

DALRADIAN RESOURCES

Dalradian Resources Inc.

Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the year ended December 31, 2010,
and the period from the date of incorporation on March 27, 2009
to December 31, 2009

March 22, 2011

Management's Responsibility for Consolidated Financial Statements

Date March 22, 2011

To the Shareholders of Dalradian Resources Inc.

The accompanying consolidated financial statements of Dalradian Resources Inc. (the "Company") (a development stage company as defined by the Canadian Institute of Chartered Accountants Handbook Accounting Guideline 11) were prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP").

Management acknowledges responsibility for the preparation and presentation of the consolidated financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances.

Management has established processes, which are in place to provide it sufficient knowledge to support management representations that it has exercised reasonable diligence that (i) the consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made of, as of the date of, and for the periods presented by, the consolidated financial statements and (ii) the consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. The Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management and the external auditors to review the internal controls over the financial reporting process, the consolidated financial statements and the auditors' report. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements together with other financial information of the Company for issuance to the shareholders. The Audit Committee also have the responsibility of engaging and re-appointing the external auditors.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

Dalradian Resources Inc.

(signed) Patrick F.N. Anderson

Patrick F.N. Anderson
Chief Executive Officer

(signed) Keith McKay

Keith McKay
Chief Financial Officer

Independent Auditors' Report

To the Shareholders of Dalradian Resources Inc.

We have audited the accompanying consolidated financial statements of Dalradian Resources Inc., which comprise the consolidated balance sheets as at December 31, 2010 and December 31, 2009 and the consolidated statements of loss and comprehensive loss, shareholders' equity, and cash flows for the year ended December 31, 2010 and the period from the date of incorporation on March 27, 2009 to December 31, 2009, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Dalradian Resources Inc. as at December 31, 2010 and December 31, 2009, and the consolidated results of operations and its consolidated cash flows for the year ended December 31, 2010 and the period from the date of incorporation on March 27, 2009 to December 31, 2009 in accordance with Canadian generally accepted accounting principles.

(signed) KPMG LLP

Licensed Public Accountants
March 22, 2011

Dalradian Resources Inc.
(An exploration stage company)

Consolidated Balance Sheets
(Expressed in Canadian dollars)

	<u>Dec. 31, 2010</u>	<u>Dec. 31, 2009</u>
ASSETS		
Current assets:		
Cash	\$ 33,173,152	\$ 2,694,471
Amounts receivable	641,422	1,915
Prepaid expenses	508,416	1,255
	<u>34,322,990</u>	<u>2,697,641</u>
Plant and equipment (note 4)	497,702	1,793
Mineral properties (note 5)	9,409,912	6,976,214
	<u>\$ 44,230,604</u>	<u>\$ 9,675,648</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,126,268	\$ 423,196
Future income taxes (note 9)	334,332	274,552
	<u>2,460,600</u>	<u>697,748</u>
Shareholders' equity:		
Share capital (note 6)	40,757,909	9,855,166
Warrants (note 6)	5,862,545	309,149
Contributed surplus	1,933,760	—
Accumulated deficit	(6,784,210)	(1,186,415)
	<u>41,770,004</u>	<u>8,977,900</u>
	<u>\$ 44,230,604</u>	<u>\$ 9,675,648</u>
Commitments and contingencies (note 12)		
Subsequent events (note 14)		

On behalf of the Board:

(signed) Patrick F.N. Anderson

(signed) Ronald P. Gagel

Patrick F.N. Anderson
Director

Ronald P. Gagel
Director

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

Dalradian Resources Inc.
(An exploration stage company)

Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian dollars)

	Year ended <u>Dec. 31, 2010</u>	Period from date of incorporation on Mar. 27 2009 to <u>Dec. 31, 2009</u>
Operating expenses:		
Professional fees and consulting.....	\$ 872,335	\$ 848,391
Salaries and wages	1,762,972	—
Travel and investor relations	772,592	133,694
Office, regulatory and general	558,411	56,685
Interest and bank charges.....	5,524	6,221
Interest on convertible debentures.....	—	101,864
Amortization of administrative assets.....	3,443	—
Foreign exchange gain.....	(8,214)	(140,383)
Abandoned mineral properties	—	179,943
Stock-based compensation	<u>1,764,737</u>	<u>—</u>
	5,731,800	1,186,415
Interest income.....	<u>134,005</u>	<u>—</u>
Loss and comprehensive loss for the period.....	<u>\$ (5,597,795)</u>	<u>\$ (1,186,415)</u>
Loss per share – basic and diluted (note 8)	<u>\$ (0.11)</u>	<u>\$ (0.07)</u>
Weighted average number of common shares outstanding.....	<u>52,471,197</u>	<u>16,431,808</u>

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

Dalradian Resources Inc.
(An exploration stage company)

Consolidated Statements of Shareholders' Equity
(Expressed in Canadian dollars)

