

DALRADIAN RESOURCES

Dalradian Resources Inc.

Interim Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the three and nine months ended September 30, 2011 and
the three and nine months ended September 30, 2010

(unaudited)

Dalradian Resources Inc.
(An exploration stage company)

Consolidated Balance Sheets

(Expressed in Canadian dollars)
(Unaudited)

	<u>September 30, 2011</u>	<u>December 31, 2010</u>
ASSETS		
Current assets:		
Cash	\$ 23,812,813	\$ 33,173,152
Amounts receivable	526,179	641,422
Prepaid expenses	571,313	508,416
	<u>24,910,305</u>	<u>34,322,990</u>
Plant and equipment (note 4)	911,345	497,702
Mineral properties (note 5).....	16,152,838	9,075,580
	<u>\$ 41,974,488</u>	<u>\$ 43,896,272</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,329,208	\$ 2,126,268
Deferred income taxes	58,382	213,366
	<u>1,387,590</u>	<u>2,339,634</u>
Shareholders' equity:		
Share capital (note 6)	43,843,847	41,420,039
Warrants (note 6).....	461,950	5,862,545
Contributed surplus	7,658,336	1,620,537
Accumulated deficit	(11,377,235)	(7,346,483)
	<u>40,586,898</u>	<u>41,556,638</u>
	<u>\$ 41,974,488</u>	<u>\$ 43,896,272</u>

Commitments and contingencies (note 10) and subsequent events (note 12)

See accompanying notes, which are an integral part of these consolidated interim financial statements.

Dalradian Resources Inc.
(An exploration stage company)

Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian dollars)
(Unaudited)

	Three months ended		Nine months ended	
	Sept 30, 2011	Sept 30, 2010	Sept 30, 2011	Sept 30, 2010
Operating expenses:				
Salaries and wages	\$ 728,222	\$ 294,713	\$ 1,506,938	\$ 594,695
Professional fees and consulting	120,236	133,698	588,470	383,386
Stock-based compensation	244,359	1,133,206	1,083,241	1,133,206
Travel and investor relations	261,679	150,245	634,616	310,022
Office, regulatory and general	168,956	75,217	482,834	183,676
Amortization of administrative assets	50,972	4,829	117,992	5,379
Foreign exchange loss	57,290	20,532	61,711	3,438
Interest and bank charges	2,992	1,256	6,077	3,081
Warrants	—	662,130	—	662,130
	1,634,706	2,475,826	4,481,879	3,279,013
Interest income	65,244	44,633	218,906	44,633
Deferred income tax recovery (expense).....	248,622	27,668	232,221	(47,892)
	313,866	72,301	451,127	(3,259)
Loss and comprehensive loss for the period	<u>\$ (1,320,840)</u>	<u>\$ (2,403,525)</u>	<u>\$ (4,030,752)</u>	<u>\$ (3,282,272)</u>
Loss per share – basic and diluted (note 8).....	<u>\$ (0.02)</u>	<u>\$ (0.04)</u>	<u>\$ (0.06)</u>	<u>\$ (0.07)</u>
Weighted average number of common shares outstanding	<u>70,216,369</u>	<u>56,359,688</u>	<u>69,599,674</u>	<u>46,942,425</u>

See accompanying notes, which are an integral part of these consolidated interim financial statements.

Dalradian Resources Inc.
(An exploration stage company)

Consolidated Statements of Shareholders' Equity

(Expressed in Canadian dollars)
(Unaudited)

	Nine months ended	
	September 30, 2011	September 30, 2010
Share capital:		
Balance, beginning of period	\$ 41,420,039	\$ 9,855,166
Public offering	—	29,951,335
Options exercised	341,851	—
Warrants exercised	2,081,957	955,169
Balance, end of period	<u>\$ 43,843,847</u>	<u>\$ 40,761,670</u>
Warrants:		
Balance, beginning of period	\$ 5,862,545	\$ 209,197
Warrants issued	352,228	5,823,867
Warrants exercised	(745,112)	—
Warrants expired	(5,007,711)	—
Balance, end of period	<u>\$ 461,950</u>	<u>\$ 6,033,064</u>
Contributed surplus:		
Balance, beginning of period	\$ 1,620,537	\$ —
Increase from stock-based compensation	1,264,801	1,348,414
Options exercised	(157,475)	—
Warrants expired	4,930,473	—
Balance, end of period	<u>\$ 7,658,336</u>	<u>\$ 1,348,414</u>
Accumulated deficit:		
Balance, beginning of period	\$ (7,346,483)	\$ (1,243,229)
Loss for the period	(4,030,752)	(3,282,272)
Balance, end of period	<u>\$ (11,377,235)</u>	<u>\$ (4,525,501)</u>
Total shareholders' equity	<u>\$ 40,586,898</u>	<u>\$ 43,617,647</u>

See accompanying notes, which are an integral part of these consolidated interim financial statements.

