	9,730	10,534
Mt. Keith	NPI 0.25%	BHP Billiton	2	84
Kasese	Other	MFC Bancorp	–	422
			9,732	11,040
Other				
Eagle Picher	Other	EP Minerals	87	336
Commodore	Other	Millmerran Partners	106	125
			193	461
Oil and Gas				
Edson	ORR 15%	Canadian Natural Resources	3,034	22,030
Weyburn	WT\ORR 1.11%/0.44%	EnCana O&G Partnership	1,810	12,956
Midale	WT\ORR 1.59%/0.97%	Apache Canada	943	5,899
Other	Various	Various	3,002	13,962
			8,789	54,847
Dividends				
Newmont	Common shares 896,210		93	362
Other			87	87
			180	449
			\$ 42,483	\$ 151,041

Royalty Revenue Reconciliation Q3 to Q4 2008

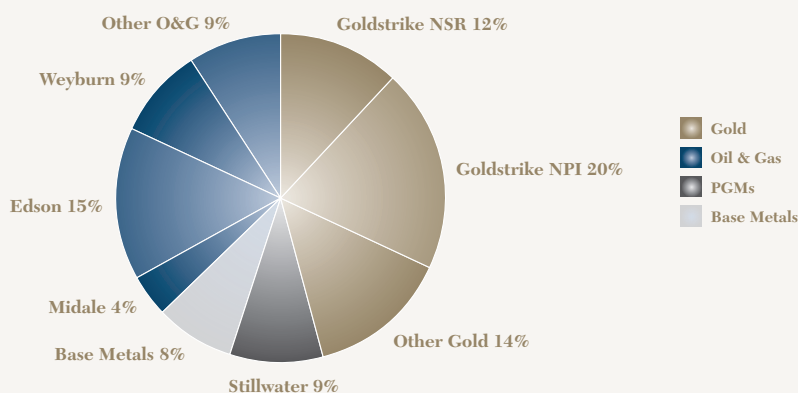


The most significant contributions to revenue for the quarter ended December 31, 2008 were \$17,070 from Goldstrike, including \$10,645 from the net profits interest royalty, and \$10,534 from Robinson. The increase in revenue in the fourth quarter from Goldstrike was driven by continued access to higher grade ore following the completion of an extended waste stripping phase in the Betze-Post pit earlier in the year. This positively benefited both the NSR and NPI royalties on Goldstrike production. Royalty revenue from Goldstrike for the year ended December 31, 2008 was \$49,690, including \$30,963 from the net profits interest royalty.

Royalty revenue from Robinson increased to \$10,534 in the fourth quarter from \$2,196 in the third quarter due to two factors. Firstly, gold production from the Robinson mine exceeded the annual 60,000 ounce production threshold in the third quarter of 2008 above which Franco-Nevada receives a 10% NSR on 51% of the excess gold production. Secondly, the Company received a price participation royalty in the fourth quarter on 51% of the annual copper production in excess of 130 million pounds. For the year ended December 31, 2008, total royalty revenue from Robinson was \$13,402, of which 21% was earned from gold, 79% from copper and less than 1% from other base metals.

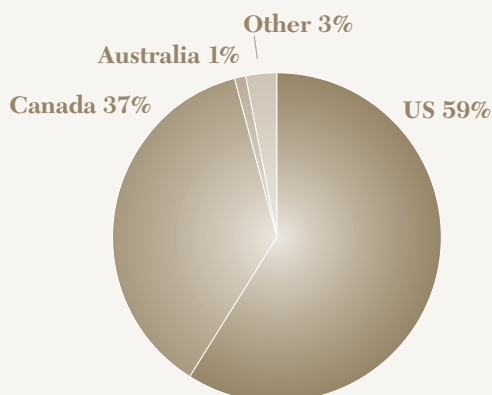
Royalty revenue for the fourth quarter from oil and gas royalties fell by \$8,828 from third quarter levels due to a decline in oil prices, lower production and a weaker Canadian dollar. For the year ended December 31, 2008, revenue from oil and gas royalties was \$54,847.

Breakdown of Royalty Revenue for the Year Ended December 31, 2008



Revenue continues to be earned from royalty interests in geopolitically secure countries with 97% of revenues for the year ended December 31, 2008 generated from Canadian, US and Australian interests.

Royalty Revenue by Country



Costs and Expenses

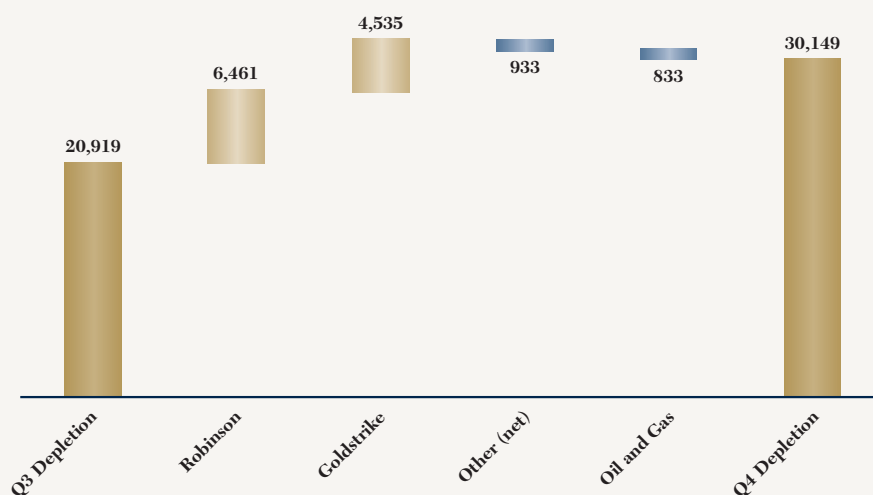
Costs of operations, comprised of oil and gas production taxes, operating costs on oil and gas working interests and net proceeds taxes on mineral royalties, were \$8,137 for the year ended December 31, 2008. Costs of operations were \$1,760 for the fourth quarter of 2008, a decrease of \$478 from the third quarter of 2008. This decrease was a result of lower oil and gas production taxes (\$904) due to lower oil prices, and lower Montana net proceeds taxes (\$105) due to lower revenue from the Stillwater royalty, partially offset by higher Nevada net proceeds taxes (\$531) due to higher revenue receipts from Goldstrike and Robinson.

For the year ended December 31, 2008, *general and administrative costs* were \$9,772. During 2008, the Company incurred significant one-time expenses and infrastructure set-up costs that are not anticipated to be repeated in future periods. For the three months ended December 31, 2008, general and administrative expenses were \$2,664, an increase of \$566 from the three months ended September 30, 2008. The increase is attributable to \$349 of higher professional fees incurred in relation to annual regulatory and disclosure requirements and a higher capital tax accrual of \$184.

Business development expenses were \$1,409 for the year ended December 31, 2008 which represent expenses for salaries and professional fees, including legal, tax and accounting service providers, all in connection with the evaluation and assessment of potential transactions.

For the year ended December 31, 2008, *depletion* (\$87,134) and *depreciation* (\$391) totaled \$87,525. For the quarter ended December 31, 2008, depletion (\$30,149) and depreciation (\$169) totaled \$30,318. The increase in depletion of \$9,230 in the fourth quarter is a result of the application of the units-of-production depletion method. Increased revenue in the fourth quarter from the Robinson and Goldstrike royalties resulted in increased depletion on these assets from third quarter levels of \$6,461 and \$4,535, respectively. In addition, in the fourth quarter there was an \$833 decrease in depletion related to oil and gas royalties and working interests due to a combination of lower oil and gas production levels and a weaker Canadian dollar. Changes in underlying commodity prices do not impact the units-of-production depletion method.

Depletion Reconciliation Q3 to Q4 2008



During the year ended December 31, 2008, the Company wrote down the value of one of its royalty interests in an exploration property located in Australia by \$2,034 to reflect the fair value. In addition, the Company wrote down the carrying value of certain of its available-for-sale investments by \$6,454 to fair value to reflect other-than-temporary declines in value.

Stock compensation expense of \$930 and \$4,073 for the three months and year ended December 31, 2008, respectively, represents the amortization of the fair value of stock options granted to directors and management.

Non-GAAP Financial Measures - Free Cash Flow and EBITDA

Free cash flow and EBITDA are non-GAAP financial measures which management believes are valuable indicators of the Company's ability to generate liquidity from operating cash-flows to fund future acquisitions, organic growth and dividends.

Free cash flow is defined by the Company as operating income plus depletion and depreciation, non-cash charges, and any impairment of investments and royalty interests. EBITDA is defined by the Company as net income, excluding income tax expense, interest income and expense, impairments, and depletion and depreciation. These non-GAAP financial measures do not have any standardized meaning prescribed by GAAP and therefore are unlikely to be comparable to similar measures presented by other companies.

Management believes that free cash flow, free cash flow as a percentage of revenues (which the Company refers to as margin), EBITDA and EBITDA as a percentage of revenues are useful measures of the performance of our Royalty Portfolio. Free cash flow and EBITDA, as defined, are most directly comparable to operating income in the Statement of Operations and Comprehensive Loss.

Free cash flow was \$37,664, or 89% of total revenue, and \$131,723, or 87% of total revenue, for the quarter and year ended December 31, 2008, respectively.

Earnings before income tax, interest income, interest expense, impairment and write-downs, depletion, depreciation ("EBITDA") was \$36,613, or 87% of revenue, and \$128,445, or 85% of revenue, for the quarter and year ended December 31, 2008, respectively.

Below are reconciliations of free cash flow to operating income and net income to EBITDA for the three months ended and year ended December 31, 2008 and the calculation of per share amounts:

	Three Months Ended December 31, 2008	Year Ended December 31, 2008
Operating Income	\$ (2,072)	\$ 31,637
Depletion and depreciation	30,318	87,525
Stock compensation expense	930	4,073
Write-down on investments	6,454	6,454
Write-down on mineral royalty interest	2,034	2,034
Free Cash Flow	\$ 37,664	\$ 131,723
Margin (Free cash flow as a % of revenue)	89%	87%
Basic Weighted Average Shares Outstanding	100,300,000	98,006,284
Free Cash Flow per share	\$ 0.38	\$ 1.34
Net Income	\$ 15,377	\$ 40,347
Interest income	(1,927)	(5,323)
Interest expense	853	1,745
Write-down on investments	6,454	6,454
Write-down on mineral royalty interest	2,034	2,034
Income tax recovery	(16,496)	(4,337)
Depletion and depreciation	30,318	87,525
EBITDA	\$ 36,613	\$ 128,445
Basic Weighted Average Shares Outstanding	100,300,000	98,006,284
EBITDA per share	\$ 0.37	\$ 1.31

Interest Income

For the three months and year ended December 31, 2008, the Company earned interest income of \$1,927 and \$5,323, respectively, from the investment of the proceeds of the Unit Offering (as defined below) completed on March 13, 2008, and free cash flows in cash, cash equivalents and short-term investments.