	Year ended <u>Dec. 31 2010</u>	Period from date of incorporation on Mar. 27 2009 to <u>Dec. 31, 2009</u>
Share capital:		
Balance, beginning of period	\$ 9,855,166	\$ —
Private placements	—	8,147,548
Initial public offering	29,936,848	—
Debentures converted	—	1,707,618
Warrants exercised	960,829	—
Options exercised	5,066	—
Balance, end of period	<u>\$ 40,757,909</u>	<u>\$ 9,855,166</u>
Equity component of convertible debentures:		
Balance, beginning of period	\$ —	\$ —
Issuance of convertible debentures	—	57,632
Debentures converted	—	(57,632)
Balance, end of period	<u>\$ —</u>	<u>\$ —</u>
Warrants:		
Balance, beginning and end of period	\$ 309,149	\$ —
Warrants issued	5,898,546	309,149
Warrants exercised	(345,150)	—
Balance, end of period	<u>\$ 5,862,545</u>	<u>\$ 309,149</u>
Contributed surplus:		
Balance, beginning and end of period	\$ —	\$ —
Increase from stock-based compensation	1,935,701	—
Options exercised	(1,941)	—
Balance, end of period	<u>\$ 1,933,760</u>	<u>\$ —</u>
Accumulated deficit:		
Balance, beginning of period	\$ (1,186,415)	\$ —
Loss for the period	(5,597,795)	(1,186,415)
Balance, end of period	<u>\$ (6,784,210)</u>	<u>\$ (1,186,415)</u>
Total shareholders' equity	<u>\$ 41,770,004</u>	<u>\$ 8,977,900</u>

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

Dalradian Resources Inc.
(An exploration stage company)

Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)

	Year ended Dec. 31, 2010	Period from date of incorporation on Mar. 27 2009 to Dec. 31, 2009
Cash flows from (used in) operating activities:		
Loss for the period.....	\$ (5,597,795)	\$ (1,186,415)
Items not effecting cash:		
Abandoned mineral properties	—	179,943
Foreign exchange gain.....	(21,408)	(217,221)
Interest accretion on convertible debentures	—	58,953
Amortization of administrative assets.....	3,443	—
Stock-based compensation	1,764,737	—
Change in non-cash operating working capital:		
Amounts receivable.....	(639,507)	(1,915)
Prepaid expenses	(69,028)	—
Accounts payable and accrued liabilities	1,207,744	344,869
Cash flows used in operating activities	<u>\$ (3,351,814)</u>	<u>\$ (821,786)</u>
Cash flows from financing activities:		
Issuance of share capital, net of issue costs.....	31,765,952	8,356,745
Issuance of warrants, net of issue costs	4,688,245	—
Issuance of convertible debentures.....	—	1,956,675
Cash flows from financing activities	<u>\$ 36,454,197</u>	<u>\$ 10,313,420</u>
Cash flows used in investing activities:		
Business acquisitions	—	(32,475)
Expenditures on mineral properties.....	(2,111,641)	(1,264,688)
Additions to plant and equipment.....	(512,061)	—
Repayment of debt related to acquisition	—	(5,500,000)
Cash flows used in investing activities	<u>\$ (2,623,702)</u>	<u>\$ (6,797,163)</u>
Increase in cash from continuing operations	30,478,681	2,694,471
Cash beginning of period	2,694,471	—
Cash end of period	<u>\$ 33,173,152</u>	<u>\$ 2,694,471</u>
Represented by:		
Cash on hand and bank deposits.....	<u>\$ 33,173,152</u>	<u>\$ 2,694,471</u>
Supplemental cash flow information:		
Interest paid.....	<u>\$ 5,524</u>	<u>\$ 6,221</u>

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

Dalradian Resources Inc.

(An exploration stage company)

Notes to Consolidated Financial Statements

(Expressed in Canadian dollars)

As at and for the year ended December 31, 2010, and for the period from the date of incorporation on March 27, 2009 to December 31, 2009

1. NATURE OF OPERATIONS AND GOING CONCERN

Dalradian Resources Inc. (formerly SA Resources Inc.) (the "Company") was incorporated on March 27, 2009, in the Province of Ontario, Canada, and is a development stage company, as defined in The Canadian Institute of Chartered Accountants ("CICA") Handbook Accounting Guideline 11, involved in the acquisition, exploration and development of mineral properties in Northern Ireland. All 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 administrative overhead and maintain its mineral investments over the next two years. In order to meet future expenditures and cover administrative and exploration costs, 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.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") applicable to an entity expected to continue as a going concern. 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 GAAP. Outlined below is a summary of the significant accounting policies used in the preparation of these consolidated financial statements.

(a) Basis of consolidation

These consolidated financial statements include the assets, liabilities, revenues and expenses of the Company and its 100% owned Northern Ireland subsidiary, Dalradian Gold Limited. All inter-company transactions and balances have been eliminated on consolidation.