Dalradian Resources Inc.
(An exploration stage company)

Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)
(Unaudited)

	Nine months ended	
	September 30, 2011	September 30, 2010
Cash flows from (used in) operating activities:		
Loss for the period	\$ (4,030,752)	\$ (3,282,272)
Foreign exchange loss (gain)	64,805	(6,716)
Items not effecting cash:		
Amortization of administrative assets	117,992	5,379
Stock-based compensation	1,083,241	1,133,206
Warrants	—	662,130
Interest income	(218,906)	(44,633)
Deferred income tax expense.....	(232,221)	47,892
Change in non-cash operating working capital:		
Amounts receivable	105,473	(101,469)
Prepaid expenses	(21,236)	(576,817)
Accounts payable and accrued liabilities	(1,038,773)	122,457
Cash flows from operating activities	<u>\$ (4,170,377)</u>	<u>\$ (2,040,843)</u>
Cash flows from financing activities:		
Issuance of share capital from exercise of options, net of issue costs	\$ 184,375	\$ 35,775,202
Issuance of share capital from exercise of warrants, net of issue costs..	1,645,290	193,087
Cash flows from financing activities.....	<u>\$ 1,829,665</u>	<u>\$ 35,968,289</u>
Cash flows used in investing activities:		
Expenditures on mineral properties	\$ (6,651,940)	\$ (1,038,781)
Additions to plant and equipment	(578,648)	(156,421)
Interest received	228,741	15,868
Cash flows used in investing activities.....	<u>\$ (7,001,847)</u>	<u>\$ (1,179,334)</u>
(Decrease) increase in cash	(9,342,559)	32,748,112
Cash, beginning of period.....	33,173,152	2,694,471
Effect of exchange rate fluctuations on cash held	(17,780)	(757)
Cash, end of period	<u>\$ 23,812,813</u>	<u>\$ 35,441,826</u>
Represented by:		
Cash on hand and bank deposits	<u>\$ 23,812,813</u>	<u>\$ 35,441,826</u>

See accompanying notes, which are an integral part of these consolidated interim financial statements.

Notes to Interim Consolidated Financial Statements
(Expressed in Canadian dollars)

Three and nine months ended September 30, 2011 and September 30, 2010 (unaudited)

1. NATURE OF OPERATIONS AND GOING CONCERN

Dalradian Resources Inc. (the "Company") was incorporated on March 27, 2009, in the Province of Ontario, Canada, and is involved in the acquisition, exploration and development of mineral properties in Northern Ireland. The registered address of the Company's head office is 155 Wellington Street West, Suite 2920, Toronto, Ontario, M5V 3H1. The majority of the Company's efforts are devoted to the exploration of its properties. The recoverability of the amounts paid for the acquisition of, and investment in, mineral properties (note 5) is dependent upon the discovery of economically recoverable reserves, the preservation of the Company's interest in the underlying prospecting licences, the ability to obtain necessary financing and the attainment of profitable operations or, alternatively, the disposal of properties or the Company's interests therein on an advantageous basis.

While the Company has no source of revenue, it believes it has sufficient cash resources to meet its exploration and administrative overhead and maintain its mineral investments planned for the next twelve months. In order to meet future expenditures and cover administrative and exploration costs beyond that point, the Company will need to raise additional financing. Although the Company has been successful in raising funds to date, there can be no assurance that adequate funding will be available in the future, or available under terms favourable to the Company.

The unaudited consolidated condensed interim financial statements ("consolidated interim financial statements") have been prepared in accordance with IAS 34, *Interim Financial Reporting*. Accordingly certain information and disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), have been omitted or condensed. This is the first year that the Company has adopted IFRS in its interim consolidated financial statements and IFRS 1, *First-time Adoption of International Financial Reporting Standards* has been applied.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 13.

These financial statements have been prepared on the going concern basis. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Company are in accordance with IFRS and follow the same accounting policies and methods as noted in Note 2 to the unaudited interim consolidated financial statements for the three months ended March 31, 2011.

3. RECENT ACCOUNTING PRONOUNCEMENTS

IFRS 9 *Financial Instruments*

IFRS 9 (2009) replaces the guidance in IAS 39 *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets. IFRS 9 (2009) eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivable.

Dalradian Resources Inc.

(An exploration stage company)

Notes to Interim Consolidated Financial Statements

(Expressed in Canadian dollars)

Three and nine months ended September 30, 2011 and September 30, 2010 (unaudited)

Financial assets will be classified into one of two categories on initial recognition:

- financial assets measured at amortized cost; or
- financial assets measured at fair value.

Gains and losses on remeasurement of financial assets measured at fair value will be recognized in the statement of loss and comprehensive loss for the period.

IFRS 9 (2010) added guidance to IFRS 9 (2009) on the classification and measurement of financial liabilities, and this guidance is consistent with the guidance in IAS 39, except for financial liabilities measured at fair value, which is not expected to be applicable to the Company.

