Management's Discussion and Analysis
Consolidated Financial Statements

December 31, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of financial position and results of operations of Franco-Nevada Corporation (the "Company", "we", "our" or "Franco-Nevada") has been prepared based upon information available to the Company as at March 26, 2008 and should be read in conjunction with the Company's consolidated financial statements and related notes as of and for the period ended December 31, 2007. All amounts are in thousands of U.S. 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", "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 the results discussed in various factors, which may cause actual 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 natural 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 taxation policies; regulations and political or economic developments in any of the countries where the company holds interests in mineral and oil and natural 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 any of the properties underlying the Royalty Portfolio; 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 formations, cave-ins, flooding and other natural disasters. 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 such underlying properties, no material adverse change in the market price of the commodities that underlie the Royalty Portfolio, and any other factors that 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" section of our most recent Annual Information Form filed with the Canadian securities regulatory authorities on www.sedar.com. 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 Company

Franco-Nevada is a Toronto-headquartered company with additional offices in Denver, Reno and Perth and trades on the Toronto Stock Exchange under the symbol "FNV". The management and directors are significant shareholders, and are dedicated to the sustainable maximization of our share price, holding 6.0% of the common shares, or 8.1% on a fully diluted basis, as of March 26, 2008.

Our Business

We are a resource royalty and investment company and are the preeminent publicly-traded royalty company in terms of the number of royalties, market capitalization, projected revenues and financial strength. On December 20, 2007, we acquired certain of Newmont Mining Corporation's ("Newmont") mineral royalties, oil and gas royalties and working interests, and an equity interest in Falconbridge Dominicana, C. Por A. (collectively known as the "Royalty Portfolio"), completed our initial public offering, completed our 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.

Our Royalty Portfolio is a diversified group of precious and base metal royalties, oil and natural gas royalties and working interests as well as other resource investments and interests. On January 1, 2008, we owned approximately 185 precious and base metal royalties and over 100 oil and natural gas royalties or working interests covering over 5,000 wells. Over 85% of our Royalty Portfolio revenues are generated from the geopolitically secure areas of North America and Australia.

Our 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.

Our Vision and Business Model

Our vision is to be a resource royalty and investment company dedicated to the sustainable maximization of our share price. Our business model is to focus on resource royalties and investments and to specifically reduce our exposure to the multitude of risks associated with operating in today's resource environment. 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 ultimately drives 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.

How We Operate

Our head office is in Toronto, the centre of the Canadian investment community and the global center of mining finance. We also maintain offices in Denver and Reno in order to manage our substantial U.S. royalty portfolio, extensive land interests and to maintain a U.S. business development presence. We also have an employee in Perth, Australia to manage our assets in that country.

We currently operate with a small organization of fifteen multidisciplinary employees which we expect to expand to approximately twenty. 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 flat, multidisciplinary management structure allows many of our team members to take on varying roles for corporate development opportunities. As we have experienced business, financial, legal and geological talent, we will often multi-task on different projects to maximize our capacity, flexibility and personal development.

Disclosure Controls and Procedures

The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for establishing and maintaining the Company's disclosure controls and procedures and have designed such disclosure controls and procedures to provide reasonable assurance that all material information relating to the Company, including its consolidated subsidiaries, is made known to them by others within those entities particularly during the period in which our annual and interim filings are being prepared.

As at December 31, 2007, the CEO and CFO of the Company evaluated the Company's system of disclosure controls and procedures and, based on that evaluation, as at December 31, 2007, the CEO and CFO have concluded that the disclosure controls and procedures were effective in providing reasonable assurance that information required to be disclosed in the Company's annual and interim filings and other reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time frames specified by those laws and that such information is accumulated and communicated to management of the Company, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Internal Controls over Financial Reporting

The Company's CEO and CFO are responsible for establishing and maintaining the Company's internal controls over financial reporting and have designed such internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with Canadian generally accepted accounting principles as at December 31, 2007.

During the period ended December 31, 2007, the Company implemented its system of internal controls over financial reporting. Since the initial implementation, there have been no changes in the Company's internal controls over financial reporting that materially affected, or are reasonably likely to affect, the Company's internal controls over financial reporting.