(b) Measurement uncertainty

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the related reported expenses during the year. The most significant estimates are related to the recoverability of mining interests, fair value of stock-based compensation and warrants, and valuation of future income tax assets and liabilities. Actual results could differ from those estimates. Management believes that the estimates are reasonable.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

As at and for the year ended December 31, 2010, and for the period from the date of incorporation on March 27, 2009 to December 31, 2009

(c) Mineral properties and deferred exploration expenditures

The cost of mineral properties and related exploration and development costs are deferred until the properties are placed into production, become inactive, are assessed as impaired or are sold or abandoned. These costs will be amortized over the estimated useful lives of the properties following the commencement of production or written off if the properties are sold, become inactive or abandoned. The costs of mineral properties include any fair market value of consideration, including cash and shares, if any, on the acquisition of property interests. The amounts of property acquisition costs and their related deferred exploration costs represent actual expenditures incurred and are not intended to reflect present or future values.

As the Company is an exploration stage enterprise that has not objectively established mineral reserves, it has no basis for preparing a projection of the estimated future cash flow from a property to assess impairment. The Company follows EIC 174, which lists conditions to be considered in determining subsequent write downs to mining properties, such as adverse changes in the business climate, poor exploration results or abandonment of work programs.

(d) Stock-based compensation

The fair value of any stock options granted to directors, officers, employees and consultants is recorded as an expense or a component of mining interests based on the allocation of the respective compensation over the vesting period with a corresponding increase recorded to contributed surplus. Stock options for employees are valued at the grant date whereas non-employee options are revalued at each reporting date. The fair value of the stock-based compensation is determined using the Black-Scholes option pricing model and with utilizing management's assumptions, as disclosed in note 6. Upon exercise of the stock options, consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital.

(e) Income taxes

The Company uses the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and on losses carried forward. They are measured using the substantially enacted tax rates that are expected to be in effect when the differences are expected to reverse or losses are expected to be utilized. The effect on future income tax assets and liabilities of a change in the enacted tax rate is included in income in the period in which the change is substantially enacted. Future income tax assets are recorded to recognize tax benefits only to the extent that, based on available evidence, it is more likely than not that they will be realized.

(f) Loss per share

Basic loss per share is calculated using the weighted average number of shares outstanding. The dilutive effect of share options and warrants is calculated using the treasury stock method. The treasury stock method assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted

Dalradian Resources Inc.

(An exploration stage company)

Notes to Consolidated Financial Statements

(Expressed in Canadian dollars)

As at and for the year ended December 31, 2010, and for the period from the date of incorporation on March 27, 2009 to December 31, 2009

earnings per share calculation to the extent that it is dilutive. The computation of loss per share has not been done as this would be anti-dilutive.

(g) Plant and equipment

Plant and equipment are recorded at cost less accumulated amortization. Amortization is provided, using the straight-line method, over the following periods:

Furniture and office equipment	3 years
Computer equipment	3 years
Leasehold improvements	3 years
Automobiles	3-5 years

(h) Foreign currency translation

The subsidiary's financial statements have been translated into Canadian dollars using the temporal method. Any conversion differences are recorded as exchange gains or losses in the statement of loss and comprehensive loss. The temporal method involves translating assets, liabilities, revenue and expenses and comprehensive income in a manner that retains their basis of measurement in terms of the Canadian dollar, the parent company's reporting currency. Under this method:

- (i) monetary items are translated at the exchange rate in effect at the balance sheet date;
- (ii) non-monetary items, principally the mineral properties, are translated at historical exchange rates; and
- (iii) revenue and expenses are translated at the average rates of exchange during the period, other than depletion, stock based compensation and amortization which are translated at historical rates.

(i) Financial instruments

All financial instruments are initially recognized at fair value on the consolidated balance sheet. The Company has classified each financial instrument into one of the following categories: held-for-trading, loans and receivables, financial assets available-for-sale, financial assets held-to-maturity and other financial liabilities. Subsequent measurement of financial instruments is based on their classification.

Financial assets and liabilities held-for-trading are measured at fair value with changes in those fair values recognized in loss for the period. Financial assets available-for-sale are measured at fair value with changes in fair value recognized in other comprehensive income, net of tax.

Financial assets held-to-maturity, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest method.

Dalradian Resources Inc.
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Notes to Consolidated Financial Statements

(Expressed in Canadian dollars)

As at and for the year ended December 31, 2010, and for the period from the date of incorporation on March 27, 2009 to December 31, 2009

The Company's financial assets and liabilities are recorded and measured as follows:

<u>Asset or Liability</u>	<u>Category</u>	<u>Measurement</u>
Cash	Held-for-trading	Fair value
Amounts receivable	Loans and receivables	Amortized cost
Accounts payables and accrued liabilities	Other liabilities	Amortized cost

3. RECENT ACCOUNTING PRONOUNCEMENTS

(a) Adoption of new accounting standards:

The Company has not adopted any new accounting standards during the current period.

(b) Future accounting policies:

The Company has not applied the following new standards that have been issued by the reporting date but that are not yet effective:

(i) International financial reporting standards:

In February 2008, the Accounting Standards Board announced that 2011 is the changeover date for publicly listed companies to replace Canadian GAAP with International Financial Reporting Standards ("IFRS"). The changeover date of January 1, 2011, will require the restatement for comparative purposes of amounts reported by the Company in the interim and annual financial statements for the year ending December 31, 2010. The Company is evaluating the future impact of IFRS on its consolidated financial statements.