The Company intends to adopt IFRS 9 (2010) in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect IFRS 9 (2010) to have a material impact on the financial statements. The classification and measurement of the Company's financial assets is not expected to change under IFRS 9 (2010) because of the nature of the Company's operations and the types of financial assets that it holds.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the guidance in IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*. IAS 27 (2008) survives as IAS 27 (2011) *Separate Financial Statements*, only to carry forward the existing accounting requirements for separate financial statements.

IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are Special Purpose Entities in the scope of SIC-12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 (2008).

The Company intends to adopt IFRS 10 in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect IFRS 10 to have a material impact on the financial statements.

IFRS 12 Disclosures of Interests in Other Entities

IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The required disclosures aim to provide information in order to enable users to evaluate the nature of, and the risks associated with, an entity's interest in other entities, and the effects of those interests on the entity's financial position, financial performance and cash flows.

The Company intends to adopt IFRS 12 in its financial statements for the annual period beginning on January 1, 2013. When applied, it is expected that the amendment to IFRS 12 will increase the current level of disclosure of interests in other entities.

IFRS 13 Fair Value Measurement

IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information

Dalradian Resources Inc.
(An exploration stage company)

Notes to Interim Consolidated Financial Statements

(Expressed in Canadian dollars)

Three and nine months ended September 30, 2011 and September 30, 2010 (unaudited)

that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs, the effect of the measurements on the statement of loss and comprehensive loss or other comprehensive income.

The Company intends to adopt IFRS 13 prospectively in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect IFRS 13 to have a material impact on the financial statements.

4. PLANT AND EQUIPMENT

	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Net book value</u>
September 30, 2011			
Furniture and office equipment	\$ 237,558	\$ 51,719	\$ 185,839
Computer equipment	112,949	14,648	98,301
Leasehold improvements	589,449	88,745	500,704
Plant and equipment	18,432	1,346	17,086
Automobiles	138,130	28,715	109,415
	<u>\$ 1,096,518</u>	<u>\$ 185,173</u>	<u>\$ 911,345</u>
December 31, 2010			
Furniture and office equipment	\$ 18,888	\$ 6,529	\$ 12,359
Computer equipment	30,271	3,465	26,806
Leasehold improvements	363,072	4,968	358,104
Automobiles	105,639	5,206	100,433
	<u>\$ 517,870</u>	<u>\$ 20,168</u>	<u>\$ 497,702</u>

Notes to Interim Consolidated Financial Statements

(Expressed in Canadian dollars)

Three and nine months ended September 30, 2011 and September 30, 2010 (unaudited)

5. MINERAL PROPERTIES

	September 30, 2011	December 31, 2010
Northern Ireland	\$ 16,152,838	\$ 9,075,580
	<u>\$ 16,152,838</u>	<u>\$ 9,075,580</u>

	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Balance, beginning of period	\$ 13,372,588	\$ 7,313,121	\$ 9,075,580	\$ 6,701,662
Option and acquisition costs	—	(5,615)	—	11,684
Licences and permits	70,280	48,933	170,799	134,201
Drilling and assays	1,989,866	353,637	4,783,388	617,812
Personnel, administration and travel	514,620	32,092	1,576,813	219,388
Environmental	91,100	—	200,494	—
Studies and evaluation reports	73,314	9,959	120,419	67,380
Stock-based compensation	41,070	215,208	181,562	215,208
Warrants	—	—	43,783	—
	<u>\$ 16,152,838</u>	<u>\$ 7,967,335</u>	<u>\$ 16,152,838</u>	<u>\$ 7,967,335</u>

The mineral properties balance of \$16,152,838 at September 30, 2011 includes \$16,109,055 in relation to exploration and evaluation assets and \$43,783 in relation to warrants issued to landowners.

Pursuant to a royalty agreement (the “Royalty Agreement”) dated December 13, 2004, between Ulster Minerals Limited (now DGL) and Minco Plc, a company duly incorporated under the laws of the Republic of Ireland, a 2% net smelter return royalty on a portion of the Curraghinalt Deposit (as defined in the Royalty Agreement) is payable by DGL to Minco Plc, or its nominee. A 4% royalty will be payable by DGL to the Crown Estate Commissioners (“CEC”) on all mineral prospecting licences that comprise the Tyrone Project, upon production of silver and/or gold on the Tyrone Project.

Extensions for the Department of Enterprise, Trade and Investment (“DETI”) mineral prospecting licence areas DG1 and DG2 were submitted to DETI during the quarter and are under review. DETI is still processing the renewals of DG3 and DG4, which were submitted in the second quarter of 2011. The Company has been informed by DETI that it will process these applications as expeditiously as possible.

The Company was informed by the CEC in April 2011 that it had undertaken a review of its Mines Royal policy and indicated its desire to replace mineral prospecting licences, as they become due for renewal, with mining lease option agreements. There is no material change in rights or fees between the mineral prospecting licences and mining lease option agreements. Accordingly, CEC mineral prospecting licences TG3 and TG4 (which correspond to the DETI DG3 and DG4 licences respectively) were renewed as option agreements in July 2011. A renewal application for CEC mineral prospecting licences DG1 and DG2 were submitted in August 2011, in advance of the licence expiry on December 31, 2011. These licences will also be amended to mining lease option agreements. The Company has been advised by the CEC they will process the DG1 and DG2 option agreements as expeditiously as possible.