Selected Financial Information for the period ended and as at December 31, 2007:

Statement of Operations

Total revenue	$	3,281
Depletion		2,388
Net loss		(33,079)
Basic and diluted loss per share		$(0.38)

Statement of Cash Flows

Net cash used by operating activities, before changes in non-cash assets and liabilities	418

Balance Sheet

Cash	$	12,894
Total assets		1,336,656
Total shareholders' equity		1,287,054

Financial Performance

Overall

Although the Company was incorporated on October 17, 2007, we began to earn royalty revenue upon acquiring the Royalty Portfolio on December 20, 2007.

The net loss for the period ended December 31, 2007 was $33,079, or a loss of $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 initial public offering ("IPO") price of C$15.20.
- A non-cash impairment of $7,296 for an other-than-temporary decline in 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. A 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, as required, 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.

Financial Position, Liquidity and Capital Resources

Operating Cash Flow

Cash used by operating activities, before changes to non-cash working capital items, was $418 for the period ended December 31, 2007.

Financing Activities

Between November 13 and December 20, 2007, the Company issued 3,000,000 Founders' Shares for total cash consideration of C$22,805. Compensation expense of $23,075 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.

On December 18, 2007, the Company issued 3,000,000 common shares to a director of the Company as consideration for 896,210 Newmont Exchangeable Shares. The Company inherited the Canadian tax basis of the Newmont Exchangeable Shares. A deferred tax liability of $7,296 was recognized in conjunction with this transaction representing the estimated future taxes payable upon ultimate disposition as a result of book and tax basis differences.

On December 20, 2007, the Company completed its IPO of 72,000,000 common shares at C$15.20 per share for net proceeds of $1,046,929 after deducting underwriters' commissions and offering expenses totaling $49,332. In addition, on December 31, 2007, the underwriters completed the exercise of the entire over-allotment option of 10,800,000 common shares at a price of C$15.20 per share for net proceeds to the Company of $157,003 after deducting underwriters' commissions of $7,906.

On December 20, 2007, the Company entered into a credit facility with a syndicate of lenders with available borrowings of $150,000, or the Canadian dollar equivalent, and immediately drew $140,000. On December 31, 2007, the Company repaid the entire balance on the credit facility, including standby fees and accrued interest totaling $77, using proceeds from the exercise of the underwriters' IPO over-allotment option. The Company realized a $2,266 foreign exchange loss on the repayment of this advance under the credit facility due to the strengthening of the Canadian dollar in the time between the draw and repayment of funds.

Investing Activities

On November 30, 2007, the Company entered into an agreement with Newmont to acquire the Royalty Portfolio. Consideration for the Royalty Portfolio was agreed to be the sum of: the net proceeds from the IPO, the proceeds from the Founders' Shares and $140,000 in cash drawn under the credit facility. The closing date for the transaction was December 20, 2007.

A preliminary allocation of the purchase price, which is subject to final adjustments, is as follows:

Preliminary purchase price:		
Net proceeds from IPO	$	1,046,929
Loan under Revolving Credit Facility		140,000
Cash		22,844
Transaction costs		1,686
	$	1,211,459
Net assets acquired:		
Royalty interests in mineral properties	$	929,112
Interests in oil and natural gas properties		292,482
Investment in Falcondo		43,107
Other		739
Tax basis step-up		(53,981)
	$	1,211,459

The preliminary allocation of the purchase price is subject to final valuations by independent third parties, which is currently underway. The preliminary allocation of the purchase price also includes certain tax assumptions regarding the tax cost basis for various foreign jurisdictions. A final foreign tax evaluation is currently underway, which may result in adjustments to the purchase price and related deferred tax liabilities for those foreign jurisdictions.

Cash Resources and Liquidity

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 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 C$256,280, after deducting underwriters' commissions and expenses totaling C$11,095.

The Company's near-term cash requirements are limited to general and administrative expenses and certain costs of operations directly related to the recognition of royalty revenues. 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 units.

The Company believes that current cash resources will be sufficient to cover the cost of general and administrative expenses and costs of operations for the foreseeable future.

