

# DALRADIAN RESOURCES

Dalradian Resources Inc.

## **Interim Consolidated Financial Statements**

(Expressed in Canadian Dollars)

For the three months ended March 31, 2011 and  
the three months ended March 31, 2010

(unaudited)

**Dalradian Resources Inc.**  
(An exploration stage company)

**Consolidated Balance Sheets**

(Expressed in Canadian dollars)  
(Unaudited)

	<u>March 31,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>	<u>January 1,</u> <u>2010</u>
<b>ASSETS</b>			
Current assets:			
Cash .....	\$ 29,715,194	\$ 33,173,152	\$ 2,694,471
Amounts receivable .....	776,361	641,422	1,915
Prepaid expenses .....	567,464	508,416	1,255
	<u>31,059,019</u>	<u>34,322,990</u>	<u>2,697,641</u>
Plant and equipment (note 4) .....	906,522	497,702	1,793
Mineral properties (note 5).....	11,222,126	9,075,580	6,701,662
	<u>\$ 43,187,667</u>	<u>\$ 43,896,272</u>	<u>\$ 9,401,096</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities:			
Accounts payable and accrued liabilities .....	\$ 2,018,740	\$ 2,126,268	\$ 423,196
Deferred income taxes .....	209,899	213,366	56,814
Warrants (note 9) .....	—	—	99,952
	<u>2,228,639</u>	<u>2,339,634</u>	<u>579,962</u>
Shareholders' equity:			
Share capital (note 6) .....	41,425,105	41,420,039	9,855,166
Warrants (note 6).....	5,906,328	5,862,545	209,197
Contributed surplus .....	1,854,917	1,620,537	—
Accumulated deficit .....	(8,227,322)	(7,346,483)	(1,243,229)
	<u>40,959,028</u>	<u>41,556,638</u>	<u>8,821,134</u>
	<u>\$ 43,187,667</u>	<u>\$ 43,896,272</u>	<u>\$ 9,401,096</u>

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

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

**Dalradian Resources Inc.**  
(An exploration stage company)

**Consolidated Statements of Loss and Comprehensive Loss**

(Expressed in Canadian dollars)  
(Unaudited)

	<b>Three months ended</b>	
	<b>March 31, 2011</b>	<b>March 31, 2010</b>
Operating expenses:		
Professional fees and consulting .....	\$ 133,797	\$ 138,288
Salaries and wages .....	323,328	29,491
Travel and investor relations .....	191,432	58,128
Office, regulatory and general .....	162,146	32,433
Interest and bank charges .....	1,565	1,593
Amortization of administrative assets .....	17,787	275
Foreign exchange gain .....	(2,051)	(28,260)
Stock-based compensation .....	137,278	—
	<u>965,282</u>	<u>231,948</u>
Interest income .....	80,976	—
Deferred income tax recovery (expense).....	3,467	(108,028)
	<u>84,443</u>	<u>(108,028)</u>
Loss and comprehensive loss for the period .....	<u>\$ (880,839)</u>	<u>\$ (339,976)</u>
Loss per share – basic and diluted (note 8).....	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>
Weighted average number of common shares outstanding .....	<u>\$ 69,095,055</u>	<u>\$ 42,155,750</u>

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

**Dalradian Resources Inc.**  
(An exploration stage company)

**Consolidated Statements of Shareholders' Equity**

(Expressed in Canadian dollars)  
(Unaudited)