Dalradian Resources Inc.
(An exploration stage company)

Notes to Interim Consolidated Financial Statements

(Expressed in Canadian dollars)

Three and nine months ended September 30, 2011 and September 30, 2010 (unaudited)

6. SHARE CAPITAL, WARRANTS AND STOCK OPTIONS

(a) Common shares:

The Company is authorized to issue an unlimited number of common shares with no par value. As at September 30, 2011, 70,474,243 (December 31, 2010: 69,089,916) common shares were issued and outstanding.

	Number of shares issued	Amount
Balance, January 1, 2010	42,155,750	\$ 9,855,166
Public offering	26,100,000	33,903,900
Issuance on exercise of warrants	821,666	1,622,959
Issuance on exercise of options	12,500	5,066
Issuance costs of public offering	—	(3,967,052)
Balance, December 31, 2010	69,089,916	\$ 41,420,039
Issuance on exercise of options	12,500	5,066
Balance, March 31, 2011	69,102,416	\$ 41,425,105
Issuance on exercise of options	225,000	212,995
Issuance on exercise of warrants	559,845	1,066,132
Balance, June 30, 2011	69,887,261	\$ 42,704,232
Issuance on exercise of options	66,667	123,790
Issuance on exercise of warrants (i) (ii)	520,315	1,015,825
Balance, September 30, 2011	<u>70,474,243</u>	<u>\$ 43,843,847</u>

Dalradian Resources Inc.
(An exploration stage company)

Notes to Interim Consolidated Financial Statements

(Expressed in Canadian dollars)

Three and nine months ended September 30, 2011 and September 30, 2010 (unaudited)

(b) Warrants:

	Number of Warrants	Amount	Weighted average exercise price
Balance, January 1, 2010	480,000	\$ 209,197	\$ 0.75
Warrants issued on public offering	13,050,000	5,246,100	2.25
Warrants issued on exercise of broker warrants	130,500	76,908	2.25
Broker warrants issued	1,696,500	1,185,854	1.50
Exercised	(405,000)	(245,198)	(1.23)
Issuance costs of public offering	—	(610,316)	—
Balance, December 31, 2010	14,952,000	\$ 5,862,545	\$ 2.14
Warrants issued	30,000	43,783	2.17
Balance, March 31, 2011	14,982,000	\$ 5,906,328	\$ 2.14
Warrants issued on exercise of broker warrants	279,922	164,968	2.25
Exercised	(559,845)	(391,332)	(1.50)
Balance, June 30, 2011	14,702,077	\$ 5,679,964	\$ 2.17
Warrants issued on exercise of broker warrants (ii)	243,458	143,477	2.25
Exercised (i) (ii)	(520,315)	(353,780)	(1.55)
Expired (iii)	(13,670,480)	(5,007,711)	(2.25)
Balance, September 30, 2011	754,740	\$ 461,950	\$ 1.19

- (i) On August 4, 2011, the Company issued 486,915 common shares and 243,458 common share purchase warrants as a result of the exercise of 486,915 broker warrants. The cash proceeds from the warrant exercise was \$730,372 of which \$632,503 was allocated to common shares and \$97,869 was allocated to common share purchase warrants. The fair value on issuance recorded in warrants of \$340,353 was allocated between common shares (\$294,745) and common share purchase warrants (\$45,608).
- (ii) On August 9, 2011, the Company issued 33,400 common shares as a result of the exercise of 33,400 warrants. The cash proceeds from the warrant exercise was \$75,150 and \$13,427 of the fair value recorded as common share purchase warrants was transferred to common shares.
- (iii) On August 10, 2011, 13,670,480 common share purchase warrants exercisable at \$2.25 per share, with a carrying value of \$5,007,711, expired.

Dalradian Resources Inc.
(An exploration stage company)

Notes to Interim Consolidated Financial Statements

(Expressed in Canadian dollars)

Three and nine months ended September 30, 2011 and September 30, 2010 (unaudited)

As at September 30, 2011, the following warrants were issued and outstanding:

<u>Type</u>	<u>Expiry Date</u>	<u>Number of Warrants</u>	<u>Shares Issuable</u>	<u>Value</u>	<u>Exercise Price</u>
Warrants	December 18, 2011	336,000	336,000	\$ 146,438	\$ 0.75
Broker warrants	February 10, 2012	388,740	388,740	271,729	1.50
Warrants	January 1, 2016	30,000	30,000	43,783	2.17
		<u>754,740</u>	<u>754,740</u>	<u>\$ 461,950</u>	<u>\$ 1.19</u>

Each warrant entitles the holder to purchase one common share at the stated exercise price up to the expiry date.

