

DALRADIAN RESOURCES

Dalradian Resources Inc.

Management's Discussion and Analysis

For the three months ended March 31, 2011

May 19, 2011

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INTRODUCTION

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

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

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

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

All amounts are in Canadian dollars unless otherwise noted.

This MD&A is dated May 19, 2011.

FORWARD-LOOKING INFORMATION

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

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

Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company and/or its subsidiary to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, general business, economic, competitive, political and social uncertainties; the actual results of current exploration activities; actual results of reclamation activities; conclusions of economic evaluations; changes in project parameters as plans continue to be refined; future prices of metals; possible variations of ore grade or recovery rates; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the mining industry; political instability; delays in obtaining governmental approvals or financing or in the completion of development or construction activities, as well as those factors discussed in the section entitled “Risk Factors” in the AIF. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. Forward-looking statements contained herein are made as of the date of this MD&A and the Company disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results, except as may be required by applicable securities laws. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

DESCRIPTION OF BUSINESS

Incorporated on March 27, 2009 pursuant to the provisions of the *Business Corporations Act (Ontario)*, Dalradian is a Canadian based mineral resource company engaged in the acquisition, exploration and development of mineral properties. The Company's wholly-owned subsidiary, DGL, holds a 100% interest, subject to certain royalties, in mineral prospecting licences that cover approximately 84,000 hectares in counties Tyrone and Londonderry, Northern Ireland. The Department of Enterprise, Trade and Investment ("DETI") and the Crown Estate Commissioners ("CEC") together grant base and precious metal mineral exploration rights to four contiguous areas collectively known as the Tyrone Project.

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

EXECUTIVE SUMMARY

Exploration

Dalradian is focused on developing the Tyrone Project, which is in proven geological terrain for gold and base metals deposits and showings. It includes the Curraghinalt Deposit, a mesothermal gold system consisting of at least seven primary gold-bearing veins. Open along strike and down dip, recent drilling based on regional geochemical, mapping and sampling work has shown the existence of additional veins peripheral to the resource and outside the main zone.

The Company's exploration program, therefore, is designed to achieve three goals:

- Better define and develop the current mineral resources identified at the Curraghinalt Deposit;
- Conduct further exploration to identify whether mineral resources extend beyond the known mineralization of the Curraghinalt Deposit; and
- Identify new mineral resources on the rest of the Tyrone Project licence block.

The Company's exploration program expanded in December 2010 with the arrival of two rigs from Major Drilling Group International Inc. ("Major"). Major is contracted to complete 40,000 metres over 24 months ending October 31, 2012, and its two rigs have joined the two Irish Drilling Limited rigs currently on site. Since beginning its exploration program and infill drilling on March 8, 2010, with one drill rig, Dalradian has completed 37 holes totaling 12,579 metres as of May 15, 2011, in an ongoing program that now includes four drills.

Highlights include:

- The intersection of several new veins, parallel to the existing resource, including the Bend and Crow veins which drilling continues to prove-up along strike and down dip; and
- The Company extended the known mineralization at its Curraghinalt Deposit in County Tyrone, Northern Ireland. As part of the company's step out drilling program, two of the main resource veins have been intersected increasing both known strike and dip extent. Two drill holes stepped out 225 and 270 metres to the east of the present T17 vein resource block and intersected 2.54 metres grading 20.61 g/t gold, and 3.58 metres grading 9.50 g/t gold. See press release dated April 7, 2011.

The Company commenced fieldwork on its 2011 regional exploration program using Canadian prospectors from Ontario, Newfoundland and Labrador at the Tyrone Project.

For complete tables and figures, please see the Company's press releases, available on SEDAR at www.sedar.com or on the Company's website at www.dalradian.com.

Other Developments

Mr. Thomas Obradovich was appointed as a member of the board of directors (the Board) of the Company, effective May 13, 2011. Mr. Obradovich will also act as lead director of the Board. Mr. Obradovich has over 27 years' experience in mining exploration, development and financing. See press

release dated May 19, 2011.

Mr. John McCombe, P. Eng., was appointed Chief Operating Officer of the Company, effective May 16, 2011. Mr. McCombe worked in the high-grade narrow vein Red Lake district and has over 20 years experience in underground operations. See press release dated April 20, 2011.

Ms. Shae-Lynn Mathers was appointed Director, Investor Relations of the Company and is expected to join the Company on June 13, 2011.

Financial Statements

These are the Company's first consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRS 1, *First-time Adoption of International Financial Reporting Standards* has been applied. 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 Note 13 to the interim consolidated financial statements for the quarter ended March 31, 2011.