	<b>Three months ended</b>	
	<b>March 31, 2011</b>	<b>March 31, 2010</b>
<b>Share capital:</b>		
Balance, beginning of period .....	\$ 41,420,039	\$ 9,855,166
Options exercised .....	5,066	—
Balance, end of period .....	<u>\$ 41,425,105</u>	<u>\$ 9,855,166</u>
<b>Warrants:</b>		
Balance, beginning of period .....	\$ 5,862,545	\$ 209,197
Warrants issued .....	43,783	—
Balance, end of period .....	<u>\$ 5,906,328</u>	<u>\$ 209,197</u>
<b>Contributed surplus:</b>		
Balance, beginning of period .....	\$ 1,620,537	\$ —
Increase from stock-based compensation .....	236,321	—
Options exercised .....	(1,941)	—
Balance, end of period .....	<u>\$ 1,854,917</u>	<u>\$ —</u>
<b>Accumulated deficit:</b>		
Balance, beginning of period .....	\$ (7,346,483)	\$ (1,243,229)
Loss for the period .....	(880,839)	(339,976)
Balance, end of period .....	<u>\$ (8,227,322)</u>	<u>\$ (1,583,205)</u>
Total shareholders' equity .....	<u>\$ 40,959,028</u>	<u>\$ 8,481,158</u>

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

**Dalradian Resources Inc.**  
(An exploration stage company)

**Consolidated Statements of Cash Flows**

(Expressed in Canadian dollars)  
(Unaudited)

	<b>Three months ended</b>	
	<b>March 31, 2011</b>	<b>March 31, 2010</b>
Cash flows from (used in) operating activities:		
Loss for the period .....	\$ (880,839)	\$ (339,976)
Items not effecting cash:		
Foreign exchange loss (gain) .....	6,955	(24,149)
Amortization of administrative assets .....	17,787	275
Stock-based compensation .....	137,278	—
Interest income .....	(80,976)	—
Deferred income tax (recovery) expense .....	(3,467)	108,028
Change in non-cash operating working capital:		
Amounts receivable .....	(137,568)	(2,775)
Prepaid expenses .....	23,676	(101,967)
Accounts payable and accrued liabilities .....	(700,969)	(64,201)
Cash flows from operating activities .....	<u>\$ (1,618,123)</u>	<u>\$ (424,765)</u>
Cash flows from financing activities:		
Issuance of share capital, net of issue costs .....	\$ 3,125	\$ —
Cash flows from financing activities .....	<u>\$ 3,125</u>	<u>\$ —</u>
Cash flows used in investing activities:		
Expenditures on mineral properties .....	\$ (1,493,004)	\$ (268,141)
Additions to plant and equipment .....	(440,430)	(7,007)
Interest received .....	83,606	—
Cash flows used in investing activities .....	<u>\$ (1,849,828)</u>	<u>\$ (275,148)</u>
Decrease in cash from continuing operations .....	(3,464,826)	(699,913)
Cash, beginning of period .....	33,173,152	2,694,471
Effect of exchange rate fluctuations on cash held .....	6,868	—
Cash, end of period .....	<u>\$ 29,715,194</u>	<u>\$ 1,994,558</u>
Represented by:		
Cash on hand and bank deposits .....	<u>\$ 29,715,194</u>	<u>\$ 1,994,558</u>

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

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

Three months ended March 31, 2011 and the three months ended March 31, 2010 (unaudited)

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**1. NATURE OF OPERATIONS AND GOING CONCERN**

Dalradian Resources Inc. (the "Company") was incorporated on March 27, 2009, in the Province of Ontario, Canada, and is involved in the acquisition, exploration and development of mineral properties in Northern Ireland. The registered address of the Company's head office is 155 Wellington Street West, Suite 2920, Toronto, Ontario, M5V 3H1. 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 beyond that point, the Company will need to raise additional financing. Although the Company has been successful in raising funds to date, there can be no assurance that adequate funding will be available in the future, or available under terms favourable to the Company.

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

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

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

**2. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Company are in accordance with IFRS. 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, DGL. All inter-company transactions and balances have been eliminated on consolidation.

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

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(b) Measurement uncertainty

The preparation of financial statements in conformity with IFRS 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 deferred income tax assets and liabilities. Actual results could differ from those estimates. Management believes that the estimates are reasonable.