The fair value of the Company's warrants granted during the nine months ended September 30, 2011, was estimated using the Black-Scholes option pricing model using the following assumptions:

Volatility	100.0%
Risk-free interest rate	1.55% to 1.70%
Expected life (years).....	1.5 to 3
Dividend yield	nil

Notes to Interim Consolidated Financial Statements

(Expressed in Canadian dollars)

Three and nine months ended September 30, 2011 and September 30, 2010 (unaudited)

(c) Stock options:

On April 27, 2010, the Company adopted a new stock option plan under which it is authorized to grant options to senior officers, directors, employees and consultants.

As at September 30, 2011, stock options granted and still outstanding were as follows:

<u>Grant Date</u>	<u>Fair Value of Options Outstanding</u>	<u>Number of Non-Vested Options</u>	<u>Weighted average remaining life in years</u>	<u>Number of Vested Options ²</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
November 16, 2009 ¹	\$ 100,955	-	3.86	650,000	\$ 0.25	August 10, 2015
April 15, 2010	23,365	16,667	0.50	33,333	0.75	March 30, 2012
April 15, 2010	93,461	-	1.00	200,000	0.75	September 28, 2012
April 15, 2010	1,000,203	299,999	3.86	1,783,334	0.75	August 10, 2015
June 9, 2010	256,575	100,000	3.86	450,000	0.75	August 10, 2015
August 19, 2010	345,556	100,000	3.89	200,000	1.85	August 19, 2015
October 18, 2010	59,080	-	0.08	41,667	2.28	October 29, 2011
January 14, 2011	122,178	66,666	4.29	33,334	1.96	January 14, 2016
March 30, 2011	685,250	333,333	4.50	166,667	2.19	March 30, 2016
May 13, 2011	120,345	83,333	4.62	41,667	1.54	May 13, 2016
May 27, 2011	249,632	-	4.66	250,000	1.60	May 27, 2016
August 2, 2011	154,859	100,000	4.84	50,000	1.66	August 2, 2016
August 22, 2011	187,095	133,333	4.90	66,667	1.51	August 22, 2016
	<u>\$ 3,398,554</u>	<u>1,233,331</u>	<u>3.89</u>	<u>3,966,669</u>		

¹ Replacement options were issued on April 28, 2010, following the adoption of the new stock option plan, which replace these options. Under the old plan, as the shares were not listed on any stock exchange, the fair value was determined by the Board of Directors, at their discretion, and options had a term of ten years.

² The weighted average exercise price of vested stock options at September 30, 2011 is \$0.90 (Dec 31, 2010: \$0.77).

On October 18, 2010, the Company issued 125,000 options with an exercise price of \$2.28. 41,667 of these options vested immediately and expired on 29 October 2011 and have a fair value of \$59,080. The remaining 83,333 were forfeited on July 31, 2011.

On August 2, 2011, 75,000 options were each granted to two employees with an exercise price of \$1.66 per share. One third of these options vest immediately with the remaining thirds each vesting on the first and second anniversaries of the date they were issued. The options expire August 2, 2016.

On August 22, 2011, 200,000 options were granted to an employee with an exercise price of \$1.51 per share. One third of these options vest immediately with the remaining thirds each vesting on the first and second anniversaries of the date they were issued. The options expire August 22, 2016.

On September 23, 2011, the Company accelerated the vesting of 66,666 options given to a former employee of the Company and the previously unrecognized charge for these options has been expensed. These options had been granted on April 15, 2010.

Dalradian Resources Inc.
(An exploration stage company)

Notes to Interim Consolidated Financial Statements

(Expressed in Canadian dollars)

Three and nine months ended September 30, 2011 and September 30, 2010 (unaudited)

The fair value of the Company's options granted to employees in the nine months ended September 30, 2011, was estimated using the Black-Scholes option pricing model using the following assumptions:

Volatility	100.0%
Risk-free interest rate	1.04% to 2.13%
Expected life (years).....	3
Dividend yield	nil
Vesting (years)	0 to 2

The Company estimated the future volatility of 100% by reference to the historic volatility of comparable listed companies on the Toronto Stock Exchange.

Grant Date	Nine months ended September 30, 2011		Nine months ended September 30, 2010	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Balance, beginning of period.....	4,295,834	1.02	750,000	0.25
Granted	1,325,000	1.57	3,400,000	0.84
Exercised.....	(304,167)	(0.75)	—	—
Forfeited	(116,667)	(2.28)	—	—
Balance, end of period.....	<u>5,200,000</u>	<u>1.04</u>	<u>4,150,000</u>	<u>0.74</u>

7. RELATED PARTY TRANSACTIONS

Compensation of key management personnel comprised:

	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Management salaries.....	574,988	243,750	1,187,314	462,500
Directors' fees.....	87,500	—	235,000	—
Stock-based compensation.....	238,912	1,185,986	1,023,598	1,185,986
Consulting fees.....	—	—	—	63,000
	<u>901,400</u>	<u>1,429,736</u>	<u>2,445,912</u>	<u>1,711,486</u>

