

# DALRADIAN RESOURCES

Dalradian Resources Inc.

## **Management's Discussion and Analysis**

For the three and nine months ended September 30, 2011

November 9, 2011

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## INTRODUCTION

Unless the context suggests otherwise, references to “Dalradian Resources,” “Dalradian,” the “Company” or similar terms refer to Dalradian Resources Inc. and its wholly-owned subsidiary, Dalradian Gold Limited (“DGL”).

This management’s discussion and analysis (“MD&A”) should be read in conjunction with the Company’s interim consolidated financial statements and related notes for the three and nine months ended September 30, 2011 and the Company’s audited consolidated financial statements and related notes for the year ended December 31, 2010, and for the period from the date of incorporation on March 27, 2009 to December 31, 2009, and the Company’s annual information form dated March 28, 2011 (the “AIF”).

The Company’s most recent technical report entitled *“A Mineral Resource Estimate for the Curraghinalt Gold Deposit and a Review of a Proposed Exploration Program for the Tyrone Project, County Tyrone and County Londonderry, Northern Ireland”* (the “Technical Report”) dated May 10, 2010, prepared by B. Terrence Hennessey, P. Geo., and Dibya Kanti Mukhopadhyay, M.Sc., MAusIMM, of Micon International Limited, is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company website at [www.dalradian.com](http://www.dalradian.com).

Garth Earls, Eur. Geol., Managing Director, DGL, is a “qualified person” as defined under the guidelines of National Instrument 43-101 *Standards of Disclosure for Mineral Projects* (“NI 43-101”) of the Canadian Securities Administrators and supervised the preparation of the technical data in this MD&A.

All amounts are in Canadian dollars unless otherwise noted.

This MD&A is dated November 9, 2011.

## FORWARD-LOOKING INFORMATION

This MD&A contains “forward-looking information” which may include, but is not limited to, statements with respect to the future financial or operating performance of the Company, and its mineral project, the future price of metals, the estimation of mineral resources, the realization of mineral resource estimates, the timing and amount of estimated future production, costs of production, capital, operating and exploration expenditures, costs and timing of the development of new deposits, costs and timing of future exploration, requirements for additional capital, government regulation of mining operations, environmental risks, reclamation expenses, title disputes or claims and limitations of insurance coverage. Often, but not always, forward-looking statements can be identified by the use of words and phrases such as “plans,” “expects,” “is expected,” “budget,” “scheduled,” “estimates,” “forecasts,” “intends,” “anticipates,” or “believes” or variations (including negative variations) of such words and phrases, or state that certain actions, events or results “may,” “could,” “would,” “might” or “will” be taken, occur or be achieved.

Forward-looking statements are based on the opinions and estimates of management as of the date such statements are made and are based on various assumptions such as continued political stability in Northern Ireland, that permits required for the Company’s operations will be obtained in a timely basis in order to permit the Company to proceed on schedule with its planned drilling programs, that skilled personnel and contractors will be available as the Company’s operations continue to grow, that the price of gold will be at levels that render the project economic, or that the Company will be able to continue raising the necessary capital to finance its operations and realize on mineral resource estimates.

Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, general business, economic, competitive, political and social uncertainties; the actual results of current exploration activities; actual results of reclamation activities; conclusions of economic evaluations; changes in project parameters as plans continue to be refined; future prices of metals; possible variations of ore grade or recovery rates; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the mining industry; political instability; delays in obtaining governmental approvals or financing or in the completion of development or construction activities, as well as those factors discussed in the section entitled “Risk Factors” in the AIF. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. Forward-looking statements contained herein are made as of the date of this MD&A and the Company disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results, except as may be required by applicable securities laws. 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. Accordingly, readers should not place undue reliance on forward-looking statements.

## DESCRIPTION OF BUSINESS

Incorporated on March 27, 2009, pursuant to the provisions of the *Business Corporations Act (Ontario)*, Dalradian is a Canadian based mineral resource company engaged in the acquisition, exploration and development of mineral properties. The Company's wholly-owned subsidiary, DGL, holds a 100% interest, subject to certain royalties, in mineral prospecting licences in counties Tyrone and Londonderry, Northern Ireland. The Department of Enterprise, Trade and Investment ("DETI") and the Crown Estate Commissioners ("CEC") have together granted to Dalradian base and precious metal mineral exploration rights to four contiguous areas collectively known as the Tyrone Project.

Dalradian's initial strategic focus is on the development of its flagship high-grade mesothermal gold deposit, Curraghinalt, located within the Tyrone Project in Northern Ireland.