(ii) Business combinations, consolidated financial statements and non-controlling interests:

In January 2009, the CICA issued Handbook Section 1582, Business Combinations ("Section 1582"), Section 1601, Consolidated Financial Statements ("Section 1601"), and Section 1602, Non-controlling Interests ("Section 1602"). Section 1582 replaces Section 1581, Business Combinations ("Section 1581"), and establishes standards for the accounting for business combinations that are equivalent to the business combination accounting standard under IFRS. Section 1601, together with Section 1602, replaces Section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. Section 1582, Section 1601 and Section 1602 are applicable for the Company for the fiscal year beginning on January 1, 2011, with concurrent early adoption permitted. The Company has not determined the impact of the adoption of these new sections, as it will adopt IFRS from January 1, 2011.

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(An exploration stage company)

Notes to Consolidated Financial Statements

(Expressed in Canadian dollars)

As at and for the year ended December 31, 2010, and for the period from the date of incorporation on March 27, 2009 to December 31, 2009

4. PLANT AND EQUIPMENT

	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Net book value</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>
December 31, 2009			
Furniture and office equipment.....	<u>\$ 5,809</u>	<u>\$ 4,016</u>	<u>\$ 1,793</u>

5. MINERAL PROPERTIES

	<u>Year ended Dec. 31, 2010</u>	<u>Period from date of incorporation on Mar. 27, 2009 to Dec. 31, 2009</u>
Balance, beginning of period.....	\$ 6,976,214	\$ —
Option and acquisition costs.....	93,898	6,835,853
Licences.....	222,060	11,637
Drilling and assays.....	1,313,174	1,235
Personnel, administration and travel.....	554,573	69,283
Studies and evaluation reports.....	79,029	58,206
Stock-based compensation.....	170,964	—
	<u>\$ 9,409,912</u>	<u>\$ 6,976,214</u>

On May 6, 2009, the Company signed a letter of intent with Rockstone Global Ltd. ("Rockstone"). Rockstone owns the rights to a mineral property on the Ivory Coast. During the period, the Company advanced Rockstone \$179,943 to cover a portion of its expenses. The Company subsequently terminated its relationship with Rockstone and does not expect to recover the amounts funded. As such, these amounts have been written off and included in operating expenses.

On March 30, 2009, the Company signed an agreement, with C³ Resources, Inc. ("C³") to assume all rights and responsibilities with regard to an option agreement dated December 19, 2008, (the "Option Agreement") among Dalradian Gold Limited ("DGL"), C³ and Tournigan Energy Limited ("Tournigan") for consideration of \$100,000. The Option Agreement granted the Company the ability to acquire options to purchase an equity interest in DGL, which holds mineral prospecting licences in counties Tyrone and Londonderry, Northern Ireland, collectively known as the Tyrone Project.

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(An exploration stage company)

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

As at and for the year ended December 31, 2010, and for the period from the date of incorporation on March 27, 2009 to December 31, 2009

On September 28, 2009, the Company entered into an agreement with Tournigan to terminate the Option Agreement and purchase all of the issued and outstanding shares of DGL. The total purchase price was \$5.5 million with \$2.5 million due on the closing date, October 26, 2009, and a \$3.0 million promissory note to be paid by December 31, 2009. This promissory note was non-interest bearing and was secured by the present and post-acquisition property of the Company.

On October 26, 2009, the Company and Tournigan amended the September 28, 2009, agreement to set the closing date at October 30, 2009, to provide that the purchase price of the shares of DGL be \$1.00 and to provide for the Company to repay intercompany debt owed to Tournigan by DGL of \$5.5 million, of which \$2.5 million was paid on the closing date and \$3.0 million was paid on December 22, 2009.

Under Section 1581 of the CICA Handbook, this transaction did not meet the definition of a business combination as the primary asset had not commenced planned principal operations and was in the development stage. Thus, the transaction was recorded as an acquisition of an asset. The transaction details are as follows:

Net Assets Acquired:	
Current assets	\$ 22,879
Plant and equipment.....	1,770
Mineral properties	5,526,294
Current liabilities	(18,468)
Assumed debt.....	(5,500,000)
	<u>\$ 32,475</u>
Consideration:	
Cash consideration and transaction fees.....	\$ 32,475
	<u>\$ 32,475</u>

Pursuant to a royalty agreement dated December 13, 2004, between Ulster Minerals Limited (now Dalradian Gold Limited) 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 Dalradian Gold Limited to Minco Plc, or its nominee. A 4% royalty will be payable by Dalradian Gold Limited 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.

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Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

As at and for the year ended December 31, 2010, and for the period from the date of incorporation on March 27, 2009 to December 31, 2009

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 December 31, 2010, 69,089,916 (2009: 42,155,750) common shares were issued and outstanding.