Interest Expense

For the quarter ended December 31, 2008, the Company incurred interest expense of \$314 that was comprised of \$165 of standby fees on the Company's revolving term credit facility (the "Credit Facility") with a syndicate of lenders and \$149 of amortization of costs related to the Credit Facility. For the year ended December 31, 2008, the Company incurred interest expense of \$1,206 composed of \$517 of standby fees and \$689 of Credit Facility cost amortization. Included in interest expense and other is an amount of \$539 representing a loss on the sale of a bond during the three months and year ended December 31, 2008.

The standby fee on the Credit Facility was calculated as 0.35% per annum on the entire US\$150 million undrawn balance for the period from January 1 to March 31, 2008. Under the terms of the Credit Facility, effective April 1, 2008, the standby fee was calculated at a reduced rate of 0.30% per annum due to the strengthening of the Company's leverage and interest coverage ratios.

Income Taxes

For the quarter ended December 31, 2008, the Company had a net income tax recovery of \$16,496. This is comprised of a current income tax recovery of \$2,272 from the Company's Canadian and US entities and a net future income tax recovery of \$14,224 from the Company's US and Canadian entities.

In the fourth quarter of 2008, it was determined that it was more likely than not that the future tax assets of the Company's US subsidiary would be realized and therefore the valuation allowance previously established was reversed with approximately \$18,042 being accounted for as a reduction of the Company's income tax expense for the year.

For the year ended December 31, 2008, the Company had income tax recovery of \$4,337 resulting in an effective tax recovery rate of 12%, or 3% of revenue. This is comprised of a current income tax expense of \$5,084 from the Company's Canadian and US entities and a future income tax recovery of \$9,421 from the Canadian and US entities.

Financial Position, Liquidity and Capital Resources

Operating Cash Flow

Cash provided by operating activities before changes in non-cash assets and liabilities was \$42,394 and \$132,047 for the three months and year ended December 31, 2008, respectively.

Financing Activities

On March 13, 2008, the Company completed a bought deal (the "Unit Offering") with a syndicate of underwriters for 10,000,000 units (the "Units") at a price of C\$23.25 per Unit. Each Unit consists of one common share and one-half of one common purchase share warrant (a "Warrant") that entitles the holder of each full Warrant to purchase a common share of the Company at C\$32.00 at any time before March 13, 2012. In addition, the underwriters exercised their entire over-allotment option through the purchase of an additional 1,500,000 Units. The net proceeds to the Company were \$260,062, after deducting underwriters' commissions and expenses totaling \$11,617.

Investing Activities

The Company invests its excess funds in various treasury bills of the US government, Canadian federal and provincial governments and high quality corporate bonds. As at December 31, 2008, the investments had various maturities upon acquisition of between 48 and 272 days. Accordingly, on the December 31, 2008 consolidated balance sheet, those investments with maturities of three months or less upon acquisition are classified as “cash and cash equivalents” and those with maturities greater than three months are classified as “short-term investments”. That portion of the proceeds from the Unit Offering that were invested in treasury bills with maturities greater than three months are classified as “short-term investments” in the “investing activities” section of the consolidated statement of cash flows.

Acquisitions

On December 29, 2008, the Company acquired a net smelter returns (“NSR”) royalty interest on the Gold Quarry operation from private parties for a total cash consideration of \$103,620, including transaction costs. The royalty is payable on the greater of a 7.29% NSR based on production or a minimum annual royalty payment obligation tied to reserves and stockpiles. The Gold Quarry Royalty Property covers a portion of the overall Gold Quarry operation which is an integrated part of Newmont’s Carlin Trend Complex located 40 miles west of Elko, Nevada.

On January 21, 2009, the Company acquired a 50% gold royalty stream in the Palmarejo silver and gold project (the “Palmarejo Project”) in Mexico from Coeur d’Alene Mines Corporation for total consideration of \$80,000. The Company will receive an interest in 50% of the gold produced from the Palmarejo Project paid on the difference between the spot gold price and \$400 per ounce (four hundred dollars), increasing by 1% per annum after the fourth anniversary of closing. The attributable gold ounces will be the greater of actual production and a minimum amount. The minimum amount will be 50,000 ounces per annum until payments have been made on 400,000 ounces. The consideration consisted of \$75,000 in cash and special warrants which are exercisable, without additional consideration, into 316,436 Franco-Nevada common shares following the achievement by the Palmarejo Project of certain time-based completion tests by September 15, 2010.

Cash Resources and Liquidity

As at December 31, 2008, the Company had cash and cash equivalents and short-term investments totaling \$214,825. In addition, the Company held available-for-sale securities at year end with a combined market value of \$68,683.

As at December 31, 2008, 96% of our total balance of cash, cash-equivalents and short-term investments are invested in sovereign treasury bills, instruments of government backed entities or are protected by federal deposit insurance. To protect the Company’s investments in the event of a failure of a financial institution, 69% of our cash equivalents and short-term investments are held in segregated accounts as at December 31, 2008.

The Company’s excess funds continue to be invested in US and Canadian dollar denominated securities with an emphasis on the US dollar holdings based upon our assessment that the most likely currency to be utilized in the near term for royalty investments is the US dollar.

The Company’s near-term cash requirements are limited to general and administrative expenses, certain costs of operations and income taxes directly related to the recognition of royalty revenues and semi-annual dividends. As a royalty company, there are limited requirements for capital expenditures other than for the acquisition of additional royalties. Such acquisitions are entirely discretionary and will be consummated through the use of cash, as available, or through the issuance of common shares or other equity securities or use of the Company’s Credit Facility.

The Company believes that current cash resources and future cash flows will be sufficient to cover the cost of general and administrative expenses, costs of operations and dividend payments.

Capital Resources

As of March 26, 2009, the Company has the entire amount of \$150 million, or its Canadian dollar equivalent, available under the Credit Facility. Advances under the Credit Facility bear interest depending upon the currency of the advance and the Company's leverage ratio. As of March 26, 2009, US and Canadian dollar advances under the facility would bear interest rates of 3.375% and 3.125%, respectively.

The Company has a contractual obligation of \$7 per month for a 39-month lease, and related operating expenses, on its Colorado office space that began on March 24, 2008. Additionally, the Company has a contractual obligation of \$25 per month for a 65-month lease, and related operating expenses, on its Toronto office space that began on June 1, 2008.

Related Party Transactions

Exchangeable Shares

On December 18, 2007, the Company issued three million common shares to a director of the Company in exchange for 896,210 Exchangeable Shares. The Company inherited the previous owner's Canadian tax basis of the Exchangeable Shares and, as a result, recorded a future income tax liability of \$7,296 on the exchange. The future income tax liability, which increased the carrying value of the Exchangeable Shares, represented the estimated income taxes payable which will be realized on the disposition of the Exchangeable Shares. After recording the increase in the carrying value, an other-than-temporary impairment of \$7,296 was recorded to reduce the carrying value of the Exchangeable Shares to fair value, based on quoted market prices.

Founders' Shares

From November 13, 2007 to December 20, 2007, the Company issued three million common shares to certain directors and officers of the Company (the "Founders' Shares") for total cash consideration of \$22,844 (C\$22,805). The Founders' Shares are subject to a three-year hold period, subject to limited exceptions. An expense of \$23,075 (C\$22,795) was recognized in conjunction with the issuance of the Founders' Shares, representing the difference between the IPO price of C\$15.20 per share and the average per share consideration received from the issue of the Founders' Shares of C\$7.602.

Directors Fees

During the year ended December 31, 2008, the Company made payments in the amount of \$251 for directors' fees and reimbursement of related expenses and services rendered by a director in connection with the initial setup and organization of the Company.

Critical Accounting Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements of the Company, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates by a material amount.

Management's estimate of mineral prices, operators' estimates of proven and probable reserves related to the underlying properties and operators' estimates of operating, capital and reclamation costs upon which the Company relies, are subject to certain risks and uncertainties. These estimates affect revenue recognition, depletion of interests in mineral and oil and gas properties and the assessment of recoverability of the interests in mineral and oil and gas properties. Although management has made its best assessment of these factors based upon current conditions, it is possible that changes will occur, which would materially affect the amounts contained in the consolidated financial statements of the Company.

Royalty Revenue

Royalty and oil and gas working interest revenue is recognized when management can reliably estimate the receivable, pursuant to the terms of the royalty and working interest agreements, and collection is reasonably assured. In some instances, the Company will not have access to sufficient information to make a reasonable estimate of revenue and, accordingly, revenue recognition is deferred until management can make a reasonable estimate. Differences between estimates of royalty and oil and gas working interest revenue and actual amounts are adjusted and recorded in the period that the actual amounts are known. Royalty revenue received in kind is recognized based on the fair value on the date that title is transferred to the Company. Dividend income is recognized as the dividends are received.

Depletion of Interests in Mineral Properties

Acquisition costs of production stage royalty interests are depleted using the units-of-production method over the life of the property to which the royalty interest relates, which is estimated using available estimates of proven and probable reserves specifically associated with the mineral properties or proved reserves specifically associated with the oil and gas properties.

Asset Impairment

The Company evaluates long-lived assets for impairment whenever events or changes in circumstances, which may include significant changes in commodity prices and publicly available information from operators of the producing assets, indicate that the related carrying values of an asset or group of assets may not be recoverable. The recoverability of royalty interests in production and development stage mineral properties is evaluated based upon estimated future undiscounted net cash flows from each royalty interest property using estimates of proven and probable reserves. The Company evaluates the recoverability of the carrying value of royalty interests in exploration stage mineral properties in the event of significant decreases in related commodity prices, and whenever new information regarding the mineral properties is obtained from the operator that could affect the future recoverability of our royalty interests. Impairments in the carrying value of each property are measured and recorded to the extent that the carrying value of each property exceeds its estimated fair value, which is generally calculated using estimated discounted future cash flows.

Income Taxes

The Company accounts for income taxes using the liability method, recognizing certain temporary differences between the financial reporting basis of its liabilities and assets and the related income tax basis for such liabilities and assets. This method generates a future income tax net asset as of the end of the year, as measured by the substantially enacted statutory tax rates in effect when the timing differences are expected to reverse. The Company's future income tax net assets include certain future tax benefits. The Company records a valuation allowance against any portion of those future income tax net assets when it believes, based on the weight of available evidence, it is more likely than not that any portion of the future income tax net asset will not be realized.