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 $17 per month for a 65-month lease, and related operating expenses, on its Toronto office space that begins on June 1, 2008.

Related Party Transactions

From November 13, 2007 to December 20, 2007, the Company issued 3,000,000 Founders' Shares to certain directors and officers of the Company for total cash consideration of C$22,805. The Founders' Shares are subject to a three-year hold period, subject to limited exceptions. Compensation 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.

On December 18, 2007, the Company issued 3,000,000 common shares to a director of the Company in exchange for 896,210 Newmont Exchangeable Shares. The Company inherited the previous owner's Canadian tax basis of the Newmont Exchangeable Shares and, as a result, recorded a future income tax liability of $7,296 (C$7,207) on the exchange. The future income tax liability, which increased the carrying value of the Newmont Exchangeable Shares, represents the estimated income taxes payable which will be realized on the disposition of the Newmont Exchangeable Shares.

There were no amounts due to or from related parties at December 31, 2007.

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 natural gas properties and the assessment of recoverability of the interests in mineral and oil and natural 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 natural 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 natural 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 natural gas properties.

Asset Impairment

The Company evaluates long-lived assets for impairment whenever events or changes in circumstances 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 in December 2007 was calculated using the Black-Scholes option pricing model with the following assumptions: a dividend yield of 1.5%, an expected volatility of 35%, a risk free interest rate of 4.3%, and an expected average option life of 4 years.

New Accounting Policies

The Canadian Institute of Chartered Accountants ("CICA") has issued Section 3862, Financial Instruments - Disclosures; Section 3863, Financial Instruments - Presentation; and Section 1535, Capital Disclosures. These new standards are applicable for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. Section 3862 on financial instrument disclosures provides guidance on disclosures about risks associated with both recognized and unrecognized financial instruments and how these risks are managed. The new Section removes duplicative disclosures and simplifies the disclosures relating to concentrations of risk, credit risk, liquidity risk and price risk currently found in Section 3861. Section 3863 on the presentation of financial instruments is unchanged from the presentation requirements included in Section 3861. Section 1535 on capital disclosures requires the disclosure of information about an entity's objectives, policies and processes for managing capital. The Company plans to adopt these standards on January 1, 2008. These standards will impact the Company's disclosures but will not affect the Company's consolidated results or financial position.

In addition, 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 requires 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.

Outlook

The following contains forward-looking statements about our outlook for 2008. 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 such Cautionary Statement, the "Risk Factors" section of this MD&A and the "Risk Factors" section of our most recent annual information form filed with the Canadian securities regulatory authorities on www.sedar.com.

The Company anticipates that 2008 will be a year where it develops the required infrastructure and incurs various costs, including listing fees, reporting costs, increased accounting and legal fees, insurance and other costs, consistent with its standing as a public company. Certain infrastructure-related costs will be incurred to establish the required capabilities of a public entity and may not need to be incurred annually thereafter.

For 2008, we anticipate that our revenues for precious metals, oil and gas, and base metals will be 48%, 36% and 16%, respectively, based upon the following commodity price assumptions that represent the median 2008 forecast prices made by the major Canadian investment brokers in November 2007 :

Gold	US$600/oz
Silver	US$13.50/oz
Platinum	US$1,250/oz
Palladium	US$376/oz
Copper	US$3.00/lb
Nickel	US$14.00/lb
Oil (WTI)	US$70/bbl
Natural Gas (NYMEX)	US$7.56/mmBtu

Based upon estimates of 2008 production from properties where we have royalty and investment interests, we estimate that a 10% increase, or decrease, in the average 2008 price of the commodities listed below would have the indicated impact on 2008 total revenue:

Gold	5.9%
Platinum	0.6%
Palladium	0.6%
Copper	1.2%
Nickel	0.9%
Oil (WTI)	2.9%
Natural Gas (NYMEX)	1.2%
	13.3%

For example, should the average 2008 price for all of the above commodities increase by 10%, our total 2008 revenues would increase by 13.3%. This leverage to commodity prices results from several net profit and working interests and sliding scale royalties within our portfolio.