	Number of shares issued	Amount
Balance, March 27, 2009.....	—	\$ —
Private placements (i), (iv), (v) and (vii).....	36,322,417	8,955,182
Issuance and conversion of debentures (ii), (iii) and (vi).....	5,833,333	1,707,618
Issuance costs of private placements (iv), (v) and (vii).....	—	(807,634)
Balance, December 31, 2009	42,155,750	\$ 9,855,166
Public offering (viii), (ix)	26,100,000	33,903,900
Issuance on exercise of warrants (x), (xi) and (xii).....	821,666	960,829
Issuance on exercise of options (xiii).....	12,500	5,066
Issuance costs of public offering (viii), (ix).....	—	(3,967,052)
Balance, December 31, 2010	<u>69,089,916</u>	<u>\$ 40,757,909</u>

(b) Warrants:

	Number of Warrants	Amount	Weighted average exercise price
Balance, March 27, 2009.....	—	\$ —	\$ —
Issued (vi), (vii)	896,666	309,149	0.62
Balance, December 31, 2009	896,666	\$ 309,149	\$ 0.62
Warrants issued on Public Offering (viii) and (ix)	13,050,000	5,246,100	2.25
Warrants issued on exercise of Broker warrants (xi).....	130,500	76,908	2.25
Broker warrants issued (viii), (ix)	1,696,500	1,185,854	1.50
Exercised (x), (xi) and (xii).....	(821,666)	(345,150)	0.92
Issuance costs of public offering (viii), (ix).....	—	(610,316)	—
Balance, December 31, 2010	<u>14,952,000</u>	<u>\$ 5,862,545</u>	<u>\$ 2.14</u>

- (i) On March 27, 2009, the Company completed a private placement offering of 10,182,417 shares to raise gross proceeds of \$10,182.
- (ii) During the year ended December 31, 2009, the Company issued three convertible debentures for gross cash proceeds of \$1,956,675 (U.S. \$1,625,000). The convertible debentures were issued at par, bore interest of 6% per annum and matured on September

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As at and for the year ended December 31, 2010, and for the period from the date of incorporation on March 27, 2009 to December 31, 2009

30, 2009. The notes were convertible at the option of the holders at any time prior to the maturity date into common shares at an initial conversion rate of U.S. \$0.25 per share for U.S. \$1,250,000 of the convertible debentures and into units (each consisting of one common share and one-half of one share purchase warrant) at a conversion rate of U.S. \$0.45 per unit for U.S. \$375,000 of the convertible debentures.

In accordance with GAAP, on initial recognition, the principal amount of the debenture was allocated between its liability and equity elements and classified separately on the balance sheet. As a result, \$1,899,043 was recorded as convertible debenture liability with the balance of \$57,631 recorded as equity component of convertible debentures. During the year ended December 31, 2009, all of the convertible debentures were converted into common shares and the equity component transferred to share capital.

- (iii) On September 30, 2009, the Company issued 5,000,000 common shares as a result of the conversion of a \$1,352,250 (U.S. \$1,250,000) convertible debenture.
- (iv) On October 26, 2009, the Company completed a private placement offering of 10,600,000 shares to raise gross proceeds of \$1,060,000. In connection with the private placement, transaction costs of \$63,498 were incurred.
- (v) On October 30, 2009, the Company completed a private placement offering of 7,540,000 shares to raise gross proceeds of \$1,885,000. In connection with the private placement, transaction costs of \$97,966 were incurred.
- (vi) On December 16, 2009, the Company issued 833,333 common shares and 416,666 warrants (valued at \$99,952 using the Black-Scholes option pricing model and assigning proportionate value between shares and warrants at the conversion date) as a result of the conversion of a \$397,688 (U.S. \$375,000) convertible debenture.
- (vii) On December 18, 2009, the Company completed a private placement offering of 8,000,000 shares to raise gross proceeds of \$6,000,000. A cash commission of \$360,000 (6% of the gross proceeds) was paid, together with the issuance of 480,000 agent warrants equal to 6% of the total number of shares sold (valued at \$209,197 using the Black-Scholes option pricing model) and other transaction costs of \$76,973 pursuant to the private placement.
- (viii) On August 10, 2010, the Company completed its initial public offering of 22,700,000 units to raise gross proceeds of \$34,050,000. Each unit consisted of one common share and one-half of one common share purchase warrant. The 11,350,000 common share purchase warrants entitle the holder to purchase one common share at a price of \$2.25 until August 10, 2011. The Company allocated \$1.30 to each common share and \$0.20 to each one-half of one warrant using the Black-Scholes option pricing model. A cash commission of \$2,213,250 (6.5% of the gross proceeds) was paid, together with the issuance of 1,475,500 broker warrants equal to 6.5% of the total number of units sold (valued at \$1,031,375 using the Black-Scholes option pricing model) and other transaction costs of \$846,764 pursuant to the public offering. Each broker warrant entitles the holder to purchase one common share and one-half of one common share purchase warrant at a price of \$1.50 up to August 10, 2011, and thereafter to purchase one common share at a price of \$1.50 up to February 10, 2012.