(c) Mineral properties and exploration and evaluation expenditures

The Company capitalizes costs incurred to acquire, explore for and evaluate mineral resources. These expenditures are included in the mineral properties classification within the Company's balance sheet. Once the technical feasibility and commercial viability of a mineral resource is determined, the development costs are capitalized until the properties are placed into production, become inactive, are assessed as impaired or are sold or abandoned. Capitalized mineral property 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, evaluation and development costs represent actual expenditures incurred and are not intended to reflect present or future values.

The Company assesses its mining properties for impairment whenever facts and circumstances suggest that the carrying amount is not recoverable. The Company considers the conditions listed in IFRS 6, *Exploration and Evaluation of Mineral Resources* in determining whether the carrying value of its mineral properties is not recoverable, such as loss of the rights to explore an area, 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 properties based on the nature of the services for which it was awarded over the vesting period of the award with a corresponding increase recorded to contributed surplus. Stock options for employees are valued at the grant date whereas non-employee options are valued as the goods and services are received from the recipient. The fair value of the stock-based compensation for employees is determined using the Black-Scholes option pricing model utilizing management's assumptions, as disclosed in note 6. The fair value of the stock-based compensation for non-employees is determined based on the fair value of the goods and services received. Upon exercise of a stock option, 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. Deferred 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. For non-monetary assets

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

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denominated in a foreign currency, the tax basis is translated to the functional currency using the current foreign exchange rate. Deferred income tax assets and liabilities 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 deferred 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. Deferred income tax assets are recorded to recognize tax benefits only to the extent that, based on available evidence, it is probable 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 earnings per share calculation to the extent that it is dilutive. The computation of diluted loss per share has not been done in periods the Company recognizes a loss 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	3-5 years
Automobiles	3-5 years

(h) Foreign currency translation

The Company and its subsidiary have a functional currency of Canadian dollars, which is also the currency in which the financial statements are presented. Transactions and balances denominated in a foreign currency have been translated into Canadian dollars using the method which 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, as described below. Any conversion differences are recorded as exchange gains or losses in the statement of loss and comprehensive loss. 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.

## Notes to Interim Consolidated Financial Statements

(Expressed in Canadian dollars)

Three months ended March 31, 2011 and the three months ended March 31, 2010 (unaudited)

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(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: fair value through profit or loss, 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 classified as fair value through profit or loss are measured at fair value with changes in those fair values recognized in the statement of loss and comprehensive 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.

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	Fair value through profit or loss	Fair value
Amounts receivable	Loans and receivables	Amortized cost
Accounts payables and accrued liabilities	Other liabilities	Amortized cost
Foreign currency denominated warrants	Fair value through profit or loss	Fair value

### 3. RECENT ACCOUNTING PRONOUNCEMENTS

IFRS 9 (2009) replaces the guidance in IAS 39 *Financial Instruments: Recognition and Measurement*, on the classification and measurement of financial assets. The Standard 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.

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(An exploration stage company)

**Notes to Interim Consolidated Financial Statements**

(Expressed in Canadian dollars)

Three months ended March 31, 2011 and the three months ended March 31, 2010 (unaudited)

**4. PLANT AND EQUIPMENT**

	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Net book value</u>
<b>March 31, 2011</b>			
Furniture and office equipment .....	\$ 234,397	\$ 13,581	\$ 220,816
Computer equipment .....	32,721	6,161	26,560
Leasehold improvements .....	585,543	19,896	565,647
Automobiles .....	105,639	12,140	93,499
	<u>\$ 958,300</u>	<u>\$ 51,778</u>	<u>\$ 906,522</u>
<b>December 31, 2010</b>			
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>

**5. MINERAL PROPERTIES**

	<u>Three months ended</u>	
	<u>March 31, 2011</u>	<u>March 31, 2010</u>
Balance, beginning of period .....	\$ 9,075,580	\$ 6,701,662
Option and acquisition costs .....	—	24,277
Licences and permits .....	50,044	32,388
Drilling and assays .....	1,296,217	81,714
Personnel, administration and travel .....	574,636	108,755
Environmental .....	56,913	—
Studies and evaluation reports .....	25,909	45,284
Stock-based compensation .....	99,044	—
Warrants .....	43,783	—
	<u>\$ 11,222,126</u>	<u>\$ 6,994,080</u>