The Company's cash balances, including the proceeds from the Unit Offering, have been invested in high-quality, short-term interest bearing securities until they can be utilized for the acquisition of additional royalty or investment interests.

OUTSTANDING SHARE DATA

As of March 26, 2008, after giving effect to the Unit Offering, there were 100,300,000 Common Shares outstanding. In addition, there were 2,775,000 stock options outstanding to directors, officers and employees with exercise prices ranging from C$15.20 to C$19.22 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" section 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.

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.

AUDITORS' REPORT

To the Shareholders of Franco-Nevada Corporation

We have audited the consolidated balance sheet of Franco-Nevada Corporation as at December 31, 2007 and the consolidated statements of operations and comprehensive loss, shareholders' equity and cash flows 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 audit.

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, 2007 and the results of its operations and its cash flows for the period from October 17, 2007 to December 31, 2007 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Ontario

March 26, 2008

Franco-Nevada Corporation

CONSOLIDATED BALANCE SHEET

(in thousands of US dollars, except share amounts)

	As at December 31, 2007
ASSETS *(Note 8)*	
Cash	**$ 12,894**
Royalty receivables	**3,281**
Prepaid expenses and other	**1,786**
Current assets	**17,961**
Interests in mineral properties, net *(Note 5)*	**930,808**
Interests in oil and natural gas properties, net *(Note 6)*	**298,608**
Investments *(Note 7)*	**87,848**
Other	**1,431**
Total assets	**$ 1,336,656**
LIABILITIES	
Accounts payable and accrued liabilities	**$ 3,917**
Current liabilities	**3,917**
Future income taxes *(Note 9)*	**45,685**
Total liabilities	**49,602**
SHAREHOLDERS' EQUITY *(Note 10)*	
Common shares, unlimited common shares authorized, without par value; issued and outstanding 88,800,000 common shares	**1,310,171**
Contributed surplus	**105**
Deficit	**(33,079)**
Accumulated other comprehensive income	**9,857**
Total shareholders' equity	**1,287,054**
Total liabilities and shareholders' equity	**$ 1,336,656**

Commitments and contingencies *(Note 12)*
Subsequent event *(Note 14)*

See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors

Pierre Lassonde
Director

Randall Oliphant
Director

Franco-Nevada Corporation

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(in thousands of US dollars, except share amounts)

		For the Period Ended December 31, 2007
Revenue		
Mineral royalties	$	2,139
Oil and natural gas royalties and working interests		1,142
Total revenue		3,281
Costs and expenses		
Costs of operations		175
Depletion		2,388
General and administrative		1,006
Stock-based compensation expense *(Note 10)*		23,180
Impairment of investment *(Note 7)*		7,296
Total costs and expenses		34,045
Operating loss		(30,764)
Interest expense and other		(2,864)
Loss before income taxes		(33,628)
Net income tax recovery *(Note 9)*		549
Net loss for the period	$	(33,079)
Other comprehensive income (loss)		
Unrealized change in market value of securities, net of income tax benefit *(Note 7)*	$	(1,585)
Currency translation adjustment		11,442
		9,857
Net loss and comprehensive income for the period	$	(23,222)
Basic and diluted loss per share	$	(0.38)
Basic and diluted weighted average shares outstanding		86,073

See accompanying notes to the consolidated financial statements.

Franco-Nevada Corporation

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands of US dollars)

	For the Period Ended December 31, 2007
Cash flows from operating activities	
Net loss for the period	$ (33,079)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:	
Depletion	2,388
Future income tax benefit	(619)
Stock-based compensation expense	23,180
Impairment of investment	7,296
Unrealized foreign exchange losses	416
Changes in non-cash assets and liabilities:	
Increase in royalty receivables	(3,281)
Increase in prepaid expenses and other	(1,064)
Increase in accounts payable and accrued liabilities	3,917
Net cash used in operating activities	(846)
Cash flows from investing activities	
Acquisition of Royalty Portfolio *(Notes 4 and 8)*	(1,210,720)
Oil and natural gas well equipment	(287)
Net cash used in investing activities	(1,211,007)
Cash flows from financing activities	
Loan under revolving term credit facility *(Note 4)*	140,000
Repayment of loan under revolving term credit facility *(Note 8)*	(140,000)
Debt issuance costs	(2,180)
Net cash proceeds from issuance of common stock	1,226,775
Net cash provided by financing activities	1,224,595
Effect of exchange rate changes on cash	152
Net increase in cash	12,894
Cash at beginning of period	–
Cash at end of period	$ 12,894
Supplemental cash flow information:	
Cash paid for interest expense and loan standby fees during the period	$ 77
Non-cash Newmont Exchangeable Shares *(Note 7)*	43,789