Stock-Based Compensation

The Company accounts for stock-based transactions using the Black-Scholes option pricing model. The fair value of these awards is recognized over the vesting period of each award. Compensation expense for stock options is determined based on estimated fair values of the options at the time of grant. The fair value of the stock options granted during the year ended December 31, 2008 was calculated using the Black-Scholes option pricing model with the following weighted-average assumptions: a dividend yield of 1.47%, an expected volatility of 39.78%, a risk free interest rate of 4.18%, and an expected average option life of 4 years.

New Accounting Policies

The Canadian Institute of Chartered Accountants (the "CICA") has issued Section 3064 - Goodwill and Intangible Assets, which will replace Section 3062 - Goodwill and Intangible Assets. The new standard is applicable for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. Section 3064 establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. Section 3064 also provides guidance for the treatment of preproduction and start-up costs and may require that these costs be expenses as incurred. The Company plans to adopt Section 3064 on January 1, 2009. The Company is currently assessing the impact of Section 3064 on its consolidated financial statements.

The Emerging Issues Committee ("EIC") has issued EIC 173 - Credit Risk and Fair Value of Financial Assets and Liabilities, which requires companies to take into account counterparty credit risk and an entity's own credit risk in estimating the fair value of all financial assets and liabilities, including derivatives. The EIC is being issued in response to the diversity of practice in valuing financial instruments, especially derivatives. This EIC will be effective for the Company for the first quarter of 2009 and will be applied retrospectively, without restatement of prior periods. The Company is currently evaluating the impact of this EIC on its financial reporting.

International Financial Reporting Standards (IFRS)

In February 2008, the Canadian Accounting Standards Board ("AcSB") announced the changeover for publicly-listed companies to adopt IFRS, replacing Canada's own GAAP, will be effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the Company for the year ended December 31, 2010.

At the beginning of 2009, the Company undertook an IFRS diagnostic study with a view to assess the impact of the transition to IFRS on the Company's accounting policies and to establish a project plan to implement IFRS. A number of key accounting areas where IFRS differs from current accounting policies and accounting alternatives in those and other key accounting areas were reviewed. Over the course of 2009, the Company will evaluate the alternatives and analyze the impact upon the implementation of IFRS.

The Company continues to assess the impact of the conversion on internal controls over financial reporting and disclosure controls and procedures and will continue to invest in training and resources throughout the transition period to facilitate a timely conversion.

The Company will continue to work with its auditors and other service providers in developing an appropriate conversion plan as we move toward the implementation date of 2011. Furthermore, IFRS accounting standards, and the interpretation thereof, are constantly evolving and therefore are subject to change through the end of 2011. Consequently, the Company will continuously monitor IFRS accounting developments and update the conversion plan and public disclosure as necessary.

Outlook

The following contains forward-looking statements about our outlook for 2009. Reference should be made to the “Cautionary Statement on Forward-Looking Information” section at the beginning of this MD&A. For a description of material factors that could cause our actual results to differ materially from the forward-looking statements in the following, please see the Cautionary Statement, the “Risk Factors” section of this MD&A and the “Risk Factors” sections of our most recent Annual Information Form filed with the Canadian securities regulatory authorities on www.sedar.com.

2008 was a milestone year for our Company as we started it as a newly-listed public company, began the process of developing and implementing a strong control and corporate governance environment, completed an equity financing and saw strong growth in our royalty revenues, share price and financial position. We ended the year by announcing our acquisition of the Gold Quarry gold royalty, followed closely by our acquisition of the Palmarejo gold stream at the beginning of 2009.

For 2009, the Company expects to see growth in its gold royalty revenue as gold prices are currently averaging above the \$872 per ounce average price experienced in 2008. In addition, the acquisitions of Gold Quarry and Palmarejo are both expected to be accretive to revenues with Gold Quarry contributing to revenues in the first quarter of 2009 and Palmarejo expected to make a material contribution to revenues by the third quarter of 2009. However, revenues from Goldstrike and Robinson are expected to be lower in 2009 based on public guidance from Barrick and Quadra Mining.

Gold prices have strengthened in the first quarter of 2009, increasing from an average spot rate of \$795 per ounce in the fourth quarter of 2008 to a closing price of \$929 per ounce at March 25, 2009. With the recent additions of Gold Quarry and Palmarejo to its gold asset portfolio, the Company remains dedicated to delivering growth to shareholders through accretive acquisitions with a heavily-weighted focus on gold acquisitions and opportunities.

In February 2009, Barrick announced its year end results and provided production guidance for its Goldstrike operations for 2009. For the fourth quarter of 2008, Goldstrike increased production to 575,000 ounces of gold, or 10%, and realized lower production costs. This increased production positively impacted the Company’s royalty revenue for the fourth quarter and year ended December 31, 2008. For 2009, Barrick expects Goldstrike’s production to be lower than 2008 levels due to lower processed grade and recovery rates of alkaline ore.

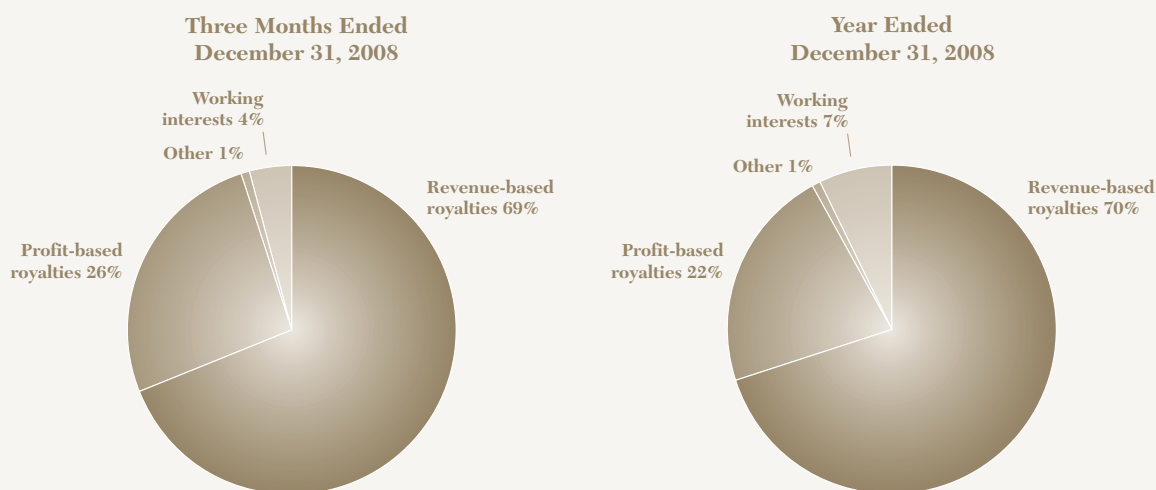
The Robinson Royalty made significant contributions to the Company’s fourth quarter revenues, representing 25% of the total revenue earned during the quarter. The increase in revenues was driven by production thresholds being surpassed for gold, and production and price thresholds being surpassed for copper toward the end of the year, which triggered additional royalties for the Company. The Company realized \$10.5 million from the copper royalty which is contingent on, among other things, exceeding an indexed copper price. At current copper prices, royalty revenues from this copper royalty are not expected to be as significant as in 2008. Quadra Mining has developed and is proceeding with a new mine plan at Robinson that is expected to result in significant copper production in 2009 and 2010. However, Quadra Mining has announced its expected annual production for 2009 from the Robinson Mine to be 140 million pounds of copper and 100,000 ounces of gold as compared to actual production of 159.7 million pounds of copper and 137,629 ounces of gold for the year ended December 31, 2008.

Franco-Nevada has an approximate 4.1% equity interest in Falcondo which owns and operates an integrated complex of mines, smelter, crude oil supply system, oil refinery and power plant that has been producing ferronickel since 1971. Revenue is received through discretionary dividend distributions on these common shares. Production at Falcondo during 2008 was 18,782 tonnes of contained nickel. Operations were initially suspended temporarily in August and later put under indefinite care and maintenance due to nickel market conditions. Falcondo has had previous market related suspensions from which it has successfully restarted. Franco-Nevada did not receive any dividends from Falcondo in 2008 and does not expect to receive any dividends until nickel prices improve and after operations are restarted. Xstrata states in its annual report that it is committed to securing a viable future for the operation and has projects under study to reduce Falcondo's operating costs. Xstrata reports that the operation has twenty years of identified resources and that at June 30, 2008, Falcondo has Proven & Probable reserves of 67.9 Mt grading 1.24% nickel.

Our oil and gas division accounted for 36% of total revenues in 2008 due to high commodity prices through the first half of 2008. Oil and gas prices weakened toward the end of 2008 and are expected to remain low during 2009. As a result, the Company expects to see lower revenues in 2009 from this division.

The charts below indicate the components of revenue for the three months and year ended December 31, 2008, by royalty type and highlights the sensitivity of revenues to changes in the prices of the underlying commodities.

Royalty Revenue Components



The Company's financial position remains very strong with cash balances, including the proceeds from the Unit Offering, being invested in high-quality, short-term interest bearing securities which can be easily accessible for future acquisition of additional royalty or investment interests.

From its inception, the Company has been actively managing its G&A expenses in an effort to ensure its free cash flow is available for organic growth and future acquisitions. The Company will continue with this focus while aggressively and systematically evaluating acquisition opportunities and other investment areas for its capital, all with the objective of increasing NAV per share, driving greater returns for its shareholders and stake holders and maximizing shareholder value.

OUTSTANDING SHARE DATA

As of March 26, 2009, there were 100,300,000 Common Shares outstanding. In addition, there were 2,885,000 stock options outstanding to directors, officers and employees with exercise prices ranging from C\$15.20 to C\$20.55 per share. There were also 5,750,000 Warrants outstanding, allowing the holders to purchase Common Shares at C\$32.00 per share until March 13, 2012.

RISK FACTORS

The following discussion pertains to the outlook and conditions currently known to management which could have a material impact on the financial condition and results of operations of the Company. This discussion, by its nature, is not all-inclusive. It is not a guarantee that other factors will or will not affect the Company in the future. For additional information with respect to risks and uncertainties, please also refer to the "Risk Factors" sections of our most recent Annual Information Form filed with the Canadian securities regulatory authorities on www.sedar.com.

Fluctuation in Mineral Prices

Mineral prices have fluctuated widely in recent years. The marketability and price of metals and minerals on properties for which the Company holds interests will be influenced by numerous factors beyond the control of the Company and which may have a material and adverse effect on the Company's profitability, results of operations and financial condition.