## EXECUTIVE SUMMARY

### Exploration Program Objectives

- The continued extension of the known mineralization at the Curraghinalt Deposit;
- Better define and develop the current mineral resources identified at the Curraghinalt Deposit; and
- Explore and drill test 19 regional mineralized targets identified through a recent prospecting program.

### Curraghinalt

The Curraghinalt Deposit is a mesothermal gold system consisting of a series of approximately east-west trending high grade narrow veins in meta-sedimentary host rocks. The Curraghinalt Deposit currently hosts an NI 43-101 compliant indicated mineral resource estimate of 0.95 million tonnes grading 13.24 g/t gold for 400,000 contained ounces and inferred mineral resource estimate of 2.46 million tonnes grading 14.64 g/t gold for 1.16 million contained ounces. These details are set out in the Technical Report, which the reader is referred to for further details.

Since July 2011, the Company has had 5 rigs drilling at the Curraghinalt Deposit. The aim of this drilling has been to extend the known resource down dip and along strike. In the course of this work, a further 2 veins have been identified. These veins extend the mineralization across strike as well. Recent drilling has increased the strike length of the mineralization to almost 2 kilometres, as well as increasing the across strike extent to 500 metres. The veins are now delineated to 900 metres vertically below the surface.

### Regional Exploration

In addition to the 5 diamond drill rigs at the Curraghinalt Deposit, 1 diamond drill rig was dedicated to regional targets during the quarter. Diamond drilling during the quarter ended September 30, 2011 at Broughderg consisted of 2 holes which confirmed the previously identified gold mineralization in altered tuffs and chert. The mineralized system is delineated to 150 metres down dip. One diamond drill hole was completed at Tullybrick. It has intersected disseminated sulphides and stringer style veining which crosscuts the stratigraphy. Assay results are pending.

For maps of our regional exploration program, please see the Company's website at [www.dalradian.com](http://www.dalradian.com).

### Metres Drilled

For the three months ended September 30, 2011, 7,639 metres of drilling were invoiced. For the nine months ended September 30, 2011, 18,538 metres of drilling were invoiced.

### Exploration Activities Planned for the Three Months Ending December 31, 2011

- Expanded infill drilling on the Curraghinalt Deposit to provide an updated indicated mineral resource estimate;
- Drill testing of the most prospective areas defined in the Phase I prospecting campaign;

- Review effectiveness of previous geophysical surveys at identifying the Curraghinalt veins at depth, and the possibility of using geophysics to define the strike extent of the mineralization;
- Prospecting on approximately 40% of the licence areas not previously explored by Dalradian; and
- Increase the number of rigs on site from 6 to 7, allowing for regional drilling to continue without drawing rigs away from Curraghinalt.

For complete tables and figures of our exploration program, please see the Company's press releases, available on SEDAR at [www.sedar.com](http://www.sedar.com) or on the Company's website at [www.dalradian.com](http://www.dalradian.com).

## Financial Statements

The consolidated interim financial statements of the Company are prepared in accordance with IAS 34, *Interim Financial Reporting*. They are the Company's third interim financial statements in the year of adoption of International Financial Reporting Standards ("IFRS") and IFRS 1, *First-time Adoption of International Financial Reporting Standards* has been applied. In preparing 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 Note 13 to the interim consolidated financial statements for the three months ended March 31, 2011 and Note 13 to the interim consolidated financial statements for the three and nine months ended September 30, 2011.

## OVERVIEW OF SELECTED INFORMATION FROM THE FINANCIAL STATEMENTS

The following table sets forth selected data for the periods ended September 30, 2011 and 2010:

|  | Three months ended    |                       | Nine months ended     |                       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
|  | September 30, 2011    | September 30, 2010    | September 30, 2011    | September 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               |
|  | <u>1,634,706</u>      | <u>2,475,826</u>      | <u>4,481,879</u>      | <u>3,279,013</u>      |
| Interest income                        | 65,244                | 44,633                | 218,906               | 44,633                |
| Deferred income tax recovery (expense) | 248,622               | 27,668                | 232,221               | (47,892)              |
|  | <u>313,866</u>        | <u>72,301</u>         | <u>451,127</u>        | <u>(3,259)</u>        |
| 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     | <u>\$ (0.02)</u>      | <u>\$ (0.04)</u>      | <u>\$ (0.06)</u>      | <u>\$ (0.07)</u>      |
| Total Assets                           | <u>\$ 41,974,488</u>  | <u>\$ 44,268,006</u>  | <u>\$ 41,974,488</u>  | <u>\$ 44,268,006</u>  |
| Long-term financial liabilities        | <u>\$ —</u>           | <u>\$ —</u>           | <u>\$ —</u>           | <u>\$ —</u>           |

### **Results of Operation for the Three Months Ended September 30, 2011, versus Three Months Ended September 30, 2010**

Salaries increased in the three months ended September 30, 2011 to \$728,222, compared with \$294,713 for the same period in 2010, as the Company recruited staff at the end of 2010 and in 2011.