See accompanying notes to the consolidated financial statements.

Franco-Nevada Corporation

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(in thousands of US dollars, except share amounts)

	Common Shares		Contributed		Accumulated Other Comprehensive	Total Shareholders'
	Shares	Amount	Surplus	Deficit	Income	Equity
Issuance of common shares for: Initial public offering and over-allotment (Note 3)	82,800,000	$ 1,218,815	$ –	$ –	$ –	$ 1,218,815
Exchangeable shares *(Note 7)*	3,000,000	45,678	–	–	–	45,678
Founders' shares *(Note 10)*	3,000,000	45,678	–	–	–	45,678
Recognition of non-cash compensation expense for stock-based compensation *(Note 10)*	–	–	105	–	–	105
Net loss and comprehensive income 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

See accompanying notes to the consolidated financial statements.

Franco-Nevada Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED DECEMBER 31, 2007

(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 consists of approximately 185 mineral interests in precious and base metal properties and over 100 royalty and/or working interests in oil and natural gas properties.

Note 2 - Summary of Significant Accounting Policies

Basis 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. As described in Note 13, Canadian generally accepted accounting principles differ in certain respects from US generally accepted accounting principles. 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, the assessment of the recoverability of the carrying value of royalty interests and asset retirement obligations. Actual results could differ significantly 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 fair values of cash, royalty receivables and accounts payable and accrued liabilities approximate the carrying amounts due to the short maturities of these instruments. As at December 31, 2007, cash was held in interest-bearing cash accounts with a single financial institution.

Available-for-Sale Securities

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. 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 Natural Gas Properties

Royalty interests in mineral and oil and natural 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, 2007, all of the Company's royalty interests in mineral and oil and natural 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 natural gas properties. Acquisition costs of development and exploration stage mineral royalty interests are not depleted until such time as royalty-generating production begins.

Working Interests in Oil and Natural Gas Properties

Working interests are accounted for using the full cost method of accounting. All costs of acquiring, exploring for and developing oil and natural 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 natural gas property in which the Company has a working interest, the Company bears its share of the gross costs based on information received from the operator.

Acquisition costs of production stage working interests are depleted using the units of production method, which is estimated using available estimates of proven reserves specifically associated the oil and natural 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 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 operator 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 discounted future cash flows.

Revenue Recognition

Royalty and oil and natural 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 natural 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 natural 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 natural gas properties.

Income Taxes

The Company accounts for income taxes using the liability method, recognizing certain 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.

Incentive Stock Options

The Company determines the fair value of incentive stock options granted to directors, officers and employees 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.

Stock-based Compensation

The Company determines the fair value of incentive stock options granted to directors, officers and employees 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.

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. Outstanding stock options were not included in the diluted loss per share calculation as at December 31, 2007 as the inclusion would be anti-dilutive.

Recent Canadian Accounting Pronouncements

The Canadian Institute of Chartered Accountants ("CICA") has issued Handbook Section 3862, "Financial Instruments - Disclosures"; Section 3863, "Financial Instruments - Presentation"; and Section 1535, "Capital Disclosures". These new standards are applicable for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. Section 3862 on financial instrument disclosures provides guidance on disclosures about risks associated with both recognized and unrecognized financial instruments and how these risks are managed. The new section simplifies the disclosures relating to concentrations of risk, credit risk, liquidity risk and price risk currently found in section 3861. Section 3863 on the presentation of financial instruments is unchanged from the presentation requirements included in section 3861. Section 1535 on capital disclosures requires the disclosure of information about an entity's objectives, policies and processes for managing capital. The Company plans to adopt these standards on January 1, 2008. These standards will impact the Company's disclosures but will not affect the Company's consolidated results or financial position.