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

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**Notes to Interim Consolidated Financial Statements**

(Expressed in Canadian dollars)

Three months ended March 31, 2011 and the three months ended March 31, 2010 (unaudited)

**6. SHARE CAPITAL, WARRANTS AND STOCK OPTIONS**

(a) Common shares:

The Company is authorized to issue an unlimited number of common shares with no par value. As at March 31, 2011, 69,102,416 (December 31, 2010: 69,089,916) common shares were issued and outstanding.

	<b>Number of shares issued</b>	<b>Amount</b>
Balance, January 1, 2010 .....	42,155,750	\$ 9,855,166
Public offering .....	26,100,000	33,903,900
Issuance on exercise of warrants .....	821,666	1,622,959
Issuance on exercise of options .....	12,500	5,066
Issuance costs of public offering .....	—	(3,967,052)
Balance, December 31, 2010 .....	69,089,916	\$ 41,420,039
Issuance on exercise of options (ii) .....	12,500	5,066
Balance, March 31, 2011 .....	<u>69,102,416</u>	<u>\$ 41,425,105</u>

(b) Warrants:

	<b>Number of Warrants</b>	<b>Amount</b>	<b>Weighted average exercise price</b>
Balance, January 1, 2010 .....	480,000	\$ 209,197	\$ 0.75
Warrants issued on public offering .....	13,050,000	5,246,100	2.25
Warrants issued on exercise of broker warrants .....	130,500	76,908	2.25
Broker warrants issued .....	1,696,500	1,185,854	1.50
Exercised .....	(405,000)	(245,198)	(1.23)
Issuance costs of public offering .....	—	(610,316)	—
Balance, December 31, 2010 .....	14,952,000	\$ 5,862,545	\$ 2.14
Warrants issued (i) .....	30,000	43,783	2.17
Balance, March 31, 2011 .....	<u>14,982,000</u>	<u>\$ 5,906,328</u>	<u>\$ 2.14</u>

- (i) On January 1, 2011, the Company issued 30,000 warrants to two landowners at an exercise price of \$2.17 per share. The warrants expire on January 1, 2016 and have a fair value of \$43,783.
- (ii) On February 23, 2011, 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.

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As at March 31, 2011, the following warrants were issued and outstanding:

<u>Type</u>	<u>Expiry Date</u>	<u>Number of Warrants</u>	<u>Shares Issuable</u>	<u>Value</u>	<u>Exercise Price</u>
Warrants	December 18, 2011	336,000	336,000	\$ 146,438	\$ 0.75
Warrants	August 10, 2011	13,180,500	13,180,500	4,712,692	2.25
Broker warrants	February 10, 2012	1,435,500	2,153,250	1,003,415	1.50
Warrants	January 1, 2016	30,000	30,000	43,783	2.17
		<u>14,982,000</u>	<u>15,699,750</u>	<u>\$ 5,906,328</u>	<u>\$ 2.14</u>

Each warrant entitles the holder to purchase one common share at the stated exercise price up to the expiry date. Each broker warrant entitles the holder to purchase one common share and one-half of one common share purchase warrant at the stated exercise price until August 10, 2011 and thereafter to purchase one common share at the stated exercise price up to February 10, 2012. At March 31, 2011 there were 1,435,500 broker warrants outstanding.

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 1.70%
Expected life (years).....	1 to 3
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.