Dalradian Resources Inc.
(An exploration stage company)

Notes to Interim Consolidated Financial Statements

(Expressed in Canadian dollars)

Three and nine months ended September 30, 2011 and September 30, 2010 (unaudited)

8. BASIC AND DILUTED LOSS PER SHARE

The following table sets forth the computation of basic and diluted loss per share:

	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Numerator:				
Loss for the period and comprehensive loss.....	\$ (1,320,840)	\$ (2,403,525)	\$ (4,030,752)	\$ (3,282,272)
Numerator for basic and diluted loss per share.....	<u>\$ (1,320,840)</u>	<u>\$ (2,403,525)</u>	<u>\$ (4,030,752)</u>	<u>\$ (3,282,272)</u>
Denominator:				
Weighted average number of common shares.....	70,216,369	56,359,688	69,599,674	46,942,425
Denominator for basic and diluted loss per share.....	<u>70,216,369</u>	<u>56,359,688</u>	<u>69,599,674</u>	<u>46,942,425</u>
Basic and diluted loss per share.....	<u>\$ (0.02)</u>	<u>\$ (0.04)</u>	<u>\$ (0.06)</u>	<u>\$ (0.07)</u>

The stock options and share purchase warrants were not included in the computation of diluted loss per share as their inclusion would be anti-dilutive.

9. FINANCIAL INSTRUMENTS AND CURRENCY RISK

The carrying values of cash, amounts receivable and accounts payable and accrued liabilities reflected in the consolidated balance sheet approximate fair value because of the short-term maturity of these financial instruments.

On December 16, 2009, the Company issued 416,666 warrants, each of which were exercisable into one common share at an exercise price of U.S. \$0.45. The warrants have been classified as financial liabilities at fair value through the statement of loss and comprehensive loss. They were valued at \$99,952 using the Black-Scholes option pricing on the date of issue. Prior to their exercise on September 30, 2010, a loss of \$662,130 was recorded to adjust the carrying value to fair value.

10. COMMITMENTS AND CONTINGENCIES

The Company may be subject to various contingent liabilities that occur in the normal course of operations.

Dalradian Resources Inc.
(An exploration stage company)

Notes to Interim Consolidated Financial Statements

(Expressed in Canadian dollars)

Three and nine months ended September 30, 2011 and September 30, 2010 (unaudited)

11. SEGMENTED REPORTING

The Company has one operating segment, the exploration of gold properties in Northern Ireland, with a head office in Canada. The geographical segmentation of the Company's assets and revenues are as follows:

	<u>Canada</u>	<u>Northern Ireland</u>	<u>Total</u>
As at September 30, 2011			
Current assets	\$ 23,621,285	\$ 1,289,020	\$ 24,910,305
Mineral properties	—	16,152,838	16,152,838
Plant and equipment.....	665,273	246,072	911,345
Total assets	<u>\$ 24,286,558</u>	<u>\$ 17,687,930</u>	<u>\$ 41,974,488</u>
Three months ended September 30, 2011			
Revenue	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Net loss.....	<u>\$ 1,248,169</u>	<u>\$ 72,671</u>	<u>\$ 1,320,840</u>
Nine months ended September 30, 2011			
Revenue	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Net loss.....	<u>\$ 3,491,410</u>	<u>\$ 539,342</u>	<u>\$ 4,030,752</u>
As at December 31, 2010			
Current assets	\$ 33,341,555	\$ 981,435	\$ 34,322,990
Mineral properties	—	9,075,580	9,075,580
Plant and equipment.....	308,488	189,214	497,702
Total assets	<u>\$ 33,650,043</u>	<u>\$ 10,246,229</u>	<u>\$ 43,896,272</u>
Three months ended September 30, 2010			
Revenue	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Net loss (gain).....	<u>\$ 2,414,099</u>	<u>\$ (10,574)</u>	<u>\$ 2,403,525</u>
Nine Months ended September 30, 2010			
Revenue	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Net loss.....	<u>\$ 3,203,205</u>	<u>\$ 79,067</u>	<u>\$ 3,282,272</u>

12. SUBSEQUENT EVENTS

On November 2, 2011, the board of directors cumulatively granted 275,000 stock options to six employees of the Company with an exercise price of \$2.20 per share.

Notes to Interim Consolidated Financial Statements
(Expressed in Canadian dollars)

Three and nine months ended September 30, 2011 and September 30, 2010 (unaudited)

13. EXPLANATION OF TRANSITION TO IFRS

As stated in Note 1, these financial statements are prepared in accordance with IAS 34.

The accounting policies, as noted in Note 2 to the unaudited interim consolidated financial statements for the three months ended March 31, 2011, have been applied in preparing the financial statements for the quarter ended September 30, 2011, the comparative information presented in these financial statements for the quarter ended September 30, 2010, year ended December 31, 2010, and in the preparation of an opening IFRS balance sheet as at January 1, 2010 (the transition date).