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- (ix) On August 25, 2010, the over-allotment option was exercised and an additional 3,400,000 units were issued, raising gross proceeds of \$5,100,000. A cash commission of \$331,500 (6.5% of the gross proceeds) was paid, together with the issuance of 221,000 broker warrants equal to 6.5% of the total number of units sold (valued at \$154,479 using the Black-Scholes option pricing model).
- (x) On September 30, 2010, the Company issued 416,666 common shares as a result of the exercise of 416,666 warrants. The cash proceeds from the warrant exercise was \$193,087 (U.S. \$187,500) and \$99,952 of the fair value recorded as common share purchase warrants was transferred to common shares.
- (xi) On November 16, 2010, the Company issued 261,000 common share and 130,500 common share purchase warrants as a result of the exercise of 261,000 broker warrants. The cash proceeds from the warrant exercise was \$391,500 of which \$339,039 was allocated to common shares and \$52,461 was allocated to common share purchase warrants. The fair value of \$182,439 was allocated between common shares \$157,992 and common share purchase warrants \$24,447.
- (xii) On November 16, 2010, the Company issued 144,000 common shares as a result of the exercise of 144,000 warrants. The cash proceeds from the warrant exercise was \$108,000 and \$62,759 of the fair value recorded as common share purchase warrants was transferred to common shares.
- (xiii) On December 12, 2010, the Company issued 12,500 common shares as a result of the exercise of 12,500 options. The cash proceeds from the options exercise was \$3,125 and \$1,941 of the fair value recorded as contributed surplus was transferred to common shares.

Warrants entitle the holder to purchase one common share at the stated exercise price up to the expiry date.

As at December 31, 2010, 14,952,000 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
Warrants	August 10, 2011	13,180,500	13,180,500	4,712,692	2.25
<u>Broker warrants</u>	<u>February 10, 2012</u>	<u>1,435,500</u>	<u>2,153,250</u>	<u>1,003,415</u>	<u>1.50</u>
		<u>14,952,000</u>	<u>15,669,750</u>	<u>\$ 5,862,545</u>	<u>\$ 2.14</u>

Broker warrants entitle the holder to purchase one common share and one-half of one common share purchase warrant at the stated exercise price up to one year after listing, and thereafter to purchase one common share at the stated exercise price up to the expiry date.

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The fair value of the Company's warrants was estimated using the Black-Scholes option pricing model using the following assumptions:

Volatility	100.0% to 113.0%
Risk-free interest rate	1.30% to 1.55%
Expected life (years)	1 to 2
Dividend yield	nil

(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. Under the stock option plan, the Company may not have more than 10% of the outstanding issued common shares reserved for incentive stock options granted at any time. Options granted under the plan will have a term not to exceed five years, from the later of (i) the grant date; and (ii) the date on which the common shares are listed for trading on a stock exchange in Canada, have an exercise price of not less than the closing price of the shares on the exchange on which the common shares are listed on the trading date immediately preceding the date the options are granted and may be subject to vesting terms as determined by the Board of Directors. 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.

As at December 31, 2010, outstanding stock options granted 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	\$ 395,090	412,500	4.61	325,000	\$ 0.25	August 10, 2015
April 15, 2010	1,368,758	866,667	4.61	1,683,333	0.75	August 10, 2015
June 9, 2010	256,575	200,000	4.61	350,000	0.75	August 10, 2015
August 19, 2010	345,556	200,000	4.64	100,000	1.85	August 19, 2015
October 18, 2010	47,263	—	0.19	33,334	2.28	March 10, 2011
October 18, 2010	177,237	83,333	4.80	41,667	2.28	October 18, 2015
	<u>\$ 2,590,479</u>	<u>1,762,500</u>	<u>4.61</u>	<u>2,533,334</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 Dec 31 2010 is \$0.77.

On November 16, 2009, the Company issued 750,000 options with an exercise price of \$0.25. The options vest quarterly beginning three months after August 10, 2010; have a fair value of \$116,486 and expire August 10, 2015.

On April 15, 2010, the Company issued 2,550,000 options with an exercise price of \$0.75: 1,250,000 options vested on the listing date of August 10, 2010; 1,300,000 options vest 1/3 on

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August 10, 2010, and 1/3 on each of the first and second anniversaries of the listing date. The options expire August 10, 2015, and have a fair value of \$1,390,410.

On June 9, 2010, the Company issued 550,000 options with an exercise price of \$0.75: 250,000 vested on the listing date of August 10, 2010, and the remaining 300,000 vest 1/3 on August 10, 2010, and 1/3 on each of the first and second anniversaries of the listing date. The options expire August 10, 2015 and have a fair value of \$256,575.

On August 19, 2010, the Company issued 300,000 options with an exercise price of \$1.85. 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 on August 19, 2015 and have a fair value of \$345,556.

On October 18, 2010, the Company issued 100,000 options with an exercise price of \$2.28. 33,334 of these options vested immediately and expired on March 10, 2011 and have a fair value of \$47,263. The remaining 66,667 were forfeited on December 10, 2010.

On October 18, 2010, the Company issued 125,000 options with an exercise price of \$2.28. 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 on October 18, 2015 and have a fair value of \$177,237.