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As at March 31, 2011, 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 <sup>2</sup></u>	<u>Exercise Price</u>	<u>Expiry Date</u>
November 16, 2009 <sup>1</sup>	\$ 112,603	275,000	4.36	450,000	\$ 0.25	August 10, 2015
April 15, 2010	1,239,122	766,667	4.36	1,633,333	0.75	August 10, 2015
April 15, 2010	70,096	—	0.15	150,000	0.75	May 24, 2011
June 9, 2010	256,575	200,000	4.36	350,000	0.75	August 10, 2015
August 19, 2010	345,556	200,000	4.39	100,000	1.85	August 19, 2015
October 18, 2010	177,237	83,333	4.55	41,667	2.28	October 18, 2015
January 14, 2011	122,178	66,666	4.79	33,334	1.96	January 14, 2016
	<u>\$ 2,323,367</u>	<u>1,591,666</u>	<u>4.24</u>	<u>2,758,334</u>		

<sup>1</sup> 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.

<sup>2</sup> The weighted average exercise price of vested stock options at March 31, 2011 is \$0.74 (Dec 31, 2010: \$0.77).

On January 14, 2011, the Company issued 100,000 options 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 on January 14, 2016 and have a fair value of \$122,178.

On February 23, 2011, 12,500 options were exercised at \$0.25 per share. The fair value of \$1,941 was transferred to common shares.

On February 24, 2011, the Company accelerated the vesting of 100,000 options to a former employee of the Company and the previously unrecognized charge for these options has been expensed. These options had been granted on April 15, 2010.

On March 10, 2011, 33,334 options expired which had been given to a former employee of the Company. The fair value of these options was \$47,263. These options had been granted on October 18, 2010.

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

Volatility .....	100.0%
Risk-free interest rate .....	1.21% to 1.69%
Expected life (years).....	0.25 to 3
Dividend yield .....	nil
Vesting (years) .....	1 to 3

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

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**Notes to Interim Consolidated Financial Statements**

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<u>Grant Date</u>	<u>Three months ended March 31, 2011</u>		<u>Twelve months ended December 31, 2010</u>	
	<u>Number of Options</u>	<u>Weighted average exercise price</u>	<u>Number of Options</u>	<u>Weighted average exercise price</u>
Balance, beginning of period.....	4,295,834	0.80	750,000	0.25
Granted .....	100,000	1.96	3,625,000	0.94
Exercised.....	(12,500)	(0.25)	(12,500)	(0.25)
Forfeited .....	(33,334)	(2.28)	(66,666)	(2.28)
Balance, end of period.....	<u>4,350,000</u>	<u>0.81</u>	<u>4,295,834</u>	<u>0.80</u>

**7. RELATED PARTY TRANSACTIONS**

During the quarter ended March 31, 2010, \$31,500 of consulting fees were paid to a company controlled by a former officer of the Company.

Key management personnel compensation comprised:

	<u>Three months ended</u>	
	<u>March 31, 2011</u>	<u>March 31, 2010</u>
Management salaries.....	273,079	—
Directors' fees.....	65,000	—
Stock-based compensation.....	110,973	—
	<u>449,052</u>	<u>—</u>

**8. BASIC AND DILUTED LOSS PER SHARE**

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

	<u>Three months ended</u>	
	<u>March 31, 2011</u>	<u>March 31, 2010</u>
Numerator:		
Loss for the period and comprehensive loss .....	\$ (880,839)	\$ (339,976)
Numerator for basic and diluted loss per share .....	<u>\$ (880,839)</u>	<u>\$ (339,976)</u>
Denominator:		
Weighted average number of common shares.....	69,095,055	42,155,750
Denominator for basic and diluted loss per share .....	<u>69,095,055</u>	<u>42,155,750</u>
Basic and diluted loss per share .....	<u>\$ (0.01)</u>	<u>\$ (0.01)</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.

## Notes to Interim Consolidated Financial Statements

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### 9. FINANCIAL INSTRUMENTS AND CURRENCY RISK

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

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

### 10. COMMITMENTS AND CONTINGENCIES

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

The Department of Enterprise, Trade and Investment ("DETI") mineral prospecting licences DG3 and DG4 are currently in the re-application process for base metals rights. The Company has been informed by DETI that it will process these applications as expeditiously as possible. The CEC informed the Company in April 2011 that it has undertaken a review of its Mines Royal policy and has determined it will replace licences with Mining Lease Option Agreements as they become due for renewal. There is no material change in rights or fees between the licences and options. DG3 and DG4 are the first of the Company's licences to go through this process.