OVERVIEW OF SELECTED INFORMATION FROM THE FINANCIAL STATEMENTS

The following table sets forth selected data for the three months ended March 31, 2011 and 2010:

	Three months ended March 31, 2011	Three months ended March 31, 2010
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 for the period	<u>\$ (880,839)</u>	<u>\$ (339,976)</u>
Loss per share – basic and diluted	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>
Total Assets	<u>\$ 43,187,667</u>	<u>\$ 9,104,947</u>
Long-term financial liabilities	<u>\$ —</u>	<u>\$ —</u>

Three Months Ended March 31, 2011 Versus Three Months Ended March 31, 2010

Professional and consulting fees have not changed significantly from 2010; however, the Company has replaced the majority of consulting costs with salary expense and other professional fees have increased as a result of being a public company.

Salaries increased in the three months ended March 31, 2011 to \$323,328, compared with \$29,491 for the same period in 2010, as the Company recruited staff during 2010 and in the first quarter of 2011, which replaced previous consulting costs.

Travel and investor relations expenses increased in the three months ended March 31, 2011 to \$191,432, compared with \$58,128 for the same period in 2010, due to increased travel between Canada and Northern Ireland and investor relations activities associated with being a public company.

Office, regulatory and general expenses increased in the three months ended March 31, 2011 to \$162,146, compared with \$32,433 for the same period in 2010, due to listing and filing fees associated with the public company listing and rent and associated costs for offices in Toronto and Belfast.

Interest and bank charges in the three months ended March 31, 2011 have not changed significantly when compared to the three months ended March 31, 2010.

Amortization increased in the three months ended March 31, 2011 to \$17,787, compared with \$275 for the same period in 2010, due to the acquisition of computers, equipment, furniture and leasehold improvements.

In the three months ended March 31, 2011, the foreign exchange gain was \$2,051 compared with a gain of \$28,260 in the three months ended March 31, 2010 as a result of the favourable movement in the pound sterling against the Canadian dollar in the first quarter of 2011.

Stock-based compensation expense increased in the three months ended March 31, 2011 to \$137,278 compared with \$nil in the three months ended March 31, 2010, as expense recognition commenced when the Company became public on August 10, 2010.

Interest income in the three months ended March 31, 2011 increased to \$80,976, compared with \$nil in the three months ended March 31, 2010, as the Company invested the funds raised in the initial public offering with a Canadian financial institution on a short-term basis.

SUMMARY OF QUARTERLY RESULTS

The following selected data is prepared in accordance with IFRS (2009 figures remain under PCAS) and should be read in conjunction with the March 31, 2011 interim consolidated financial statements.

	Three months ended			
	March 31 2011	December 31 2010	September 30 2010	June 30 2010
Interest income	\$ 80,976	\$ 89,372	\$ 44,633	\$ nil
Net loss	\$ (880,839)	\$ (2,820,982)	\$ (2,403,525)	\$ (538,771)
Net loss per common share (basic and diluted)	\$ (0.01)	\$ (0.04)	\$ (0.04)	\$ (0.01)
Total assets	\$ 43,187,667	\$ 43,896,272	\$ 44,268,006	\$ 9,045,405
Total shareholders' equity	\$ 40,959,028	\$ 41,556,638	\$ 43,617,647	\$ 7,942,387

	Three months ended			
	March 31 2010	December 31 2009*	September 30 2009*	June 30 2009*
Interest income	\$ nil	\$ nil	\$ nil	\$ nil
Net loss	\$ (339,976)	\$ (145,444)	\$ (275,795)	\$ (750,771)
Net loss per common share (basic and diluted)	\$ (0.01)	\$ (0.01)	\$ (0.03)	\$ (0.07)
Total assets	\$ 9,104,947	\$ 9,675,648	\$ 1,125,994	\$ 1,480,530
Total shareholders' equity	\$ 8,481,158	\$ 8,977,900	\$ (334,760)	\$ (697,363)

*These continue to be shown under PCAS

The net loss in the three months ended March 31, 2011 results from hiring staff in 2010 and in the first quarter of 2011, professional fees incurred in relation to public company reporting and listing requirements, travel to Northern Ireland, investor relation marketing activities and rent and associated costs for offices in Toronto and Belfast.

FINANCIAL CONDITION, CASH FLOWS, LIQUIDITY AND CAPITAL RESOURCES

Capital Resources

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

The Company's cash position as at March 31, 2011, is \$29,715,194 and as at May 19, 2011, is approximately \$27.5 million. The Company's management believes that its current cash position will be sufficient to provide for the Company's fixed costs and current proposed expenditures in the coming year.

Financing Activities

The Company's initial public offering on August 10, 2010 generated net proceeds of \$30,989,986, after deducting a cash commission of \$2,213,250 and other transaction costs of \$846,764, which were paid out of the offering's proceeds.