Foreign Currency Fluctuations

The Company's royalty interests are subject to foreign currency fluctuations and inflationary pressures, which may have a material and adverse effect on the Company's profitability, results of operations and financial condition. There can be no assurance that the steps taken by management to address variations in foreign exchange rates will eliminate the risk of all adverse effects and, accordingly, the Company may suffer losses due to foreign currency rate fluctuations.

The Company operates on an international basis and, therefore, foreign exchange risk and foreign currency translation risk exposures arise from the translation of transactions denominated in a foreign currency. During 2008, the Company's foreign exchange risk for its Canadian operations arose primarily with respect to the US dollar. The translation of the Company's Canadian denominated expenses was positively impacted by the strengthening of the US dollar, especially through the fourth quarter of 2008.

Significance of Stillwater and Goldstrike Royalties

The Stillwater and Goldstrike royalties are very significant to the Company. As a result, any adverse issues associated with production or the recoverability of reserves from those portions of the Stillwater and Goldstrike properties over which the Company has a royalty interest, could have a material and adverse effect on the Company's profitability, results of operations and financial condition.

Internal Control over Financial Reporting and Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining the Company's internal control over financial reporting and other financial disclosure. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles ("GAAP").

The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with Canadian GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Company's financial statements.

Internal control over other financial disclosure is a process designed to ensure that other financial information included in this MD&A and Franco-Nevada's Annual Report, fairly represent in all material respects the financial condition, results of operations and cash flows of the Company for the periods presented in this report. The Company's disclosure controls and procedures are designed to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to management by others within those entities, particularly during the period in which this report is prepared.

Due to its inherent limitations, internal control over financial reporting and disclosure may not prevent or detect all misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may change.

An evaluation was performed under the supervision of and with the participation of management, including the CEO and CFO, of the effectiveness of the Company's disclosure controls and procedures as defined in the National Instrument 52-109. Based on that evaluation, the CEO and CFO concluded that the design and operation of the Company's disclosure controls and procedures were effective as of the end of the period covered by this report and have concluded that they are effective at a reasonable assurance level.

Management's Responsibility for Financial Information

The accompanying consolidated financial statements and all other financial information included in this report have been prepared by management in accordance with Canadian generally accepted accounting principles. Financial statements are not precise since they include certain amounts based on estimates and judgements. When alternative methods exist, management has chosen those it deems most appropriate in the circumstances to ensure that the consolidated financial statements are presented fairly, in all material respects, in accordance with generally accepted accounting principles.

Franco-Nevada maintains adequate systems of internal accounting and administrative controls, consistent with reasonable costs. Such systems are designed to provide reasonable assurance that the Company's assets are appropriately accounted for and adequately safeguarded, and that financial information is relevant and reliable.

The Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the audited consolidated financial statements and the accompanying management's discussion and analysis of financial results.

The Audit Committee is composed of three non-management, independent directors and meets periodically with management and the independent auditors to review internal accounting controls, auditing matters and financial reporting issues, and to satisfy itself that all parties are properly discharging their responsibilities. The Audit Committee also reviews the consolidated financial statements, the management's discussion and analysis of financial results, the independent auditor's report and examines and approves the fees and expenses for audit services and considers and recommends to shareholders, the engagement or reappointment of the external auditors. The Audit Committee reports its findings to the Board of Directors for its consideration when approving the consolidated financial statements for issuance to the shareholders. The consolidated financial statements have been audited, on behalf of the shareholders, by the Company's independent auditors, PricewaterhouseCoopers LLP, in accordance with Canadian generally accepted auditing standards. PricewaterhouseCoopers LLP have full and free access to the Audit Committee.

(Signed)

David Harquail
Chief Executive Officer

March 26, 2009

(Signed)

Alex Morrison
Chief Financial Officer

Auditors' Report

To the Shareholders of Franco-Nevada Corporation

We have audited the consolidated balance sheets of Franco-Nevada Corporation as at December 31, 2008 and 2007 and the consolidated statements of operations and comprehensive income (loss), cash flows and shareholders' equity for the year ended December 31, 2008 and for the period from October 17, 2007 to December 31, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the year ended December 31, 2008 and for the period from October 17, 2007 to December 31, 2007 in accordance with Canadian generally accepted accounting principles.

(Signed) "**PricewaterhouseCoopers LLP**"

Chartered Accountants, Licensed Public Accountants
Toronto, Ontario

March 26, 2009

Franco-Nevada Corporation

Consolidated Balance Sheets

(in thousands of US dollars, except share amounts)

	December 31, 2008	December 31, 2007
ASSETS		
Cash and cash equivalents <i>(Note 4)</i>	\$ 73,249	\$ 12,894
Short-term investments <i>(Note 5)</i>	141,576	–
Royalty receivables	22,866	3,281
Prepaid expenses and other	10,674	1,786
Current assets	248,365	17,961
Royalty interests in mineral properties, net <i>(Note 6)</i>	806,228	930,808
Interests in oil and gas properties, net <i>(Note 7)</i>	361,645	298,608
Investments <i>(Note 5)</i>	68,683	87,848
Future income taxes <i>(Note 12)</i>	14,826	–
Other	4,039	1,431
Total assets	\$ 1,503,786	\$ 1,336,656
LIABILITIES		
Accounts payable and accrued liabilities	\$ 9,310	\$ 3,917
Current liabilities	9,310	3,917
Future income taxes <i>(Note 12)</i>	60,877	45,685
Total liabilities	70,187	49,602
SHAREHOLDERS' EQUITY <i>(Note 13)</i>		
Common stock, unlimited common shares authorized without par value; issued and outstanding 100,300,000 common shares at December 31, 2008 (88,800,000 common shares at December 31, 2007)	1,549,410	1,310,171
Contributed surplus	26,380	105
Deficit	(14,512)	(33,079)
Accumulated other comprehensive income (loss)	(127,679)	9,857
Total shareholders' equity	1,433,599	1,287,054
Total liabilities and shareholders' equity	\$ 1,503,786	\$ 1,336,656

Commitments *(Note 16)*

Subsequent event *(Note 17)*

See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors

(Signed)

Pierre Lassonde
Director

(Signed)

Randall Oliphant
Director

Franco-Nevada Corporation

Consolidated Statements of Operations and Comprehensive Loss

(in thousands of US dollars, except per share amounts)

	For the Year Ended December 31, 2008	For the Period Ended December 31, 2007
Revenue		
Mineral royalties	\$ 95,746	\$ 2,139
Oil and gas royalties and working interests	54,847	1,142
Dividends	448	–
Total revenue	151,041	3,281
Costs and expenses		
Costs of operations	8,137	175
General and administrative	9,772	991
Business development	1,409	15
Depreciation, depletion and amortization	87,525	2,388
Write-down on investment	6,454	7,296
Write-down on mineral royalty interest	2,034	–
Stock-based compensation expense (Notes 8 and 13b)	4,073	23,180
Total costs and expenses	119,404	34,045
Operating income (loss)	31,637	(30,764)
Interest income	5,323	–
Interest expense and other	(1,745)	(99)
Foreign exchange gain	795	(2,765)
Income (loss) before income taxes	36,010	(33,628)
Income tax recovery (Note 12)	4,337	549
Net income (loss)	\$ 40,347	\$ (33,079)
Other comprehensive income (loss):		
Unrealized change in market value of securities, net of tax	\$ (1,599)	\$ (1,585)
Unrealized foreign exchange gain, net of income tax benefit	34,090	–
Currency translation adjustment	(170,027)	11,442
	(137,536)	9,857
Total comprehensive loss	\$ (97,189)	\$ (23,222)
Basic and diluted earnings (loss) per share (Note 14)	\$ 0.41	\$ (0.38)
Basic weighted average shares outstanding (Note 14)	98,006	86,073
Diluted weighted average shares outstanding (Note 14)	98,593	86,073

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

(in thousands and US dollars)

	For the Year Ended December 31, 2008	For the Period Ended December 31, 2007
Cash flows from operating activities		
Net income (loss)	\$ 40,347	\$ (33,079)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation, depletion and amortization	87,525	2,388
Write-down on investments	6,454	7,296
Other non-cash items	1,396	-
Future income tax recovery	(9,421)	(619)
Non-cash stock-based compensation expense	4,073	23,180
Unrealized foreign exchange gains (losses)	(361)	416
Write-down on mineral royalty interest	2,034	-
Changes in non-cash assets and liabilities:		
Increase in royalty receivables	(19,585)	(3,281)
Increase in prepaid expenses and other	(8,888)	(1,064)
Increase in accounts payable and accrued liabilities	5,393	3,917
Net cash provided by (used in) operating activities	108,967	(846)
Cash flows from investing activities		
Purchase of short-term investments	(144,662)	-
Acquisition of royalty interests in mineral properties	(103,500)	(1,210,720)
Purchase of investments	(14,076)	-
Purchase of oil and gas well equipment	(2,892)	(287)
Purchase of property and equipment	(642)	-
Net cash used in investing activities	(265,772)	(1,211,007)
Cash flows from financing activities		
Net proceeds from issuance of common shares	260,062	1,226,775
Loan under revolving term credit facility (Note 11)	-	140,000
Repayment of loan under revolving term credit facility (Note 11)	-	(140,000)
Debt issuance costs	-	(2,180)
Payment of dividends	(21,780)	-
Net cash provided by financing activities	238,282	1,224,595
Effect of exchange rate changes on cash and cash equivalents	(21,122)	152
Net increase in cash and cash equivalents	60,355	12,894
Cash and cash equivalents at beginning of period	12,894	-
Cash and cash equivalents at end of period	\$ 73,249	\$ 12,894
Supplemental cash flow information:		
Cash paid for interest expense and loan standby fees during the period	517	77
Income taxes paid during the year	12,948	-
Non-cash Newmont Exchangeable Shares (Note 8)	-	43,789

See accompanying notes to the consolidated financial statements.

Franco-Nevada Corporation

Consolidated Statements of Shareholders' Equity

(in thousands of US dollars, except share amounts)

	Common Shares		Contributed Surplus	Accumulated Other Comprehensive Income (Loss)		Total Shareholders' Equity
	Shares	Amount		Deficit		
Issuance of common shares for:						
Initial public offering and over allotment <i>(Note 3)</i>	82,800,000	\$ 1,218,815	\$ -	\$ -	\$ -	\$ 1,218,815
Exchangeable Shares <i>(Note 8)</i>	3,000,000	45,678	-	-	-	45,678
Founders' Shares <i>(Note 8)</i>	3,000,000	45,678	-	-	-	45,678
Recognition of non-cash compensation expense	-	-	105	-	-	105
Net income and comprehensive loss for the period ended December 31, 2007	-	-	-	(33,079)	9,857	(23,222)
Balance at December 31, 2007	88,800,000	\$ 1,310,171	\$ 105	\$ (33,079)	\$ 9,857	\$ 1,287,054
Issuance of common stock and warrants for:						
Unit Offering and Over-Allotment Exercise	11,500,000	240,140	22,786	-	-	262,926
Costs associated with initial public offering	-	(901)	-	-	-	(901)
Recognition of non-cash compensation expense	-	-	3,489	-	-	3,489
Dividends	-	-	-	(21,780)	-	(21,780)
Net income and comprehensive loss for the year ended December 31, 2008	-	-	-	40,347	(137,536)	(97,189)
Balance at December 31, 2008	100,300,000	\$ 1,549,410	\$ 26,380	\$ (14,512)	\$ (127,679)	\$ 1,433,599

See accompanying notes to the consolidated financial statements.