DGL entered into a drilling services agreement with an international drilling company in December 2010. Under the terms of the agreement, the drilling company is obligated to drill a minimum of 40,000 metres in 21 to 24 months.

During 2010, the Company entered into an agreement with another Canadian mining company to share office space in Toronto until August 31, 2015. Under this agreement, the Company is responsible for fifty percent (50%) of the construction and fixturing costs and fifty percent (50%) of the rent. The Company moved into their new offices during the first quarter of 2011 and has spent \$434,983 on construction and fixturing during the first quarter of 2011 (\$736,468 to date).

In December 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 amounting to approximately \$78,000 in 2011, \$87,000 in 2012 and \$99,000 in 2013. On January 1, 2011, the Company issued 30,000 warrants to these landowners which have an exercise price of \$2.17 per share. In addition, the Company has committed to issue 40,000 warrants in 2012 and 50,000 warrants in 2013.

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**11. SEGMENTED REPORTING**

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

	<u>Canada</u>	<u>Northern Ireland</u>	<u>Total</u>
<b>As at March 31, 2011</b>			
Current assets .....	\$ 29,570,240	\$ 1,488,779	\$ 31,059,019
Mineral properties .....	—	11,222,126	11,222,126
Plant and equipment.....	<u>729,842</u>	<u>176,680</u>	<u>906,522</u>
Total assets .....	<u>\$ 30,300,082</u>	<u>\$ 12,887,585</u>	<u>\$ 43,187,667</u>
<b>Three months ended March 31, 2011</b>			
Revenue .....	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Net loss.....	<u>\$ 760,346</u>	<u>\$ 120,493</u>	<u>\$ 880,839</u>
<b>As at December 31, 2010</b>			
Current assets .....	\$ 33,341,555	\$ 981,435	\$ 34,322,990
Mineral properties .....	—	9,075,580	9,075,580
Plant and equipment.....	<u>308,488</u>	<u>189,214</u>	<u>497,702</u>
Total assets .....	<u>\$ 33,650,043</u>	<u>\$ 10,246,229</u>	<u>\$ 43,896,272</u>
<b>Three months ended March 31, 2010</b>			
Revenue .....	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Net loss.....	<u>\$ 233,784</u>	<u>\$ 106,192</u>	<u>\$ 339,976</u>

**12. SUBSEQUENT EVENTS**

On April 6, 2011, 500,000 options were granted to an employee with an exercise price of \$2.19 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 April 6, 2016.

On April 18, 2011, 150,000 options were exercised at an exercise price of \$0.75 per share.

On April 19, 2011, 75,000 options were exercised at an exercise price of \$0.25 per share.

On May 12, 2011, 125,000 options were granted to an employee with an exercise price of \$1.54 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 May 12, 2016.

**13. EXPLANATION OF TRANSITION TO IFRS**

As stated in Note 1, these are the Company's first financial statements prepared in accordance with IFRS.

The accounting policies set out in Note 2 have been applied in preparing the financial statements for the quarter ended March 31, 2011, the comparative information presented in these financial

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statements for the quarter ended March 31, 2010 and year ended December 31, 2010 and in the preparation of an opening IFRS balance sheet as at January 1, 2010 (the transition date).