On December 31, 2010, the Company accelerated the vesting of 150,000 options grants to two former directors of the Company. The fair value of the options was increased by \$280,545 at December 31, 2010 to account for the accelerated vesting. These options were granted on November 16, 2009.

The fair value of the Company's options was estimated using the Black-Scholes option pricing model using the following assumptions:

Volatility	100.0%
Risk-free interest rate	1.21% to 1.63%
Expected life (years)	1 to 3
Dividend yield	nil
Vesting (years)	1 to 3

Grant Date	December 31, 2010		December 31, 2009	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Balance, beginning of period.....	750,000	\$ 0.25	—	\$ —
Granted	3,625,000	0.94	750,000	0.25
Exercised.....	(12,500)	(0.25)	—	—
Forfeited.....	(66,666)	(2.28)	—	—
Balance, end of period.....	<u>4,295,834</u>	<u>\$ 0.80</u>	<u>750,000</u>	<u>\$ 0.25</u>

The weighted average fair value per option granted during the year ended December 31, 2010 is \$0.63 (2010 - \$0.16).

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7. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2010, the Company paid consulting fees of \$76,125 to a company controlled by a former officer and \$214,125 to companies controlled by former directors of the Company (from the period of incorporation March 27, 2009 to December 31 2009: \$394,240) in the normal course of operations.

\$65,625 of the fees were paid while the officers and directors were employed by the Company, the remaining \$224,625 was paid subsequent to their resignations from the Company.

8. BASIC AND DILUTED LOSS PER SHARE

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

	Year ended Dec. 31, 2010	Period from date of incorporation on Mar. 27, 2009 to Dec. 31, 2009
Numerator:		
Loss for the period and comprehensive loss	\$ (5,597,795)	\$ (1,186,415)
Numerator for basic and diluted loss per share	<u>\$ (5,597,795)</u>	<u>\$ (1,186,415)</u>
Denominator:		
Weighted average number of common shares.....	52,471,197	16,431,808
Denominator for basic and diluted loss per share	<u>52,471,197</u>	<u>16,431,808</u>
Basic and diluted loss per share.....	<u>\$ (0.11)</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.

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9. FUTURE INCOME TAXES

Reconciliation of income tax provision to amounts that would have been determined by applying the Canadian federal and provincial statutory rates of 31% for the year ended December 31, 2010 (from the date of incorporation March 27, 2009 to December 31, 2009: 33%) is as follows:

	Year ended	Period from date of incorporation on Mar. 27, 2009 to
	Dec. 31, 2010	Dec. 31, 2009
Loss before income taxes	\$ (5,597,795)	\$ (1,186,415)
Income tax recovery at Canadian federal and provincial statutory rate	\$ (1,735,317)	\$ (391,517)
Valuation allowance	939,231	318,164
Permanent differences	561,001	20,003
Rate adjustment	235,085	61,469
Other.....	—	(8,119)
Income tax expense	<u>\$ —</u>	<u>\$ —</u>

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

Future income tax assets:		
Non-capital losses carried forward	\$ 1,566,055	\$ 195,047
Share issue expense	1,045,432	114,115
Eligible capital expenditures	5,762	8,119
Plant and equipment	4,659	883
Other.....	35,236	—
	<u>2,657,144</u>	<u>318,164</u>
Valuation allowance	(2,657,144)	(318,164)
Net future income tax asset.....	<u>\$ —</u>	<u>\$ —</u>
Future income tax liability:		
Investment in mineral properties	\$ (334,332)	\$ (274,552)
Net future income tax liability	<u>\$ (334,332)</u>	<u>\$ (274,552)</u>

At as December 31, 2010, the Company had available non-capital loss carry-forwards of approximately \$5,046,980 (2009: \$661,000) for Canadian federal and provincial tax purposes that expire in 2029 (\$1,266,109) and 2030 (\$3,780,871).

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10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) 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 to maturity of these financial instruments.

(b) Commodity price risk

The Company's ability to develop its properties and its future profitability are directly related to the market price of gold. Commodity prices for gold are 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.

(c) 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 that is less than what they are worth; or
- (iii) the Company may be unable to settle or recover a financial asset at all.

The ultimate responsibility for liquidity risk rests with the Board of Directors 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 to ultimately have profitable operations. Accounts payable and accrued liabilities at December 31, 2010 all have contractual maturities of less than 90 days and are subject to normal trade terms.

(d) Credit risk

Credit risk arises when a 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 period ended December 31, 2010, there were no allowances or bad debts on the receivables and no amounts were past due. The maximum exposure to credit risk is

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represented by the carrying amount of the cash and amounts receivable amounts on the consolidated balance sheet.

(e) 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 holds cash on hand and has other financial assets and liabilities that are denominated in Euros and U.S. dollars 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.

At December 31, 2010, the carrying amounts of the Company's foreign currency-denominated net financial assets are approximately as follows:

	Net financial Assets (liabilities)	Effect of 10% change in exchange rate on earnings/loss
U.S. dollars.....	\$ (113,136)	\$ (11,300)
Euros.....	(203,748)	(20,400)
Pounds sterling	278,146	27,800
	<u>\$ (38,738)</u>	<u>\$ (3,900)</u>

The Company has a future tax liability denominated in pounds sterling. A 10% change in the foreign exchange rate could impact this future tax liability and earnings/loss by approximately \$33,433.