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

The Company has issued:

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

In total, the Company issued 26,100,000 common shares, 13,050,000 warrants and 1,696,500 broker warrants in conjunction with its initial public offering in August 2010.

Liquidity

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

For the three months ending March 31, 2011, the Company spent approximately \$2.1 million on the Northern Ireland exploration program, which was slightly less than anticipated due to fewer metres drilled than planned as a result of fewer drill rigs being available. Spending in the second quarter of 2011 is expected to increase to approximately \$1.0 million per month. Expenditures are expected to increase to \$1.5 million per month in the third quarter of 2011 with the addition of two new drilling rigs to bring the total number of drill rigs to six.

Contractual Obligations

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

The 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. Drilling commenced in December 2010 and the Company incurred costs of approximately U.S. \$0.9 million for the three months ended March 31, 2011 in relation to this contract.

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.

Off-balance Sheet Arrangements

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

Transactions with Related Parties

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:

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

RISK MANAGEMENT

Fair Value

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

Commodity Price Risk

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

Liquidity Risk

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

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

The ultimate responsibility for liquidity risk rests with the Board of the Company, which has built an appropriate liquidity risk management framework for management of the Company's short, medium and long-term funding and liquidity requirements. The Company's cash requirements and balances are projected based on estimated future requirements. The Company plans to meet these requirements through a mix of available funds, equity financing, sale or mining of assets and project debt financing. Continuing operations are dependent on the Company's ability in the near term to access sufficient capital to complete the Company's exploration and development activities, identify commercial gold reserves and ultimately to have profitable operations. Accounts payable and accrued liabilities as at March 31, 2011 all have contractual maturities of less than 90 days and are subject to normal trade terms.

Credit Risk

Credit risk arises when failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the consolidated balance sheet date. The majority of the Company's financial assets are cash and receivables. Management considers the credit risk on cash to be limited because the counterparties are established well-known financial institutions. During the three month period ended March 31, 2011, there were no allowances or bad debts on the receivables and no amounts were past due. The maximum exposure to credit risk is represented by the carrying amount of the cash and amounts receivable on the consolidated balance sheet.

Foreign Currency Risk

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

OUTSTANDING SHARE DATA

The following table summarizes the capitalization of the Company as at March 31, 2011:

	<u>Exercise Price</u>	<u>Number of Common Shares</u>
Common shares		69,102,416
Warrants		
Expiring August 10, 2011	\$ 2.25	13,180,500
Expiring December 18, 2011	0.75	336,000
Expiring February 10, 2012*	1.50	2,153,250
Expiring January 1, 2016	2.17	30,000
Total warrants		<u>15,699,750</u>
Options		
Expiring May 24, 2011	0.75	150,000
Expiring August 10, 2015	0.25	725,000
Expiring August 10, 2015	0.75	2,950,000
Expiring August 19, 2015	1.85	300,000
Expiring October 18, 2015	2.28	125,000
Expiring January 14, 2016	1.96	100,000
Total options		<u>4,350,000</u>
Total fully diluted		<u><u>89,152,166</u></u>

* Holders can purchase 1,435,500 units consisting of one common share and one-half of one purchase warrant up to August 10, 2011, and thereafter to purchase 1,435,500 common shares at \$1.50.

As at May 19, 2011, the Company had 69,327,416 common shares outstanding, 15,699,750 warrants outstanding and 4,750,000 stock options issued and outstanding. This amounts to 89,777,166 common shares outstanding on a fully-diluted basis.

ADOPTION OF NEW ACCOUNTING STANDARDS

International Financial Reporting Standards (“IFRS”)

IFRS Transition Plan

The Company developed an IFRS transition plan starting in the third quarter of 2010 after completing its initial public offering, to prepare for the transition from PCAS to IFRS accounting standards. The Company also engaged third-party advisers in 2010 to assist with the planning and implementation of its transition to IFRS.

The Company completed its assessment of the significant areas where changes to accounting policies may be required, known as the Component Evaluation stage, in the fourth quarter of 2010. This analysis included a detailed assessment of the alternatives available or any change that may be required to the Company’s current accounting policies.

The following table summarizes the Company's progress with respect to completion of its IFRS transition plan:

Activity	Status
Preliminary Assessment - Initial scoping and analysis of key areas for which accounting policies may be impacted by the transition to IFRS.	Completed in the quarter ended September 30, 2010.
Component Evaluation - Detailed evaluation of potential changes required to accounting policies, information systems and business processes.	Completed in the quarter ended December 31, 2010.
Determination of expected changes on accounting policies and requirements with respect to first-time adoption	Completed in the quarter ended March 31, 2011.

alternatives.	
Quantification of the expected financial statement impact of changes in accounting policies, and determination of the expected IFRS transition date balance sheet (as at January 1, 2010).	Completed in the quarter ended March 31, 2011.
Completion of updates associated with accounting policy changes to information technology, internal controls, business processes and contractual arrangements.	Completed in the quarter ended March 31, 2011.
Preparation of pro forma fiscal 2011 financial statements, with comparatives, consistent with IFRS presentation and disclosure requirements.	Completed in the quarter ended March 31, 2011.
Training requirements associated with IFRS.	Substantially completed during the quarter ended March 31, 2011, with some ongoing activity during the remainder of the year.
Completed opening balance sheet as at January 1, 2010 and prepared March 31, 2011 financial statements under IFRS.	Completed for the quarter ended March 31, 2011.