Professional fees and consulting costs decreased in the three months ended September 30, 2011 to \$120,236, compared with \$133,698 for the same period in 2010, due to consultants being replaced with in-house staff and initial public offering ("IPO") costs being replaced with ongoing public company requirements.

Stock-based compensation expense decreased in the three months ended September 30, 2011 to \$244,359, compared with \$1,133,206 in the three months ended September 30, 2010, as expense recognition commenced when the Company became a public company on August 10, 2010, leading to an initial charge.

Travel and investor relations expenses increased in the three months ended September 30, 2011 to \$261,679, compared with \$150,245 for the same period in 2010. Additional travel and investor relations activities were incurred as the Company expanded its operational and marketing activities and increased its staffing levels.

Office, regulatory and general expenses increased in the three months ended September 30, 2011 to \$168,956, compared with \$75,217 for the same period in 2010, due to an increase in rental space and associated costs for the offices in Toronto and Belfast.

Amortization increased in the three months ended September 30, 2011 to \$50,972, compared with \$4,829 for the same period in 2010, due to the acquisition of computers, equipment, furniture and leasehold improvements.

Foreign exchange increased from a loss of \$20,532 in the three months ended September 30, 2010, to a loss of \$57,290 in the three months ended September 30, 2011, primarily as a result of the translation between pounds sterling and the Canadian dollar.

Interest and bank charges in the three months ended September 30, 2011 have not changed significantly when compared to the three months ended September 30, 2010.

The warrants charge in 2010 relates to the change in fair value of the U.S. dollar denominated share purchase warrants during the three months ended September 30, 2010. Under IFRS, these warrants are considered to be financial instruments and the fair value is recorded in the statement of loss and comprehensive loss. The warrants were exercised on September 30, 2011 and accordingly there is no similar charge in the third quarter of 2011.

Interest income in the three months ended September 30, 2011 increased to \$65,244, compared with \$44,633 in the three months ended September 30, 2010, due to the funds received from the IPO being received in the third quarter of 2010.

### **Nine Months Ended September 30, 2011, versus Nine Months Ended September 30, 2010**

Salaries increased in the nine months ended September 30, 2011 to \$1,506,938, compared with \$594,695 for the same period in 2010, as the Company recruited staff during 2010 and in 2011.

Professional fees and consulting costs increased in the nine months ended September 30, 2011 to \$588,470, compared with \$383,386 for the same period in 2010, due to increased consultancy and prospecting costs incurred in relation to the Tyrone Project and increased professional fees as a result of public company requirements, partially offset by replacing consultants with in-house staff.

Stock-based compensation expense decreased in the nine months ended September 30, 2011 to \$1,083,241, compared with \$1,133,206 in the nine months ended September 30, 2010, due to the initial

charge when expense recognition commenced when the Company became a public company on August 10, 2010, partially offset by additional grants to new employees.

Travel and investor relations expenses increased in the nine months ended September 30, 2011 to \$634,616, compared with \$310,022 for the same period in 2010 due to increased travel between Canada and Northern Ireland and expanded investor relations activities.

Office, regulatory and general expenses increased in the nine months ended September 30, 2011 to \$482,834, compared with \$183,676 for the same period in 2010, due to listing and filing fees associated with public company requirements, rent and associated costs for offices in Toronto and Belfast.

Amortization increased in the nine months ended September 30, 2011 to \$117,992, compared with \$5,379 for the same period in 2010, due to the acquisition of computers, equipment, furniture and leasehold improvements.

A foreign exchange loss of \$61,711 was recorded in the nine months ended September 30, 2011 compared to a loss of \$3,438 in the nine months ended September 30, 2010, primarily as a result of the translation between pounds sterling and the Canadian dollar.

Interest and bank charges in the nine months ended September 30, 2011 have not changed significantly when compared to the nine months ended September 30, 2010.