Notes to Consolidated Financial Statements

(in thousands of US dollars, except share amounts)

Note 1 - Nature of Operations

Franco-Nevada Corporation ("Franco-Nevada" or the "Company") was incorporated under the Canada Business Corporations Act on October 17, 2007, for the purpose of acquiring and developing a portfolio of resource royalties, investments and other assets. The royalty portfolio holds over 300 royalty interests diversified over a range of commodities and by stage from exploration through to production.

Note 2 - Summary of Significant Accounting Policies

Principles of Consolidation and Presentation

The consolidated financial statements include the accounts of Franco-Nevada and its wholly-owned subsidiaries. Intercompany balances and transactions have been eliminated upon consolidation. The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and are expressed in United States ("US") dollars. References herein to C\$ are to Canadian dollars.

Measurement Uncertainty

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires the Company to make estimates and assumptions that affect the carrying values of assets and liabilities, the disclosure of contingent assets and liabilities at each financial statement date and the reported amounts of revenue and expenses for each reporting period. The use of estimated resource prices and operators' estimates of proven and probable reserves, production and production costs (including capital, operating and reclamation costs) related to the Company's royalties are subject to significant risks and uncertainties. These estimates affect depletion of the Company's royalty interests and the assessment of the recoverability of the carrying value of royalty interests. Actual results could significantly differ from these estimates.

Translation of Foreign Currency

The reporting currency for the consolidated financial statements is the US dollar. Monetary and non-monetary assets and liabilities of the entities whose functional currency is not the US dollar are translated to US dollars at the exchange rate in effect on the date of the consolidated balance sheet with the resulting translation adjustments recorded in accumulated other comprehensive income (loss) as a separate component of shareholders' equity. Income and expenses are translated at the average exchange rate during the reporting period.

Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, short-term investments, royalty receivables, investments, accounts payable and accrued liabilities. The fair values of the Company's financial instruments, except for available-for-sale investments, approximate their carrying amounts due to the short maturities of these instruments. As at December 31, 2008, cash and cash equivalents consist of Canadian and US treasury bills and highly-liquid corporate bonds with maturities at the date of purchase of three months or less. As at December 31, 2008, cash was held in interest-bearing cash accounts with various financial institutions.

Available-for-Sale Investments

Investments in securities that management does not have the intent to sell in the near term and that have readily determinable fair values are classified as available-for-sale securities. Transaction costs associated with the acquisition of available-for-sale securities are directly attributable to the initial carrying value of the investment. Unrealized gains and losses on these securities are recorded in accumulated other comprehensive income (loss) as a separate component of shareholders' equity, except that declines in market value that are judged to be other-than-temporary are recognized in determining net income. When securities are sold, the realized gains and losses on those securities are included in determining net income. When available-for-sale securities cannot be valued in reference to public markets, these securities are carried at cost.

Interests in Mineral and Oil and Gas Properties

Royalty interests in mineral and oil and gas properties include acquired royalty interests in production, development and exploration stage properties. Royalty interests are recorded at cost and capitalized as tangible assets, unless such interests are considered to be a financial asset or a derivative instrument. As at December 31, 2008, all of the Company's royalty interests in mineral and oil and gas properties are considered to be tangible assets.

Acquisition costs of production stage royalty interests are depleted using the units-of-production method over the life of the property to which the royalty interest relates, which is estimated using available estimates of proven and probable reserves specifically associated with the mineral properties or proved reserves specifically associated with the oil and gas properties.

Acquisition costs of development and exploration stage mineral royalty interests are not depleted until such time as royalty-generating production begins. The Company may receive advanced minimum royalty payments prior to the commencement of production on some of its mineral and oil and gas properties. In these circumstances, the Company would record a depletion expense based on a calculation on a units-of-production method, as described above, up to a maximum of the total of the advanced minimum royalty payment received.

Working Interests in Oil and Gas Properties

Working interests are accounted for using the full cost method of accounting. All costs of acquiring, exploring for and developing oil and gas reserves are capitalized. Such costs include land acquisition, geological and geophysical costs, carrying charges of unproven properties and the costs of drilling both productive and non-productive wells. For each oil and gas property in which the Company has a working interest, the Company bears its proportionate share of the gross costs based on information received from the operator.

Capitalized costs are accumulated on a country-by-country basis and are amortized and depleted using the units-of-production method, which is estimated using available estimates of proven reserves specifically associated with the oil and gas properties. Acquisition costs of development and exploration stage working interests are not depleted until such time as production begins.

Impairment of Long-lived Assets

The Company evaluates long-lived assets for impairment whenever events or changes in circumstances, which may include significant changes in commodity prices and publicly available information from operators of the producing assets, indicate that the related carrying value of an asset or group of assets may not be recoverable. The recoverability of royalty interests in production and development stage mineral properties is evaluated based upon estimated future undiscounted net cash flows from each royalty interest property using estimates of proven and probable reserves. The Company evaluates the recoverability of the carrying value of royalty interests in exploration stage mineral properties in the event of significant decreases in related commodity prices, and whenever new information regarding the mineral properties is obtained from the owner that could affect the future recoverability of the Company's royalty interests. Impairments in the carrying value of each property are measured and recorded to the extent that the carrying value of each property exceeds its estimated fair value, which is generally calculated using estimated undiscounted future cash flows.

Revenue Recognition

Royalty and oil and gas working interest revenue is recognized when management can reliably estimate the receivable, pursuant to the terms of the royalty and working interest agreements, and collection is reasonably assured. In some instances, the Company will not have access to sufficient information to make a reasonable estimate of revenue and, accordingly, revenue recognition is deferred until management can make a reasonable estimate. Differences between estimates of royalty and oil and gas working interest revenue and actual amounts are adjusted and recorded in the period that the actual amounts are known. Royalty revenue received in kind is recognized based on the fair value on the date that title is transferred to the Company. Dividend income is recognized as the dividends are received.

Cost of Operations

Cost of operations includes various mineral and oil and gas production taxes that are recognized with the related royalty revenues and the Company's share of the gross costs and production taxes for the working interests in the oil and gas properties.

Income Taxes

The Company uses the liability method of accounting for income taxes. Under this method, current income taxes are recorded at the estimated income tax rates payable for the current year. Future income tax assets and liabilities are recorded for temporary differences between the financial reporting basis of the Company's liabilities and assets and the related income tax basis for such liabilities and assets. This method generates a net future income tax liability or net future income tax asset for the Company at the end of each period, which is measured by the substantially enacted statutory tax rates in effect when the timing differences are expected to reverse. The Company derives the future income tax expense or recovery by recording the change in the net future income tax liability or net future income tax asset balance for the year.

The Company's future income tax assets include certain future tax benefits. The Company records a valuation allowance against any portion of future income tax assets when management believes, based on the weight of available evidence, it is more likely than not that a portion or all of the future income tax asset will not be realized.

Stock-based Compensation

The Company may issue stock-based compensation to directors, employees and external parties under the terms of its stock option plan. The Company expenses the fair value of stock-based compensation over the applicable vesting period.

The Company applies the fair value method for incentive stock options granted to directors, officers and employees. The Company measures the fair value of these awards at the date of grant using the Black-Scholes option pricing valuation model. Compensation expense is recognized on a straight-line basis over the vesting period of the stock options. For stock options that are forfeited prior to vesting, the Company credits compensation expense in the period in which the forfeiture occurred.

Any consideration paid upon the exercise of the stock options or purchase of shares is credited to share capital.

Non-executive directors may choose to convert their directors' fees into deferred share units ("DSUs") under the terms of the Company's deferred share unit plan (the "DSU Plan"). The Company may also award DSUs to non-executive directors under the DSU Plan as compensation. The fair value of DSUs at the time of conversion or award, as applicable, is determined with reference to the weighted average trading price of the Company's common shares over the five trading days immediately preceding the date of conversion or award, as applicable. The fair value of the DSUs is marked to the quoted market price of the Company's common shares at each reporting date.

Financing Charges

Costs associated with establishing debt facilities are deferred and amortized over the term of the debt facility.

Operating Segments

The Company manages its business under a single operating segment, consisting of resource sector royalty acquisition and management activities. All of the Company's assets and revenues are attributable to this single operating segment.

Earnings (Loss) per Share

Basic earnings (loss) per share is computed by dividing the net income or loss by the weighted average number of common shares outstanding during each period. Diluted earnings (loss) per share reflects the effect of all potentially dilutive common share equivalents.

For the year ended December 31, 2008, 586,592 "in-the-money" stock options were included in the diluted weighted average shares outstanding using the treasury stock method. Outstanding warrants were not included in the diluted weighted average shares as the exercise price of the warrants exceeded the weighted average share price during the year ended December 31, 2008.

Comparative Figures

Certain of the prior year's figures have been reclassified to conform to the basis of presentation for 2008.

Capital Disclosures and Financial Instruments

On December 1, 2006, the Canadian Institute of Chartered Accountants (“CICA”) issued three new accounting standards: Capital Disclosures (Handbook Section 1535), Financial Instruments - Disclosures (Handbook Section 3862) and Financial Instruments - Presentation (Handbook Section 3863). These new standards became effective for the Company on January 1, 2008.

(a) *Capital Disclosures*

Handbook Section 1535 specified the disclosure of (i) an entity’s objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if the entity has not complied, the consequences of such noncompliance.

The Company has included disclosures recommended by the new Handbook Section in Note 10 to these consolidated financial statements.

(b) *Financial Instruments*

Handbook Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments - Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

The Company has included disclosures recommended by the new Handbook Section in Note 9 to these consolidated financial statements.

Recent Canadian Accounting Pronouncements

(a) *Section 3064 - Goodwill and Intangible Assets*

The CICA has issued Handbook Section 3064, “Goodwill and Intangible Assets”, which will replace Section 3062 - “Goodwill and Intangible Assets”. The new standard is applicable for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. Section 3064 establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition, and of intangible assets. Section 3064 also provides guidance for the treatment of preproduction and start-up costs and may require that these costs be expensed as incurred. The new Section will be applicable to the Company’s financial statements for its fiscal year beginning January 1, 2009.