In preparing its opening IFRS balance sheet and the comparative information for the quarter ended September 30, 2010 and the year ended December 31, 2010, the Company has adjusted amounts reported previously in its financial statements prepared in accordance with Pre-Changeover Accounting Standards ("PCAS"). An explanation of how the transition from PCAS to IFRS has affected the Company's financial position and financial performance is set out in the following tables and the notes that accompany the tables. There were no material changes to the Company's statement of cash flows as a result of the changeover to IFRS.

Dalradian Resources Inc.
(An exploration stage company)

Notes to Interim Consolidated Financial Statements

(Expressed in Canadian dollars)

Three and nine months ended September 30, 2011 and September 30, 2010 (unaudited)

Reconciliation of Equity

	PCAS	Warrants (Note a)	Stock Compensation (Note b)	Deferred Income Tax (Note c)	IFRS
September 30, 2010					
ASSETS					
Current assets:					
Cash	\$ 35,441,826	\$ —	\$ —	\$ —	\$ 35,441,826
Amounts receivable	132,149	—	—	—	132,149
Prepaid expenses	578,072	—	—	—	578,072
	<u>36,152,047</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>36,152,047</u>
Plant and equipment	148,624	—	—	—	148,624
Mineral properties	8,230,203	—	—	(262,868)	7,967,335
	<u>\$ 44,530,874</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (262,868)</u>	<u>\$ 44,268,006</u>
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Accounts payable and accrued liabilities	\$ 545,653	\$ —	\$ —	\$ —	\$ 545,653
Deferred income taxes	262,868	—	—	(158,162)	104,706
	<u>808,521</u>	<u>—</u>	<u>—</u>	<u>(158,162)</u>	<u>650,359</u>
Shareholders' equity:					
Share capital	40,099,540	662,130	—	—	40,761,670
Warrants	6,033,064	—	—	—	6,033,064
Contributed surplus	1,374,436	—	(26,022)	—	1,348,414
Accumulated deficit	(3,784,687)	(662,130)	26,022	(104,706)	(4,525,501)
	<u>43,722,353</u>	<u>—</u>	<u>—</u>	<u>(104,706)</u>	<u>43,617,647</u>
	<u>\$ 44,530,874</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (262,868)</u>	<u>\$ 44,268,006</u>

Dalradian Resources Inc.
(An exploration stage company)

Notes to Interim Consolidated Financial Statements

(Expressed in Canadian dollars)

Three and nine months ended September 30, 2011 and September 30, 2010 (unaudited)

Reconciliation of Comprehensive Income

	PCAS	Warrants (Note a)	Stock Compensation (Note b)	Deferred Income Tax (Note c)	IFRS	PCAS	Warrants (Note a)	Stock Compensation (Note b)	Deferred Income Tax (Note c)	IFRS
	Three months ended September 30, 2010					Nine months ended September 30, 2010				
Operating expenses:										
Professional fees and consulting.....	\$ 133,698	\$ —	\$ —	\$ —	\$ 133,698	\$ 383,386	\$ —	\$ —	\$ —	\$ 383,386
Salaries and wages	294,713	—	—	—	294,713	594,695	—	—	—	594,695
Travel and investor relations	150,245	—	—	—	150,245	310,022	—	—	—	310,022
Office, regulatory and general	75,217	—	—	—	75,217	183,676	—	—	—	183,676
Interest and bank charges	1,256	—	—	—	1,256	3,081	—	—	—	3,081
Amortization of administrative assets	4,829	—	—	—	4,829	5,379	—	—	—	5,379
Foreign exchange loss (gain)	20,532	—	—	—	20,532	3,438	—	—	—	3,438
Stock-based compensation.....	1,159,228	—	(26,022)	—	1,133,206	1,159,228	—	(26,022)	—	1,133,206
Warrants	—	662,130	—	—	662,130	—	662,130	—	—	662,130
	<u>1,839,718</u>	<u>662,130</u>	<u>(26,022)</u>	<u>—</u>	<u>2,475,826</u>	<u>2,642,905</u>	<u>662,130</u>	<u>(26,022)</u>	<u>—</u>	<u>3,279,013</u>
Interest income	44,633	—	—	—	44,633	44,633	—	—	—	44,633
Deferred income tax credit (expense).....	—	—	—	27,668	27,668	—	—	—	(47,892)	(47,892)
	<u>44,633</u>	<u>—</u>	<u>—</u>	<u>27,668</u>	<u>72,301</u>	<u>44,633</u>	<u>—</u>	<u>—</u>	<u>(47,892)</u>	<u>(3,259)</u>
Loss and comprehensive loss for the period	<u>\$ (1,795,085)</u>	<u>\$ (662,130)</u>	<u>\$ 26,022</u>	<u>\$ 27,668</u>	<u>\$ (2,403,525)</u>	<u>\$ (2,598,272)</u>	<u>\$ (662,130)</u>	<u>\$ 26,022</u>	<u>\$ (47,892)</u>	<u>\$ (3,282,272)</u>
Loss per share – basic and diluted	<u>\$ (0.03)</u>	<u>\$ (0.01)</u>	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>	<u>\$ (0.04)</u>	<u>\$ (0.06)</u>	<u>\$ (0.01)</u>	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>	<u>\$ (0.07)</u>
Weighted average number of common shares outstanding	<u>56,359,688</u>	<u>56,359,688</u>	<u>56,359,688</u>	<u>56,359,688</u>	<u>56,359,688</u>	<u>46,942,425</u>	<u>46,942,425</u>	<u>46,942,425</u>	<u>46,942,425</u>	<u>46,942,425</u>