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11. CAPITAL DISCLOSURES

The Company's policy with respect to managing its capital is as follows:

- (a) to safeguard the entity's ability to continue as a going concern so that it can provide returns for shareholders and benefits for other stakeholders; and
- (b) to raise sufficient funds to finance ongoing mining investments to provide an adequate return to shareholders.

The Company defines capital as total equity plus long-term debt. Total equity is comprised of share capital, accumulated deficit, contributed surplus and warrants. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares or sell assets to reduce debt.

12. COMMITMENTS AND CONTINGENCIES

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

Mineral Prospecting Licences

Under the Department of Enterprise, Trade and Investment ("DETI") mineral prospecting licences that comprise the Tyrone Project, DGL is expected to make the following expenditures over the following periods:

DETI mineral prospecting licences	From	To	Expenditure	
DG1	January 1, 2011	December 31, 2011	£	500,000
DG2	January 1, 2011	December 31, 2011		200,000
DG3	April 25, 2010	April 24, 2011		80,000
DG4	April 25, 2010	April 24, 2011		80,000
			£	<u>860,000</u>

Expenditure for the four DETI licences, in the aggregate, have exceeded the required commitment for the period ended December 31, 2010; however, the expenditure on the DG3 and DG4 licences is below the stated amount. The Company has confirmed with DETI that the lower spending level has not affected the validity of these licences.

Major Drilling Group International Inc.

DGL has entered into a drilling services agreement with an international drilling company, and deposited U.S. \$400,000 (\$413,240) upon signing of the agreement on September 7, 2010 to be applied to future invoices. Subsequent to year end, DGL paid U.S.\$ 60,000 (\$61,986) upon delivery of the equipment to the port of departure. Under the terms of the agreement, the drilling company is obligated to drill a minimum of 40,000 metres in 21 to 24 months. Drilling began in December 2010.

Toronto Office

The Company entered into an agreement with another Canadian mining company to share office space in Toronto. The agreement commenced on September 1, 2010 and expires on August 31, 2015. Under this agreement, the Company is responsible for fifty percent (50%) of the construction

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and fixturing costs, which are estimated to cost the Company \$750,000 and fifty percent (50%) of the rent, which is included in the lease payments table below. In addition, the Company is responsible for fifty percent (50%) of the operational and insurance costs of the leasehold interests until its expiry on August 31, 2015.

Belfast Office

On November 26, 2010, DGL entered into an operating lease for an office space in Belfast. The lease expires on November 25, 2013 and the payments are included in the lease payment table below.

Landowner Agreements

On December 21, 2010, the Company entered into agreements with certain landowners, for access to their land for the purpose of exploration activities. These agreements commit the Company to make annual payments to these landowners until December 31, 2013. These payments are included in the lease payment table below. In addition to this, the Company agreed to issue landowner warrants, subject to the approval of the Toronto Stock Exchange, totalling 30,000 in 2011, which have an exercise price of \$2.17, 40,000 warrants in 2012 and 50,000 warrants in 2013.

Lease Payment Summary

The Company has the following minimum lease payments for the next five fiscal years:

	Dec. 31, 2010
2011.....	\$ 291,540
2012.....	308,964
2013.....	322,411
2014.....	201,205
2015.....	136,819
	<u>\$ 1,260,939</u>

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13. 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 December 31, 2010			
Current assets	\$ 33,341,555	\$ 981,435	\$ 34,322,990
Mineral properties	—	9,409,912	9,409,912
Property, plant and equipment	308,488	189,214	497,702
Total assets	<u>\$ 33,650,043</u>	<u>\$ 10,580,561</u>	<u>\$ 44,230,604</u>
Twelve months ended, December 31, 2010			
Revenue	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Net loss	<u>\$ 4,801,272</u>	<u>\$ 796,523</u>	<u>\$ 5,597,795</u>
As at December 31, 2009			
Current assets	\$ 2,690,407	\$ 7,234	\$ 2,697,641
Mineral properties	—	6,976,214	6,976,214
Property, plant and equipment	—	1,793	1,793
Total assets	<u>\$ 2,690,407</u>	<u>\$ 6,985,241</u>	<u>\$ 9,675,648</u>
Period from date of incorporation on March 27, 2009 to December 31, 2009			
Revenue	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Net loss	<u>\$ 1,177,941</u>	<u>\$ 8,474</u>	<u>\$ 1,186,415</u>

14. SUBSEQUENT EVENTS

On January 1, 2011, the Company issued landowner warrants, subject to the approval of the Toronto Stock Exchange, totalling 30,000 in 2011 which have an exercise price of \$2.17. In addition, the agreement states that 40,000 warrants will be issued in 2012 and 50,000 warrants will be issued in 2013.

On January 14, 2011, the Board of Directors granted 100,000 share options to an employee with an exercise price of \$1.96 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 January 14, 2016.