The Company does not anticipate that the adoption of this section will significantly impact its financial statements.

(b) *EIC 173 - Credit Risk and Fair Value of Financial Assets and Liabilities*

The Emerging Issues Committee (“EIC”) of the CICA released EIC 173 in January 2009 which requires companies to take into account counterparty credit risk and an entity’s own credit risk in estimating the fair value of all financial assets and liabilities, including derivatives. The EIC is being issued in response to the diversity of practice in valuing financial instruments, especially derivatives. This EIC will be effective for the Company for the first quarter of 2009 and will be applied retrospectively, without restatement of prior periods.

The Company is currently evaluating the impact of this EIC on its financial reporting.

Note 3 - Initial Public Offering (“IPO”) and Acquisition of Initial Royalty Portfolio

On December 20, 2007, the Company completed its IPO of 72 million common shares at C\$15.20 per common share for net proceeds of \$1,046,929, after deducting underwriters’ commissions of \$49,332. In addition, on December 31, 2007, the underwriters completed the exercise of the over-allotment option of 10.8 million common shares at a price of C\$15.20 per share for net proceeds to the Company of \$157,488, after deducting underwriters’ commissions of \$7,421.

On November 30, 2007, the Company entered into an agreement with Newmont Mining Corporation (“Newmont”) to acquire certain of Newmont’s mineral royalties, oil and gas royalties and working interests, and an equity interest in Falconbridge Dominicana, C. Por A. (“Falcondo”) (collectively known as the “Royalty Portfolio”). The acquisition was accounted for as a purchase of assets. Consideration for the Royalty Portfolio was agreed to be the sum of: (i) the net proceeds from the IPO; (ii) C\$22,805 (\$22,844) cash from the proceeds of the Founders’ Shares (See Note 8); and (iii) \$140,000 in cash drawn under the Company’s Revolving Term Credit Facility (See Note 11). The closing date for the transaction was December 20, 2007.

The allocation of the purchase price is as follows:

Purchase cost:	
Net proceeds from IPO (excluding over-allotment exercised)	\$ 1,046,929
Loan under Revolving Credit Facility	140,000
Cash from Founders’ Shares	22,844
Transaction costs	2,067
	\$ 1,211,840
Purchase Price Allocation:	
Interests in mineral properties	\$ 795,303
Interests in oil and gas properties	457,904
Investment in Falcondo	33,630
Other receivables	739
Tax basis step-up	(75,736)
	\$ 1,211,840

Note 4 - Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. At December 31, 2008, cash and cash equivalents were primarily held in Canadian and US denominated treasury bills, interest bearing cash deposits and corporate bonds. Cash equivalents have been designated as available-for-sale securities and, as a result, these investments have been recorded at fair value.

During the year ended December 31, 2008, the US dollar strengthened in relation to the Canadian dollar which resulted in unrealized foreign exchange gain of \$14,261, net of income taxes of \$2,662, being recognized in accumulated other comprehensive income (loss) upon the translation of the US denominated cash, cash equivalents and short-term investments held in the Canadian entity.

Note 5 - Investments

The following table summarizes the Company’s investments as at December 31, 2008 and 2007:

	December 31, 2008	December 31, 2007
Short-term investments:		
Canadian dollar denominated treasury bills	\$ 59,714	\$ –
US dollar denominated treasury bills	81,762	–
Certificate of deposit	100	–
Total short-term investments	\$ 141,576	\$ –
Long-term investments:		
Investment in Falcondo	24,500	44,059
Newmont Exchangeable Shares	36,519	43,789
Other	7,664	–
	\$ 68,683	\$ 87,848

Short-term investments

The Company made investments in Canadian and US dollar denominated treasury bills, corporate bonds and a certificate of deposit during the year ended December 31, 2008, at a total cost of \$144,662. These investments have been designated as available-for-sale and, as a result, have been recorded at fair value which approximates their carrying values.

As at December 31, 2008, the market value of the Canadian treasury bills increased from the date of purchase and an unrealized gain of \$186, net of income taxes of \$36, was recognized in accumulated other comprehensive income (loss).

Investment in Falcondo

The Company owns 121,729, or 4.1%, of the outstanding common shares in Falcondo, a non-public entity which owns and operates an integrated complex of mines, smelter, crude oil supply system, oil refinery and power plant producing ferronickel in the Dominican Republic. This investment has been designated as an available-for-sale security and is recorded at cost. As at December 31, 2008, the fair value of this investment had decreased which management assessed to be an other-than-temporary decline and, as a result, an impairment of \$4,221 was included in the statement of operations and comprehensive loss.

Newmont Exchangeable Shares

The Company owns 896,210 shares of Newmont Mining Company of Canada Limited (the "Exchangeable Shares"). This investment has been designated as available-for-sale and, as a result, has been recorded at fair value.

As at December 31, 2008, the market value of the Exchangeable Shares increased compared to the value at December 31, 2007 and an unrealized gain of \$981 (2007 - loss of \$2,369), net of income taxes of \$76 (2007 - \$303) was recognized in accumulated other comprehensive income (loss). In addition, an unrealized foreign exchange loss of \$318 (2007 - \$471), was recognized in accumulated other comprehensive income (loss) upon the translation of the Exchangeable Shares.

Other

The Company owns equity interests in publicly-listed companies which the Company purchased through the open market. These investments have been designated as available-for-sale securities and have been recorded at their fair values. As at December 31, 2008, the market value of certain investments declined compared to their values at September 30, 2008, and an unrealized loss of \$2,765 (2007 \$Nil), net of taxes of \$439, was recognized in accumulated other comprehensive income (loss).

As at December 31, 2008, the market values of certain of the investments declined which management assessed to be an other-than-temporary decline and, as a result, a write-down of \$2,233 has been included in the statement of operations and comprehensive loss.

Note 6 - Interests in Mineral Properties

The following tables summarize the Company's interests in mineral properties as at December 31, 2008 and 2007, respectively:

	Cost	December 31, 2008 Accumulated depletion	Net
Operating Royalty Interests			
Goldstrike	\$ 242,534	\$ (37,966)	\$ 204,568
Stillwater	219,531	(7,314)	212,217
Gold Quarry	103,620	-	103,620
Other	147,622	(24,874)	122,748
	713,307	(70,154)	643,153
Development Stage Royalty Interests	132,673	-	132,673
Other	30,402	-	30,402
Total	\$ 876,382	\$ (70,154)	\$ 806,228

	Cost	December 31, 2007 Accumulated depletion	Net
Operating Royalty Interests			
Goldstrike	\$ 276,194	\$ (992)	\$ 275,202
Stillwater	295,374	(47)	295,327
Other	141,493	(725)	140,768
	713,061	(1,764)	711,297
Development Stage Royalty Interests	187,586	–	187,586
Other	31,925	–	31,925
Total	\$ 932,572	\$ (1,764)	\$ 930,808

The purchase price allocation, as described in Note 3, was finalized in December 2008 which resulted in changes to the cost amounts for the mineral properties and oil and gas properties from those reflected as at December 31, 2007.

Goldstrike Complex

The Company owns numerous royalties covering portions of the Goldstrike Mining Complex (the “Goldstrike Complex”) located in Nevada. The Goldstrike Complex is comprised of: (i) the Betze-Post open-pit mine; and (ii) the Meikle and Rodeo underground mines. Barrick Gold Corporation (“Barrick”) is the operator of each of these mines. The royalties within the Goldstrike Complex are made up of NSR royalties ranging from 2.0% to 4.0% and net profits interest (“NPI”) royalties ranging from 2.4% to 6.0%.

The NSR royalties are based upon gross production from the mine, reduced only by the ancillary costs of smelting, refining and transportation. The NPI royalties are calculated as proceeds less costs, where proceeds equal the number of ounces of gold produced from the royalty burdened claims multiplied by the spot price on the date gold is credited to Barrick’s account at the refinery, and costs include operating and capital costs.

Stillwater Complex

The Company owns a 5% net smelter return (“NSR”) royalty covering the majority of the Stillwater mine and the entire East Boulder mine (collectively known as the “Stillwater Complex”) in Montana. The NSR is payable on all commercially recoverable metals produced from a substantial number of claims that cover the Stillwater Complex. The amount of the NSR royalty is reduced by permissible deductions and is calculated and payable monthly. The Stillwater Complex is operated by Stillwater Mining Company.

Gold Quarry

On December 29, 2008, the Company acquired a net smelter returns (“NSR”) royalty interest on the Gold Quarry Royalty Property from private individuals for a total cash consideration of \$103,620, including transaction costs. The royalty is payable on the greater of a 7.29% NSR based on production or a minimum annual royalty payment obligation tied to reserves and stockpiles. The Gold Quarry Royalty Property covers a portion of the overall Gold Quarry operation which is an integrated part of Newmont’s Carlin Trend Complex located 40 miles west of Elko, Nevada.

Other

During the year ended December 31, 2008, the Company wrote down the value of one of its interests in an exploration property located in Australia by \$2,034 to reflect the fair value of this royalty interest.

Note 7 - Interests in Oil and Gas Properties

The following tables summarize the Company's interests in oil and gas properties as at December 31, 2008 and 2007, respectively:

	Cost	December 31, 2008 Accumulated depletion	Net
Operating Interests			
Edson	\$ 122,942	\$ (6,579)	\$ 116,363
Weyburn/Midale	78,595	(5,345)	73,250
Other	71,909	(4,257)	67,652
	\$ 273,446	\$ (16,181)	\$ 257,265
Development Stage Interests	19,721	–	19,721
Exploration Stage Interests	84,659	–	84,659
	\$ 377,826	\$ (16,181)	\$ 361,645

	Cost	December 31, 2007 Accumulated depletion	Net
Operating Interests			
Edson	\$ 88,882	\$ (317)	\$ 88,565
Weyburn/Midale	62,444	(151)	62,293
Other	51,972	(156)	51,816
	203,298	(624)	202,674
Development Stage Interests	38,237	–	38,237
Exploration Stage Interests	57,697	–	57,697
Total	\$ 299,232	\$ (624)	\$ 298,608

The purchase price allocation, as described in Note 3, was finalized in December 2008 which resulted in changes to the cost amounts for the mineral properties and oil and gas properties from those reflected as at December 31, 2007.

Edson

The Edson Property is located in Alberta, Canada. The Company has a 15% overriding royalty in this property. The wells are operated by Canadian Natural Resources Ltd.

Weyburn

The Weyburn Unit is located in Saskatchewan, Canada and is operated by EnCana Oil & Gas Partnership. The Company holds a 1.11037% working interest and a 0.44% royalty interest in the Weyburn Unit. The Company takes product-in-kind for the working interest portion of this production and markets it through a third-party.