In addition, 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 requires that these costs be expensed 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.

Note 3 - Initial Public Offering ("IPO")

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 (C$1,045,152), after deducting underwriters' commissions and offering expenses of $49,332 (C$49,248). 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 $157,003 (C$156,288), after deducting underwriters' commissions of $7,906(C$7,872).

Note 4 - Acquisition of Royalty Portfolio

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 has been accounted for as a purchase of assets. Consideration for the Royalty Portfolio was agreed to be the sum of: the net proceeds from the IPO (see Note 3), C$22,805 ($22,844) in cash from the proceeds of the Founders’ Shares (see Note 10) and $140,000 in cash drawn under the Company’s Revolving Term Credit Facility (see Note 8). The closing date for the transaction was December 20, 2007.

A preliminary allocation of the purchase price is as follows:

Purchase cost:		
Net proceeds from IPO (excludes over-allotment exercise)	$	1,046,929
Loan under Revolving Credit Facility		140,000
Cash from Founders Shares		22,844
Transaction costs		1,686
	$	1,211,459
Preliminary Purchase Price Allocation:		
Interests in mineral properties	$	929,112
Interests in oil and natural gas properties		292,482
Investment in Falcondo		43,107
Other receivable		739
Tax basis step-up		(53,981)
	$	1,211,459

For the purposes of these consolidated financial statements, the purchase consideration has been allocated on a preliminary basis to the fair value of assets acquired and liabilities assumed, based on management’s best estimates and taking into account all available information at the time of acquisition as well as applicable information at the time these consolidated financial statements were prepared. The Company will continue to review information and perform further analysis with respect to these assets, including an independent valuation and confirmation of tax values, prior to finalizing the allocation of the purchase price. Although the results of this review are presently unknown, it is anticipated that it may result in a change to the amount assigned to various interests and future income tax liabilities.

Note 5 - Interests in Mineral Properties

The following summarizes the Company’s interests in mineral properties as at December 31, 2007 based upon the preliminary allocation of the purchase price discussed in Note 4:

December 31, 2007		Cost		Accumulated Depletion		Net
Operating Royalty Interests						
Stillwater	$	295,374	$	(47)	$	295,327
Goldstrike		276,194		(992)		275,202
Other		149,909		(725)		149,184
		721,477		(1,764)		719,713
Development Stage Royalty Interests		179,170		–		179,170
Other		31,925		–		31,925
Total	$	932,572	$	(1,764)	$	930,808

Discussed below are each of the Company's significant operating royalty interests:

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.

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.

Note 6 - Interests in Oil and Natural Gas Properties

The following summarizes the Company's interests in oil and natural gas properties as at December 31, 2007 based upon the preliminary allocation of the purchase price discussed in Note 4:

December 31, 2007	Cost	Accumulated Depletion	Net
Operating Interests:			
Weyburn	$ 47,503	$ (119)	$ 47,384
Edson	88,882	(317)	88,565
Midale	14,941	(32)	14,909
Other	51,972	(156)	51,816
	203,298	(624)	202,674
Development Stage Interests:	38,237	–	38,237
Exploration Stage	57,697	–	57,697
Total	$ 299,232	$ (624)	$ 298,608

Included in the preliminary allocation of the purchase price for the oil and natural gas interests are approximately $104,000 of oil and natural gas working interest royalties. Discussed below are each of the Company's significant operating oil and natural gas interests:

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.

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.

Midale
The Company holds a 1.594% working interest and a 0.972% 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.

Note 7 - Investments

The following summarizes the Company's investments as at December 31, 2007:

Investment in Falcondo	$	44,059
Newmont Exchangeable Shares		43,789
	$	87,848

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.

Newmont Exchangeable Shares - Related Party Transaction
On December 18, 2007, the Company issued three million common shares to a director of the Company in exchange for 896,210 exchangeable 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. 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 (C$7,207) on the exchange. The future income tax liability, which increased the carrying value of the Exchangeable Shares, represents 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 upon quoted market prices.