Notes to Interim Consolidated Financial Statements

(Expressed in Canadian dollars)

Three and nine months ended September 30, 2011 and September 30, 2010 (unaudited)

13. EXPLANATION OF TRANSITION TO IFRS (continued)

Notes to the reconciliation of equity and statements of loss and comprehensive loss

- (a) Under PCAS, the Company treated all warrants as equity instruments. However under IFRS, the 416,666 of U.S. dollar denominated share purchase warrants are considered to be a financial instrument. The Company's functional currency is the Canadian dollar. As a result, these warrants are indexed to both the Company's stock price and the foreign exchange rate. The impact of this is to reclassify the U.S. dollar denominated share purchase warrants from equity to liabilities at their fair value and to adjust them to fair value at each period end, with the changes in fair value being recorded in the statements of loss and comprehensive loss.

At the transition date, the impact of the warrants re-classification from equity to liabilities was \$99,952. The warrants were exercised on September 30, 2010 and the impact of this has resulted in a charge to the statement of loss and comprehensive loss of \$662,130 with a corresponding increase in share capital for the quarter ended September 30, 2010.

- (b) In accordance with IFRS 2, the Company has considered options granted to an individual considered to be a non-employee under PCAS, to be an employee for the purposes of accounting for stock-based compensation. The impact of this is that these options will now be measured by reference to the fair value of the option itself at grant date under IFRS, whereas under PCAS the options were adjusted to fair value at each period end.

Based on the vesting terms of stock-based compensation, the Company did not recognize any amounts for stock-based compensation prior to the completion of its initial public offering on August 10, 2010. As such, there is no impact of this difference on the Company's opening balance sheet as at January 1, 2010. However the impact in the quarter ended September 30, 2010 and December 31, 2010 is a reduction in the charge to the statement of loss and comprehensive loss of \$26,022 and \$32,679 respectively with a corresponding reduction in contributed surplus.

In addition, during the year ended December 31, 2010, the Company accelerated the vesting of options issued to former officers of the Company. Under PCAS, this modification was accounted for by reversing previous compensation costs and recognizing the difference in fair value immediately before and after the modification in earnings. IFRS requires that only the previously unrecognized stock compensation costs for the options be recorded in earnings on the date of modification. This difference resulted in a decrease of stock-based compensation costs of \$280,544 during the year ended December 31, 2010.

- (c) Under PCAS, the Company recorded a deferred income tax liability in relation to the acquisition of DGL with a corresponding increase in the mineral property. However under IAS 12, a deferred income tax liability is not recognized when an asset is acquired in a transaction which is not a business combination and affects neither accounting profit nor taxable profit.

In addition, under IFRS the Company has recognized the deferred income taxes related to the difference between the book value of the non-monetary assets and the underlying tax basis, translated to the functional currency using the current foreign exchange rate. Under PCAS, the tax

Notes to Interim Consolidated Financial Statements
(Expressed in Canadian dollars)

Three and nine months ended September 30, 2011 and September 30, 2010 (unaudited)

effect of such temporary differences related to translation gains or losses were specifically exempted from being recognized.

At the transition date, the impact of the above has resulted in a reduction in mineral properties of \$274,552, a decrease in the deferred income tax liability of \$217,738 and a decrease in retained earnings of \$56,814. In the nine months ended September 30, 2010, the impact is a reduction in mineral properties of \$262,868, a decrease in the deferred income tax liability of \$158,162 and a decrease in retained earnings of \$104,706.

Mandatory and Optional Exemptions

IFRS 1 provides several optional and mandatory exemptions to retrospective application of IFRS. The IFRS 1 exemptions applied by the Company in its conversion from PCAS to IFRS are:

Mandatory Exemptions

Estimates made at the transition date under PCAS must be consistent with estimates made under IFRS, unless they need to be adjusted to reflect a revised accounting policy. At the transition date, the Company did not use hindsight to create or revise estimates.

Optional Exemptions

IAS 32 Financial Instruments: *Presentation* requires an entity to split a compound financial instrument at inception into separate liability and equity components. However under this IFRS, a first-time adopter need not separate these two components if the liability component is no longer outstanding at the date of transition to IFRS. The Company applied this exemption to the convertible debentures which the Company issued during the year ended December 31, 2009 and had been converted to equity by its transition date of January 1, 2010. As a result, the accounting for these debentures under PCAS was unchanged in the changeover to IFRS.