Midale

The Company holds a 1.594% working interest and a 0.967% royalty interest in the Midale Unit. Apache Canada Ltd. is the current Unit operator. The Company takes product-in-kind for the working interest portion of this production and markets it through a third party.

As at December 31, 2008, the carrying values of the working interests associated with the Weyburn and Midale Units were \$50,215 and \$10,843, respectively.

As at December 31, 2008:

- The Company did not capitalize any of its head office general and administrative costs;
- Oil and gas properties include \$Nil in respect of properties which have been excluded from depletion calculations;

- The prices used in the ceiling test evaluation of the Company's oil and gas reserves were:

	Oil and Gas Liquids \$US/Bbl
2009	46.55
2010	54.44
2011	58.39
2012	63.68
2013	67.26
Average thereafter	110.63

Note 8 - Related Party Transactions

Exchangeable Shares

On December 18, 2007, the Company issued three million common shares to a director of the Company in exchange for 896,210 Exchangeable Shares. The Company inherited the previous owner's Canadian tax basis of the Exchangeable Shares and, as a result, recorded a future income tax liability of \$7,296 on the exchange. The future income tax liability, which increased the carrying value of the Exchangeable Shares, represented the estimated income taxes payable which will be realized on the disposition of the Exchangeable Shares. After recording the increase in the carrying value, an other-than-temporary impairment of \$7,296 was recorded to reduce the carrying value of the Exchangeable Shares to fair value, based on quoted market prices.

Founders' Shares

From November 13, 2007 to December 20, 2007, the Company issued three million common shares to certain directors and officers of the Company (the "Founders' Shares") for total cash consideration of \$22,844 (C\$22,805). The Founders' Shares are subject to a three-year hold period, subject to limited exceptions. An expense of \$23,075 (C\$22,795) was recognized in conjunction with the issuance of the Founders' Shares, representing the difference between the IPO price of C\$15.20 per share and the average per share consideration received from the issue of the Founders' Shares of C\$7.602.

Directors Fees

During the year ended December 31, 2008, the Company made payments in the amount of \$251 for directors' fees, reimbursement of related expenses and services rendered by a director in connection with the initial setup and organization of the Company.

Note 9 - Accounting for Financial Instruments

Financial Risk Management

The Company is engaged in the business of acquiring, managing and creating resource royalties. Royalties are interests that provide the right to revenue or production from the various royalty properties, after deducting specified costs, if any. These activities expose the Company to a variety of financial risks, which include direct exposure to commodity price risk, foreign exchange risk, interest rate risk, credit risk and liquidity risk. Some of the Company's future acquisitions may be classified as derivative instruments depending on the nature of the royalty agreement and deal structure.

The Company's objective is to safeguard its assets and mitigate risk exposure by focusing on security rather than yields. To that end, the Company does not intend to invest in forward contracts, hedging instruments or option contracts related to commodity prices.

Commodity Price Risk

The Company's royalties are subject to risk from fluctuations in market prices of commodities. The Company does not manage any exposures to commodity price risk.

Foreign Exchange Risk

The Company operates on an international basis and, therefore, foreign exchange risk and foreign currency translation risk exposures arise from balances and transactions denominated in a foreign currency. The Company's current foreign exchange risk for its Canadian operations arises primarily with respect to the US dollar. The Canadian dollar net proceeds from the Unit Offering discussed in Note 13(a) have been invested in US and Canadian dollar denominated treasury bills and corporate bonds on a ratio of 65% to 35% as at December 31, 2008. This serves to reduce the economic exposure to currency fluctuations on a consolidated basis.

During the year ended December 31, 2008, the US dollar strengthened in relation to the Canadian dollar and upon the translation of the Company's assets and liabilities held in Canada, the Company recorded a currency translation adjustment loss of \$170,027 in accumulated other comprehensive income (loss) (2007 - gain of \$11,442).

Interest Rate Risk

The Company's interest rate risk mainly arises from the interest rate impact on cash and cash equivalents. Using the interest rates for the currently-owned portfolio of short-term investments, should the proceeds from the Unit Offering continue to be invested in the same investments as currently exists, the Company would realize interest income of approximately \$3,290, or \$0.03 per fully diluted common share, per year. Assuming a 0.5% increase or decrease in interest rates, net income would change by approximately \$748 per year (assuming the proceeds from the Unit Offering continue to be invested in the same investments as currently exist). As at December 31, 2008, the Company had no outstanding debt under its revolving credit facility (See Note 11).

Credit Risk

Credit risk arises from the non-performance by counterparties of contractual financial obligations under our royalty portfolio. The Company's maximum exposure to credit risk at the reporting date is the royalty receivables.

As at December 31, 2008, the Company is unaware of any information which would cause it to believe that the royalty receivables are not fully recoverable.

The Company closely monitors its financial assets and maintains its cash deposits in several high-quality financial institutions and as such does not have any significant concentration of credit risk.

Liquidity Risk

The Company manages liquidity risk by maintaining adequate cash and cash equivalent balances, and may consider utilizing its revolving term credit facility where appropriate. The Company has in place a planning and budgeting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. Management continuously monitors and reviews both actual and forecasted cash flows, including acquisition activities.

As at December 31, 2008, \$214,825 was held in either cash and cash equivalents or highly-liquid investments. Currently, all of the Company's financial liabilities are due within one year.

Note 10 - Capital Risk Management

The Company's primary objective when managing capital is to provide a sustainable return to shareholders through managing and growing the Company's resource royalty portfolio while ensuring capital protection. The Company's royalty portfolio provides an opportunity to capture value without the typical capital and operating costs associated with a natural resource operation, and without many of the risks faced by natural resource operators. Maintaining and managing a diversified, high-margin royalty portfolio with low overheads provides the free cash flow required to fuel organic growth. Additionally, the Company remains opportunistic with regard to the accessing of equity markets.

There were no changes in the Company's approach to capital management during the year ended December 31, 2008 compared to the period ended December 31, 2007. The Company is not subject to externally imposed capital requirements.

As at December 31, 2008, the Company has cash, cash equivalents and available-for-sale short-term investments totaling \$214,825 (2007 - \$12,894), available-for-sale long-term investments totaling \$68,683 (2007 - \$87,848), together with an unused \$150,000 revolving term credit facility, all of which are available for growing the royalty portfolio and paying dividends.

Note 11 - Revolving Term Credit Facility

On December 20, 2007, the Company entered into a revolving term credit facility (the "Credit Facility") with a syndicate of lenders. The Credit Facility provides for the availability over a three-year period of up to \$150,000, or the Canadian dollar equivalent, in borrowings. All borrowings would be scheduled to mature on December 20, 2011. The Company has the option of requesting, during a period of time surrounding each anniversary date, an additional one-year extension of the maturity of the Credit Facility. This request requires the approval of a majority of the lending syndicate.

Advances under the facility can be drawn as follows:

US dollars

- Base rate advances with interest payable monthly at the Bank of Montreal ("BMO") base rate, plus between 0.125% and 0.75% per annum depending upon the Company's leverage ratio; or
- LIBOR loans for periods of 1, 2, 3 or 6 months with interest payable at a rate of LIBOR, plus between 1.125% and 1.75% per annum, depending on the Company's leverage ratio;

Canadian dollars

- Prime rate advances with interest payable monthly at the BMO Prime rate, plus between 0.125% and 0.75% per annum, depending on the Company's leverage ratio; or
- Bankers' acceptances for a period of 30 to 180 days with a stamping fee calculated on the face amount between 1.125% and 1.75%, depending on the Company's leverage ratio.

All loans are readily convertible into loans of other types, described above, on customary terms and upon provision of appropriate notice.

Borrowings under the Credit Facility are guaranteed by the Company's subsidiaries and the Company is required by the lenders to provide and maintain security over all current and future assets to the extent of at least 80% of the aggregate net asset value of the Company. Such security is in the form of general security interests or floating charges, specific pledges, fixed charges or mortgages depending upon the nature and jurisdiction of individual assets being secured.

The Credit Facility is subject to a standby fee of 0.30% to 0.45% per annum, depending upon the Company's leverage ratio, even if no amounts are outstanding under the facility.

On December 20, 2007, the Company drew \$140,000 to partially fund the acquisition of the Royalty Portfolio (See Note 3) and, on December 31, 2007, the balance outstanding was repaid with a portion of the proceeds from the exercise of the underwriters' over-allotment option (See Note 3). The Company recognized a realized foreign exchange loss of \$2,266 on the repayment of the \$140,000 for the period ended December 31, 2007 due to the strengthening of the Canadian dollar in the time between the draw and repayment of funds.

As at December 31, 2008, there were no amounts outstanding under the Credit Facility and the prime and base rates in effect were 3.5% and 4.0%, respectively.

The Company incurred \$2,180 of Credit Facility issuance costs, which were deferred and will be amortized over the term of the credit facility. For the period ended December 31, 2008, the Company recognized debt issuance cost amortization expense of \$689 (2007 - \$22). The Company also incurred \$517 (2007 - \$12) of standby and administrative fees and \$Nil (2007 - \$65) of interest expense for the year ended December 31, 2008.

Note 12 - Income Taxes

Income taxes for the period ended December 31, 2008 and 2007 consists of the following:

	December 31, 2008	December 31, 2007
Current income tax expense	\$ (5,084)	\$ (70)
Future income tax recovery	9,421	619
Net income tax recovery	\$ 4,337	\$ 549

A reconciliation of the provision for income taxes computed at the combined Canadian federal and provincial statutory rate to the provision for income taxes as shown in the consolidated statement of operations and comprehensive loss for the periods ended December 31, 2008 and 2007, are as follows:

	December 31, 2008	December 31, 2007
Net income/(loss) before income taxes	\$ 36,010	\$ (33,628)
Statutory tax rate	30.38%	0 33.17%
Tax (expense)/recovery at statutory rate	(10,940)	11,154
Reconciling items:		
Reversal of valuation allowance	18,042	-
Expenses not tax deductible	(2,117)	(10,570)
Differences in foreign statutory tax rates	(1,353)	35
Changes in current and future tax rates on timing differences	980	-
Foreign withholding tax	(426)	-
Other	151	(70)
Net income tax recovery	\$ 4,337	\$ 549

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

	December 31, 2008	December 31, 2007
Future income tax asset		
Interest in mineral properties	\$ 14,826	\$ -
Total future income tax asset	\$ 14,826	\$ -
Future income tax liabilities		
Interests in mineral properties	\$ 9,421	\$ 39,077
Interests in oil and gas properties	56,957	13,246
Investments	6,337	8,785
Share issue and debt issue costs	(11,720)	(14,797)
Non-capital loss carry-forwards	(693)	(365)
Other	(162)	(261)
Valuation allowance	737	-
Net future income tax liabilities	\$ 60,877	\$ 45,685

The Company has a Canadian non-capital loss carry-forward of approximately \$Nil (2007 - \$1,013) and an Australian non-capital loss carry-forward of approximately \$2,310 which can be carried forward indefinitely to reduce future years' taxable income.