As at December 31, 2007, the market value of the Exchangeable Shares declined further and an unrealized loss of $2,359, net of income taxes of $303 and an unrealized foreign exchange loss of $471, was recognized in other comprehensive loss effective December 31, 2007.

Note 8 - 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 4) 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). As at December 31, 2007, there were no amounts outstanding under the Credit Facility. 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.

The Company incurred $2,180 (C$2,176) 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, 2007 the Company recognized debt issuance cost amortization expense of $22. The Company also incurred $12 (C$12) of standby fees and $65 (C$63) of interest expense for the period ended December 31, 2007.

Note 9 - Income Taxes

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

Current income tax expense	$	(70)
Future income tax recovery		619
Net income tax recovery	$	549

A reconciliation of the provision for income tax 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 income for the period ended December 31, 2007 is as follows:

Loss before income taxes	$	33,628
Statutory tax rate		33.17%
Tax recovery at statutory rate		11,154
Reconciling items:		
Stock-based compensation expense		(7,690)
Write down of investment		(2,421)
Non-deductible portion of foreign exchange loss		(459)
Differences in foreign statutory tax rates		35
Other		(70)
Net income tax recovery	$	549

The significant components of the Company's future income tax assets and liabilities as at December 31, 2007 are as follows:

Interests in mineral properties	$	40,953
Interests in oil and natural gas properties		13,246
Investments		6,909
Share issue and debt issue costs		(14,797)
Non-capital loss carry-forward		(365)
Other		(261)
Net future income tax liabilities	$	45,685

The Company has a Canadian non-capital loss carry-forward of approximately $1,013, which expires in 2027 available to offset future taxable income.

Note 10 - Shareholders' Equity and 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.

On December 20, 2007, the Company issued 2,280,000 stock options to directors, officers and employees. These ten-year term options were at an exercise price of C$15.20 and 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 2007 has been determined to be US$10,487 (C$10,360), of which $105 (C$104) was recognized as expense during 2007. The fair value of the options was calculated using the Black-Scholes option pricing model and utilized the following assumptions:

Risk-free interest rate	4.3%
Expected dividend yield	1.5%
Expected price volatility of the Company's common shares	35%
Expected life of the option	4.0 years
Fair value per stock option	C$4.54

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.

Founders' Shares - Related Party Transaction

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 C$22,805. The Founders' Shares are subject to a three-year hold period, subject to limited exceptions. Compensation 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.

Note 11 - Geographic Information

The following table reflects geographic financial information:

	Canada	United States	Australia	Consolidated
For the period ended December 31, 2007:				
Revenue	$ 1,209	$ 1,999	$ 73	$ 3,281
Net income (loss)	(33,297)	195	23	(33,079)
As at December 31, 2007:				
Interests in mineral properties, net	159,955	737,868	32,985	930,808
Interests in oil and natural gas properties, net	298,608	–	–	298,608
Investments	87,848	–	–	87,848

For the period ended December 31, 2007, $548 of revenue was recognized from a single Canadian oil and natural gas royalty and $1,252 of revenue was recognized from a single US mineral royalty, comprising 55% in total of the consolidated revenue for the period ended December 31, 2007.

Note 12 - Commitments and Contingencies

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 period ended December 31, 2007, standby fees of $12 were incurred and paid (see Note 8).

The Company has a contractual obligation of $17 per month for a 65 month lease, and related operating expenses, on its Toronto office space that begins on June 1, 2008. Additionally, 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.

Note 13 - Reconciliation of Canadian to US Generally Accepted Accounting Principles

Canadian generally accepted accounting principles ("Canadian GAAP") varies in certain significant respects from principles and practices generally accepted in the US ("US GAAP"). As of December 31, 2007, no principal differences were identified.

Note 14 - Subsequent Event

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. Each Unit consists of one common share and one half of one common share purchase warrant (the "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 C$256,280 after deducting underwriters' commission and offering expenses of C$11,095.

Franco-Nevada

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