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

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**Reconciliation of Equity**

	PCAS	Warrants (Note a)	Deferred Income Tax (note c)	IFRS	PCAS	Warrants (Note a)	Deferred Income Tax (note c)	IFRS
	January 1, 2010				March 31, 2010			
<b>ASSETS</b>								
Current assets:								
Cash .....	\$ 2,694,471	\$ —	\$ —	\$ 2,694,471	\$ 1,994,558	\$ —	\$ —	\$ 1,994,558
Amounts receivable.....	1,915	—	—	1,915	4,690	—	—	4,690
Prepaid expenses.....	1,255	—	—	1,255	103,222	—	—	103,222
	<u>2,697,641</u>	<u>—</u>	<u>—</u>	<u>2,697,641</u>	<u>2,102,470</u>	<u>—</u>	<u>—</u>	<u>2,102,470</u>
Plant and equipment.....	1,793	—	—	1,793	8,397	—	—	8,397
Mineral properties .....	6,976,214	—	(274,552)	6,701,662	7,244,355	—	(250,275)	6,994,080
	<u>\$ 9,675,648</u>	<u>\$ —</u>	<u>\$ (274,552)</u>	<u>\$ 9,401,096</u>	<u>\$ 9,355,222</u>	<u>\$ —</u>	<u>\$ (250,275)</u>	<u>\$ 9,104,947</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>								
Current liabilities:								
Accounts payable and accrued liabilities.....	\$ 423,196	\$ —	\$ —	\$ 423,196	\$ 358,995	\$ —	\$ —	\$ 358,995
Deferred income taxes.....	274,552	—	(217,738)	56,814	250,275	—	(85,433)	164,842
Warrants .....	—	99,952	—	99,952	—	99,952	—	99,952
	<u>697,748</u>	<u>99,952</u>	<u>(217,738)</u>	<u>579,962</u>	<u>609,270</u>	<u>99,952</u>	<u>(85,433)</u>	<u>623,789</u>
Shareholders' equity:								
Share capital .....	9,855,166	—	—	9,855,166	9,855,166	—	—	9,855,166
Warrants .....	309,149	(99,952)	—	209,197	309,149	(99,952)	—	209,197
Contributed surplus .....	—	—	—	—	—	—	—	—
Accumulated deficit .....	(1,186,415)	—	(56,814)	(1,243,229)	(1,418,363)	—	(164,842)	(1,583,205)
	<u>8,977,900</u>	<u>(99,952)</u>	<u>(56,814)</u>	<u>8,821,134</u>	<u>8,745,952</u>	<u>(99,952)</u>	<u>(164,842)</u>	<u>8,481,158</u>
	<u>\$ 9,675,648</u>	<u>\$ —</u>	<u>\$ (274,552)</u>	<u>\$ 9,401,096</u>	<u>\$ 9,355,222</u>	<u>\$ —</u>	<u>\$ (250,275)</u>	<u>\$ 9,104,947</u>

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(Expressed in Canadian dollars)

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**Reconciliation of Equity (continued)**

	PCAS	Warrants (Note a)	Stock Options (Note b)	Deferred Income Tax (Note c)	IFRS
<b>December 31, 2010</b>					
<b>ASSETS</b>					
Current assets:					
Cash .....	\$ 33,173,152	\$ —	\$ —	\$ —	\$ 33,173,152
Amounts receivable .....	641,422	—	—	—	641,422
Prepaid expenses .....	508,416	—	—	—	508,416
	34,322,990	—	—	—	34,322,990
Plant and equipment .....	497,702	—	—	—	497,702
Mineral properties .....	9,409,912	—	—	(334,332)	9,075,580
	<u>\$ 44,230,604</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (334,332)</u>	<u>\$ 43,896,272</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
Current liabilities:					
Accounts payable and accrued liabilities .....	\$ 2,126,268	\$ —	\$ —	\$ —	\$ 2,126,268
Deferred income taxes .....	334,332	—	—	(120,966)	213,366
Warrants .....	—	—	—	—	—
	2,460,600	—	—	(120,966)	2,339,634
Shareholders' equity:					
Share capital .....	40,757,909	662,130	—	—	41,420,039
Warrants .....	5,862,545	—	—	—	5,862,545
Contributed surplus .....	1,933,760	—	(313,223)	—	1,620,537
Accumulated deficit .....	(6,784,210)	(662,130)	313,223	(213,366)	(7,346,483)
	41,770,004	—	—	(213,366)	41,556,638
	<u>\$ 44,230,604</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (334,332)</u>	<u>\$ 43,896,272</u>