Note 13 - Shareholders' Equity

a) Common Shares

On March 13, 2008, the Company completed a bought deal with a syndicate of underwriters for 10,000,000 units (the "Units") at C\$23.25 per Unit (the "Unit Offering"). Each Unit consists of one common share and one half of one common share purchase warrant (a "Warrant"). Each whole Warrant entitles the holder to purchase one common share at a price of C\$32.00 at any time before March 13, 2012. In addition, the underwriters exercised an over-allotment option for the purchase of an additional 1,500,000 Units. The net proceeds to the Company were \$260,062 after deducting underwriters' commission and offering expenses of \$11,617. The Company has allocated the net proceeds of the Unit Offering between the common shares and the Warrants based upon their relative fair values on the closing date of the Unit Offering, with the Warrant value being reflected in contributed surplus. The fair value of the Warrants was determined to be C\$3.90 per whole Warrant using the Black-Scholes option pricing model, with an assumed risk free interest rate of 3.2%, expected dividend yield of 1.04%, expected life of the Warrant of four years and expected price volatility of the Company's common shares of 35%.

During the year ended December 31, 2008, the Company declared and paid dividends representing C\$0.24 per share, or \$21,780.

b) Stock-based Compensation

On November 12, 2007, the Company's Board of Directors adopted a stock option plan (the "Plan"), pursuant to which the Company may grant incentive stock options to directors, officers, employees and consultants at the discretion of the Board of Directors. The exercise price and vesting period of any option is fixed by the Board of Directors on the date of grant.

The term of options is at the sole discretion of the Board of Directors but may not exceed ten years from the date of grant. Options expire on the earlier of the expiry date or the date of termination. Options are non-transferable. The options granted will be adjusted in the event of an amalgamation, rights offering, share consolidation or subdivision or other similar adjustments of the share capital of the Company.

The aggregate number of common shares in respect of which options have been granted and remain outstanding under the Plan shall not at any time exceed 5% of the then issued and outstanding common shares. Within any one-year period, the number of options issued to any single participant shall not exceed 5% of the common shares then issued and outstanding.

During the year ended December 31, 2008, the Company issued to employees 655,000 stock options (2007 - 2,280,000) at exercise prices ranging between C\$15.41 and C\$20.55 (2007 - C\$15.20). These ten-year term options vest over three years in equal portions on the anniversary of the grant date.

The Company uses the fair value method of accounting for stock-based compensation awards. The fair value of stock options granted during 2008 has been determined to be \$2,899 (2007 - \$10,487). The fair value of the options was calculated using the Black-Scholes option pricing model and utilized the following weighted average assumptions:

Risk-free interest rate	4.18%
Expected dividend yield	1.47%
Expected price volatility of the Company's common shares	39.78%
Expected life of the option	4.0 years

and resulted in a weighted average fair value of C\$5.42 per stock option.

Option pricing models require the input of highly objective assumptions, including expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate and, therefore, option pricing models do not necessarily provide a reliable measure of the fair value of our stock options.

During the year ended December 31, 2008, an expense of \$4,073 (2007 - \$105) relating to all stock options which vested during the year has been included in the consolidated statement of operations. As at December 31, 2008, there is \$7,702 (2007 - \$10,382) of total unrecognized non-cash stock-based compensation expense relating to non-vested stock options granted under the Company's equity compensation plans, which is expected to be recognized over a weighted average period of 2.3 years.

Options to purchase common shares of the Company have been granted in accordance with the Plan as follows:

	Number	December 31, 2008 Weighted average exercise price	Number	December 31, 2007 Weighted average exercise price
Stock options outstanding, beginning of the period	2,280,000	C\$15.20	-	-
Granted	655,000	C\$16.46	2,280,000	C\$15.20
Forfeited	(50,000)	C\$15.20	-	-
Stock options outstanding, end of the period	2,885,000	C\$15.49	2,280,000	C\$15.20
Exercisable stock options at the end of the period	743,333	C\$15.20	-	-

Options to purchase common shares outstanding at December 31, 2008, carry exercise prices and weighted average lives to maturity as follows:

Exercise price	Options outstanding	Options exercisable	Weighted average life (years)
C\$15.20	2,230,000	743,333	8.98
C\$15.41	35,000	-	9.90
C\$15.61	475,000	-	9.01
C\$18.91	75,000	-	9.64
C\$19.22	20,000	-	9.08
C\$20.55	50,000	-	9.41
	2,885,000	743,333	9.02

c) Share Purchase Warrants

Outstanding share purchase warrants, at December 31, 2008 and 2007, are as follows:

	December 31, 2008	December 31, 2007
Warrants outstanding, beginning of the period	-	-
Issued (<i>See Note 13a</i>)	5,750,000	-
Warrants outstanding, end of the period	5,750,000	-

d) Deferred Share Unit Plan

During the year ended December 31, 2008, the Company implemented the DSU Plan. Under this DSU Plan, non-executive directors may choose to convert all or a percentage of their directors' fees into DSUs. The directors must elect to convert their fees prior to June 1 in each year. In addition, the Company may award DSUs to non-executive directors as compensation.

DSUs earn dividend equivalents in the form of additional DSUs at the same rate as dividends on common shares. Participants are not allowed to redeem their DSUs until retirement or termination of directorship. For DSUs that have been credited upon the conversion of directors' fees, the DSUs vest immediately. For DSUs that have been awarded as compensation, the DSUs vest 33^{1/3}% on the first day after each of the first three anniversaries of the date of grant, subject to the discretion of the Board of Directors. The cash value of the DSUs at the time of redemption is equivalent to the market value of the Company's common shares when redemption takes place.

During the year, 4,439.73 DSUs were credited to directors under the DSU Plan in connection with the conversion of directors' fees. No DSUs were awarded to directors as compensation. The value of the DSU liability as at December 31, 2008, was \$77. The mark-to-market adjustment recorded for the year ended December 31, 2008, in respect of the DSU Plan, was \$13.

e) Outstanding Purchase Share Warrants and Incentive Stock Options

The following table sets out the maximum shares that would be outstanding if all of the purchase share purchase warrants and incentive stock options, at December 31, 2008 and 2007, respectively, were exercised:

	December 31, 2008	December 31, 2007
Common shares outstanding	100,300,000	88,800,000
Stock options	2,885,000	2,280,000
Warrants	5,750,000	–
	108,935,000	91,080,000

Note 14 - Earnings per Share ("EPS")

	For the year ended December 31, 2008		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Net income	40,347	98,006	\$ 0.41
Effect of dilutive securities	–	587	–
Diluted EPS	40,347	98,593	\$ 0.41

	For the period ended December 31, 2007		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Net loss	(33,079)	86,073	\$ (0.38)
Effect of dilutive securities	–	–	–
Diluted EPS	(33,079)	86,073	\$ (0.38)

Options to purchase 70,000 shares and warrants to purchase 5,750,000 common shares were outstanding as at December 31, 2008, but were not included in the computation of diluted EPS due to the exercise prices of these options and warrants being greater than the weighted average price of the common shares for the year ended December 31, 2008.

For the period ended December 31, 2007, basic and diluted loss per share was \$0.38. Outstanding stock options of 2,280,000, as at December 31, 2007, were not included in the diluted loss per share calculation as their inclusion would have been anti-dilutive.

Note 15 - Geographic Information

The following tables reflect geographic financial information:

	Year ended December 31, 2008	Period ended December 31, 2007
Revenues		
Canada	\$ 58,691	\$ 1,209
United States	90,717	1,999
Australia	1,633	73
Consolidated	\$ 151,041	\$ 3,281
Net income (loss)		
Canada	12,570	(33,297)
United States	29,975	195
Australia	(2,198)	23
Consolidated	\$ 40,347	\$ (33,079)

For the year ended December 31, 2008, two royalties totaling \$71,719, comprised 32.9% from a mineral royalty and 14.6% from an oil and gas royalty, respectively, of total revenues across all geographic segments. During the period ended December 31, 2007, \$548 of revenue was recognized from a single Canadian oil and gas royalty and \$1,252 of revenue was recognized from a single US mineral royalty, representing 16.7% and 38.2%, respectively, of total consolidated revenue. Geographic revenues are segmented by the jurisdiction of the entity receiving the revenue.

	As at December 31, 2008	As at December 31, 2007
Interests in mineral properties, net		
Canada	\$ 96,564	\$ 159,955
United States	681,054	737,868
Australia	28,610	32,985
Consolidated	\$ 806,228	\$ 930,808
Total Assets		
Canada	\$ 796,183	\$ 563,731
United States	678,157	739,867
Australia	29,446	33,058
Consolidated	\$ 1,503,786	\$ 1,336,656

Interests in oil and gas properties of \$361,645 (2007- \$298,608) and investments of \$141,476 (2007 - \$87,848) are held in Canada.

Note 16 - Commitments

Operating Leases

At December 31, 2008, the Company has future minimum annual operating lease commitments in connection with its leased office spaces and certain office equipment, as follows:

to December 31, 2009	\$	390
to December 31, 2010		392
to December 31, 2011		342
to December 31, 2012		301
to December 31, 2013 and thereafter		251

Credit Facility

Under the Credit Facility the Company is required to pay a quarterly standby fee of 0.35% of the unutilized portion of this facility. For the year ended December 31, 2008, standby fees of \$517 (2007 - \$12) were incurred and paid. (See Note 11).

Note 17- Subsequent Event

Acquisition of Palmarejo Gold Royalty Stream

On January 21, 2009, the Company acquired a 50% gold royalty stream in the Palmarejo silver and gold project (the "Palmarejo Project") in Mexico from Coeur d'Alene Mines Corporation for a total consideration of \$80,000.

The Company will receive an interest in 50% of the gold produced from the Palmarejo Project paid on the difference between the spot gold price and \$400 (four hundred dollars) per ounce, increasing by 1% per annum after the fourth anniversary of closing. The attributable gold ounces will be the greater of actual production and a minimum amount. The minimum amount will be 50,000 ounces per annum until payments have been made on 400,000 ounces.

The consideration consisted of \$75,000 in cash and special warrants which are exercisable, without additional consideration, into 316,436 Franco-Nevada common shares following the achievement by the Palmarejo Project of certain time-based completion tests by September 15, 2010.