The warrants charge in 2010 relates to the change in fair value of the U.S. dollar denominated share purchase warrants during the period. Under IFRS, these warrants are considered to be financial instruments and the fair value is recorded in the statement of loss and comprehensive loss. The warrants were exercised on September 30, 2011 and accordingly there is no similar charge in the third quarter of 2011.

Interest income in the nine months ended September 30, 2011 increased to \$218,906, compared with \$44,633 in the nine months ended September 30, 2010, as the Company only received the funds raised from the IPO in August 2010.

## SUMMARY OF QUARTERLY RESULTS

The following selected data is prepared in accordance with IFRS (2009 figures remain under PCAS) and should be read in conjunction with the September 30, 2011 interim consolidated financial statements.

|  | Three months ended    |                  |                   |                      |
|--|-----------------------|------------------|-------------------|----------------------|
|  | September 30,<br>2011 | June 30,<br>2011 | March 31,<br>2011 | December 31,<br>2010 |
| <b>Interest income</b>                               | \$ 65,244             | \$ 72,686        | \$ 80,976         | \$ 89,372            |
| <b>Net loss</b>                                      | \$ (1,320,840)        | \$ (1,829,073)   | \$ (880,839)      | \$ (2,820,982)       |
| <b>Net loss per common share (basic and diluted)</b> | \$ (0.02)             | \$ (0.03)        | \$ (0.01)         | \$ (0.04)            |
| <b>Cash</b>  | \$ 23,812,813         | \$ 27,092,914    | \$ 29,715,194     | \$ 33,173,152        |
| <b>Other current assets</b>                          | \$ 1,097,492          | \$ 1,224,657     | \$ 1,343,825      | \$ 1,149,838         |
| <b>Plant and equipment</b>                           | \$ 911,345            | \$ 849,314       | \$ 906,522        | \$ 497,702           |
| <b>Mineral properties</b>                            | \$ 16,152,838         | \$ 13,372,588    | \$ 11,222,126     | \$ 9,075,580         |
| <b>Total Assets</b>                                  | \$ 41,974,488         | \$ 42,539,473    | \$ 43,187,667     | \$ 43,896,272        |
| <b>Total shareholders' equity</b>                    | \$ 40,586,898         | \$ 40,844,025    | \$ 40,959,028     | \$ 41,556,638        |

|   | Three months ended    |                     |                     |                       |
|---|-----------------------|---------------------|---------------------|-----------------------|
|   | September 30,<br>2010 | June 30,<br>2010    | March 31,<br>2010   | December 31,<br>2009* |
| Interest income                                     | \$ 44,633             | \$ -                | \$ -                | \$ -                  |
| Net loss  | \$ (2,403,525)        | \$ (538,771)        | \$ (339,976)        | \$ (145,444)          |
| Net loss per common<br>share (basic and<br>diluted) | \$ (0.04)             | \$ (0.01)           | \$ (0.01)           | \$ (0.01)             |
| Cash  | \$ 35,441,826         | \$ 1,204,932        | \$ 1,994,558        | \$ 2,694,471          |
| Other current assets                                | \$ 710,221            | \$ 519,495          | \$ 107,912          | \$ 3,170              |
| Plant and equipment                                 | \$ 148,624            | \$ 7,857            | \$ 8,397            | \$ 1,793              |
| Mineral properties                                  | \$ 7,967,335          | \$ 7,313,121        | \$ 6,994,080        | \$ 6,976,214          |
| <b>Total Assets</b>                                 | <b>\$ 44,268,006</b>  | <b>\$ 9,045,405</b> | <b>\$ 9,104,947</b> | <b>\$ 9,675,648</b>   |
| <b>Total shareholders'<br/>equity</b>               | <b>\$ 43,617,647</b>  | <b>\$ 7,942,387</b> | <b>\$ 8,481,158</b> | <b>\$ 8,977,900</b>   |

\*These continue to be shown under PCAS

The net loss in the three months ended September 30, 2011 results from hiring staff in 2010 and 2011 and the related stock-based compensation costs, consultancy and prospecting costs incurred in relation to the Tyrone Project, professional fees incurred in relation to public company reporting, travel to Northern Ireland, investor relation marketing activities and rent and associated costs for offices in Toronto and Belfast.

## FINANCIAL CONDITION, CASH FLOWS, LIQUIDITY AND CAPITAL RESOURCES

### Capital Resources

The Company's only source of income has been interest earned from funds on deposit.

The Company's cash position as at September 30, 2011 is \$23,812,813 and as at November 9, 2011 is approximately \$21 million, compared to \$33.2 million as of December 31, 2010. 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.