First-time Adoption of IFRS

The Company adopted application of IFRS 1 *First-time Adoption of International Financial Reporting Standards* ("IFRS 1"). IFRS 1 provides certain optional exemptions and mandatory exceptions to this retrospective treatment. The Company chose the application of IAS 39 *Financial Instruments: Recognition and Measurement* regarding compound financial instruments to be the only optional exemption taken in the preparation of an opening IFRS balance sheet as at January 1, 2010 (the "transition date").

Impact of Adopting IFRS on the Company's Financial Statements

The adoption of IFRS did not result in significant changes to accounting policies. For a full description of the Company's accounting policies under IFRS, refer to Note 2 of the March 31, 2011 interim consolidated financial statements.

The areas outlined below have been identified as the main areas which IFRS has impacted.

Exploration Expenditures

The Company retained its existing accounting policies related to the exploration for and evaluation of mineral properties.

Plant and Equipment (Measurement and Valuation)

IFRS requires the Company to choose, for each class of capital assets, between the cost model and the revaluation model. Under the revaluation model, an item of plant and equipment is carried at its re-valued amount, being its fair value at the date of the revaluation less any accumulated amortization and accumulated impairment losses. The Company selected the cost model in accounting for its capital assets, which is consistent with previous PCAS treatment.

Foreign Currencies

IFRS requires that the functional currency of the Company and its subsidiaries be determined separately, and the process of considering factors to determine functional currency are somewhat different than PCAS. The Company's reporting currency and functional currency, as well as the functional currency of the subsidiary, remains unchanged as Canadian dollars.

Share-based Payments

In certain circumstances, IFRS requires a different measurement of stock-based compensation than PCAS. The determination of whether a stock-based award is granted to an employee or non-employee differs under PCAS and IFRS. The Company determined that an award granted to non-employee under

PCAS is considered to be an employee award under IFRS, resulting in a different amount and timing of recognition of stock compensation costs.

In addition, the treatment of accelerated vesting under IFRS is different than PCAS. Under IFRS, you only expense the previously unrecognized charge for these options, whereas under PCAS, the acceleration was accounted for as an increase in the fair value of the options, resulting in a larger charge to the statement of loss and comprehensive loss.

The Company has determined the impact of the change on the measurement of compensation expense was \$313,223 for the year ended December 31, 2010.

Warrants

Under IFRS, the U.S. dollar denominated share purchase warrants are considered to be a financial instrument, due to the Canadian dollar being Dalradian's functional currency. As such, the warrants are indexed to both the Company's stock price and to the foreign exchange rate. At January 1, 2010, the impact was to reclassify the warrants from equity to liabilities of \$99,952. When the warrants were exercised in the third quarter of 2010, it resulted in a \$662,130 charge to the statement of loss and comprehensive loss and a corresponding increase in share capital.

Deferred Tax

Under IFRS, a deferred income tax liability is not recognized when an asset is acquired in a transaction that is not a business combination, either initially or subsequently. The Company has recognized the deferred tax related to the difference between the book value and underlying tax basis of the non-monetary assets. At the transition date, the impact of the deferred tax release resulted in a reduction in mineral properties of \$274,552, with a corresponding decrease in the deferred tax liability of \$217,738 and retained earnings of \$56,814. For the year ended December 31, 2010, the impact was a reduction in mineral properties of \$334,332, a decrease in the deferred tax liability of \$120,966 and retained earnings of \$213,366.

Change in Accounting Policies

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.

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.

INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS AND PROCEDURES

Dalradian's management, including the Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the design and operation of the Company's internal controls over financial reporting and disclosure controls and procedures as of March 31, 2011. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that they were effective at a reasonable assurance level.

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

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

RISK FACTORS

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

OUTLOOK

The Company expects to expand the drilling program to determine the potential size of the mineral resource envelope, with an additional drill rig planned for the end of the second quarter of 2011. This will bring the number of rigs operating on the Curraghinalt Deposit to five. A sixth rig is planned for the third quarter of 2011 which will start testing regional exploration targets.

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

ADDITIONAL INFORMATION

Additional information regarding the Company can be found at www.dalradian.com and www.sedar.com.