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**Reconciliation of Comprehensive Income**

	PCAS	Deferred Income Tax (Note c)	IFRS	PCAS	Warrants (Note a)	Stock Options (Note b)	Deferred Income Tax (Note c)	IFRS
	Three months ended March 31, 2010			Year ended December 31, 2010				
Operating expenses:								
Professional fees and consulting.....	\$ 138,288	\$ —	\$ 138,288	\$ 872,335	\$ —	\$ —	\$ —	\$ 872,335
Salaries and wages.....	29,491	—	29,491	1,762,972	—	—	—	1,762,972
Travel and investor relations.....	58,128	—	58,128	772,592	—	—	—	772,592
Office, regulatory and general.....	32,433	—	32,433	558,411	—	—	—	558,411
Interest and bank charges.....	1,593	—	1,593	5,524	—	—	—	5,524
Amortization of administrative assets.....	275	—	275	3,443	—	—	—	3,443
Foreign exchange gain.....	(28,260)	—	(28,260)	(8,214)	—	—	—	(8,214)
Stock-based compensation.....	—	—	—	1,764,737	—	(313,223)	—	1,451,514
Change in value of warrants.....	—	—	—	—	662,130	—	—	662,130
	<u>231,948</u>	<u>—</u>	<u>231,948</u>	<u>5,731,800</u>	<u>662,130</u>	<u>(313,223)</u>	<u>—</u>	<u>6,080,707</u>
Interest income.....	—	—	—	134,005	—	—	—	134,005
Deferred income tax expense.....	—	(108,028)	(108,028)	—	—	—	(156,552)	(156,552)
	<u>—</u>	<u>(108,028)</u>	<u>(108,028)</u>	<u>134,005</u>	<u>—</u>	<u>—</u>	<u>(156,552)</u>	<u>(22,547)</u>
Loss and comprehensive loss for the period.....	<u>\$ (231,948)</u>	<u>\$ (108,028)</u>	<u>\$ (339,976)</u>	<u>\$ (5,597,795)</u>	<u>\$ (662,130)</u>	<u>\$ 313,223</u>	<u>\$ (156,552)</u>	<u>\$ (6,103,254)</u>
Loss per share – basic and diluted.....	<u>\$ (0.01)</u>	<u>\$ (0.00)</u>	<u>\$ (0.01)</u>	<u>\$ (0.11)</u>	<u>\$ (0.01)</u>	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>	<u>\$ (0.12)</u>
Weighted average number of common shares outstanding.....	<u>\$ 42,155,750</u>	<u>\$ 42,155,750</u>	<u>\$ 42,155,750</u>	<u>\$ 52,471,197</u>	<u>\$ 52,471,197</u>	<u>\$ 52,471,197</u>	<u>\$ 52,471,197</u>	<u>\$ 52,471,197</u>

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### 13. EXPLANATION OF TRANSITION TO IFRS (continued)

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

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

At the transition date, the impact of the warrants re-classification from equity to liabilities was \$99,952. The warrants were exercised on September 30, 2010 and the impact of this has resulted in a charge to the statement of loss and comprehensive loss of \$662,130 with a corresponding increase in share capital for the year ended December 31, 2010.

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

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

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

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

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

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

At the transition date, the impact of the above has resulted in a reduction in mineral properties of \$274,552, a decrease in the deferred income tax liability of \$217,738 and a decrease in retained earnings of \$56,814. In the year ended December 31, 2010, the impact is a reduction in mineral properties of \$334,332, a decrease in the deferred income tax liability of \$120,966 and a decrease in retained earnings of \$213,366.

**Mandatory and Optional Exemptions**

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

*Mandatory Exemptions*

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

*Optional Exemptions*

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