### Financing Activities

The Company's IPO generated net proceeds of \$30,989,986, after deducting a cash commission of \$2,213,250 and other transaction costs of \$846,764, which were paid out of the offering's proceeds.

The over-allotment option granted to the underwriters was exercised for additional units, and the Company received additional aggregate net proceeds of \$4,768,500, after deducting a cash commission of \$331,500.

The Company issued the following at its IPO:

- 22,700,000 common shares and 11,350,000 warrants resulting from the IPO;
- 3,400,000 common shares and 1,700,000 warrants resulting from the exercise of the over-allotment which formed part of the IPO;
- 1,475,500 broker warrants exercisable for an aggregate of 1,475,500 common shares and 737,750 warrants until August 10, 2011, and thereafter for 1,475,500 common shares until February 10, 2012, resulting from the IPO, valued at \$1,031,375; and
- 221,000 broker warrants exercisable for an aggregate of 221,000 common shares and 110,500 warrants until August 10, 2011, and thereafter for 221,000 common shares until February 10, 2012, resulting from the exercise of the over-allotment option, which formed part of the IPO, valued at \$154,479.

In total, the Company issued 26,100,000 common shares, 13,050,000 warrants and 1,696,500 broker warrants in conjunction with its IPO.

Since January 1, 2011, the Company has received \$1,829,665 from the exercise of warrants (\$1,645,290) and stock options (\$184,375).

The common share purchase warrants of the Company exercisable at \$2.25 per share expired on August 10, 2011.

### **Liquidity**

The Company's ability to fund exploration activities beyond those currently planned, development of its projects or acquisition of additional mineral properties, is conditional on its ability to secure financing when required. Current financial markets remain volatile due to uncertainties in the global economy. Commodity markets have also seen substantial volatility, but the outlook for gold has remained positive. The volatility and uncertainty in the current markets could lead to difficulties in raising funds. See "*Risk Factors — Uncertainty of Additional Funding*" and "*Risk Factors — Fluctuations in Mineral Price Could Adversely Affect Operations*" in the AIF.

For the nine months ended September 30, 2011, the Company spent approximately \$6.9 million on the Northern Ireland exploration program, which was less than anticipated due to fewer metres drilled than planned as a result of fewer available drill rigs. Spending in the fourth quarter of 2011 is expected to be approximately \$1.8 million per month.

The Company believes it has sufficient cash resources to meet its exploration and administrative overhead and maintain its mineral investments planned for the next twelve months.

The Company's net working capital position at September 30, 2011 is \$23 million. The majority of accounts payable and accrued liabilities relate to trade payables incurred in the normal course of operations.

### **Contractual Obligations**

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

Extensions for the 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.

### **Off-balance Sheet Arrangements**

The Company does not have any material off-balance sheet arrangements.

## Transactions with Related Parties

Compensation of key management personnel comprised:

|                               | Three months ended    |                       | Nine months ended     |                       |
|-------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                               | September 30,<br>2011 | September 30,<br>2010 | September 30,<br>2011 | September 30,<br>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>      |

## RISK MANAGEMENT

### Fair Value

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 nature of these financial instruments.

### Commodity Price Risk

The Company's ability to develop its properties and its future profitability are directly related to the market price of gold. The price of gold is affected by numerous factors, such as global consumption and demand for gold, international economic and political trends, fluctuation in value of the U.S. dollar and other currencies, interest rates and inflation.

### Liquidity Risk

Liquidity risk includes the risk that, as a result of the Company's operational liquidity requirements:

- (i) the Company will not have sufficient funds to settle a transaction on the due date;
- (ii) the Company will be forced to sell financial assets at a value which is less than what they are worth; or
- (iii) the Company will be unable to settle or recover a financial asset at all.

The ultimate responsibility for liquidity risk rests with the Board of the Company, which has built an appropriate liquidity risk management framework for management of the Company's short, medium and long-term funding and liquidity requirements. The Company's cash requirements and balances are projected based on estimated future requirements. The Company plans to meet these requirements through a mix of available funds, equity financing, sale or mining of assets and project debt financing. Continuing operations are dependent on the Company's ability in the near term to access sufficient capital to complete the Company's exploration and development activities, identify commercial gold reserves and ultimately to have profitable operations. Accounts payable and accrued liabilities as at September 30, 2011 all have contractual maturities of less than 90 days and are subject to normal trade terms.

### Credit Risk

Credit risk arises when failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the consolidated balance sheet date. The majority of the Company's financial assets are cash and receivables. Management considers the credit risk on cash

to be limited because the counterparties are established well-known financial institutions. During the three month period ended September 30, 2011, there were no allowances or bad debts on the receivables and no amounts were past due. The maximum exposure to credit risk is represented by the carrying amount of the cash and amounts receivable on the consolidated balance sheet.

### Foreign Currency Risk

Foreign currency risk is the risk that a variation in the exchange rates between the Canadian dollar and foreign currencies will affect the Company's operating and financial results. The Company is exposed to foreign currency risk as the Company has contracts in U.S. dollars, Euros and pounds sterling, holds cash on hand that is denominated in U.S. dollars and pounds sterling and is exposed to foreign currency fluctuations on its assets and operations in Northern Ireland, denominated in pounds sterling. The Company's management monitors the exchange rate fluctuations on a regular basis and does not use currency derivative instruments to manage its exposure to foreign currency fluctuations.

### OUTSTANDING SHARE DATA

The following table summarizes the capitalization of the Company as at September 30, 2011:

|                                   | <u>Exercise Price</u> | <u>Number of<br/>Common Shares</u> |
|-----------------------------------|-----------------------|------------------------------------|
| Common shares .....               |                       | 70,474,243                         |
| Warrants                          |                       |                                    |
| Expiring December 18, 2011 .....  | \$ 0.75               | 336,000                            |
| Expiring February 10, 2012 .....  | 1.50                  | 388,740                            |
| Expiring January 1, 2016 .....    | 2.17                  | 30,000                             |
| Total warrants .....              |                       | <u>754,740</u>                     |
| Options                           |                       |                                    |
| Expiring October 29, 2011 .....   | 2.28                  | 41,667                             |
| Expiring March 30, 2012 .....     | 0.75                  | 50,000                             |
| Expiring September 28, 2012 ..... | 0.75                  | 200,000                            |
| Expiring August 10, 2015 .....    | 0.25                  | 650,000                            |
| Expiring August 10, 2015 .....    | 0.75                  | 2,633,333                          |
| Expiring August 19, 2015 .....    | 1.85                  | 300,000                            |
| Expiring January 14, 2016 .....   | 1.96                  | 100,000                            |
| Expiring March 30, 2016 .....     | 2.19                  | 500,000                            |
| Expiring May 13, 2016 .....       | 1.54                  | 125,000                            |
| Expiring May 27, 2016 .....       | 1.60                  | 250,000                            |
| Expiring August 2, 2016 .....     | 1.66                  | 150,000                            |
| Expiring August 22, 2016 .....    | 1.51                  | 200,000                            |
| Total options .....               |                       | <u>5,200,000</u>                   |
| Total fully diluted .....         |                       | <u><u>76,428,983</u></u>           |

As at November 9, 2011 the Company had 70,479,243 common shares, 754,740 warrants and 5,395,000 stock options issued and outstanding. This amounts to 76,628,983 common shares outstanding on a fully-diluted basis.

### 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.

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 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.

## **INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS AND PROCEDURES**

Dalradian's management, including the Chief Executive Officer and Chief Financial Officer, are responsible for evaluating the effectiveness of the design and operation of the Company's internal controls over financial reporting ("ICFR") and disclosure controls and procedures.

There were no significant changes in the Company's internal controls, or in other factors, that could significantly affect those controls subsequent to the date the Chief Executive Officer and Chief Financial Officer completed their evaluation, nor were there any significant deficiencies or material weaknesses in the Company's internal controls requiring corrective actions. Changes to accounting policies or business processes as a result of the IFRS conversion did not materially affect the Company's ICFR.

The Company's management, including the Chief Executive Officer and the Chief Financial Officer, does not expect that its disclosure controls and ICFR will prevent or detect all errors and fraud. A cost effective system of internal controls, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the ICFR are achieved.

## **RISK FACTORS**

The Company is subject to a number of risks and uncertainties. The reader should carefully consider the information disclosed in the financial statements, the AIF and other publicly filed documentation regarding the Company available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **OUTLOOK**

The Company expects to conduct the following activities in the fourth quarter of 2011;

- Update mineral resource estimate;
- Add at least one additional drill rig to the project; and
- Initiate underground engineering studies.

The Company continues to examine possible acquisitions of additional prospective exploration properties or entities holding exploration properties.

## **ADDITIONAL INFORMATION**

Additional information regarding the Company can be found at [www.dalradian.com](http://www.dalradian.com) and [www.sedar.com](http://www.sedar.com).