

*Condensed Interim Consolidated Financial Statements of*

**TRUE NORTH GEMS INC.**

*As at and for the three and six month periods ended June 30, 2016*

*Expressed in Canadian dollars*

*(Unaudited – prepared by management)*

*Notice to Reader: As required by National Instrument 51-102 subsection 4.3(3)(a), readers are advised that an auditor has not performed a review of these interim financial statements.*

**TRUE NORTH GEMS INC.**  
**Condensed Interim Consolidated Statement of Financial Position - Unaudited**  
**(Expressed in Canadian dollars)**

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
<b>Current assets</b>		
Cash and cash equivalents	\$ 62,804	\$ 1,044,907
Restricted cash	-	34,652
Investments (Note 4)	204,500	104,000
Accounts receivable	22,329	23,163
Deposits and prepaid expenses	56,020	89,071
	<b>345,653</b>	<b>1,295,793</b>
<b>Non-current assets</b>		
Property, plant and equipment (Note 5)	41,118,549	38,166,591
Restricted cash - reclamation (Note 6)	1,702,902	1,777,012
Deposit on finance lease obligation (Note 7)	5,690,864	6,054,391
Exploration and evaluation assets (Note 8)	3,308,680	3,432,828
	<b>51,820,995</b>	<b>49,430,822</b>
<b>Total assets</b>	<b>\$ 52,166,648</b>	<b>\$ 50,726,615</b>
<b>Current liabilities</b>		
Bank overdraft	\$ 193,000	\$ -
Accounts payable and accrued liabilities	2,043,926	1,035,639
Accounts payable to LNS Group	4,702,674	1,162,274
Loans payable (Note 9)	334,044	-
Current portion of finance lease obligation (Note 11)	147,431	153,848
	<b>7,421,075</b>	<b>2,351,761</b>
<b>Non-current liabilities</b>		
Deferred income tax liability	3,080,806	1,488,173
Loans payable (Note 9)	2,066,728	1,924,747
Provision for reclamation costs (Note 10)	1,694,960	1,612,509
Finance lease obligation (Note 11)	563,552	661,521
	<b>7,406,046</b>	<b>5,686,950</b>
<b>Total liabilities</b>	<b>14,827,121</b>	<b>8,038,711</b>
<b>Equity attributable to common shareholders</b>		
Share capital (Note 12(a))	48,435,260	48,411,260
Reserves (Note 12(b))	16,212,781	16,221,781
Deficit	(34,978,744)	(32,088,027)
Accumulated other comprehensive income	1,927,867	3,333,162
	<b>31,597,164</b>	<b>35,878,176</b>
Non-controlling interest (Note 13)	5,742,363	6,809,728
	<b>37,339,527</b>	<b>42,687,904</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 52,166,648</b>	<b>\$ 50,726,615</b>

Nature of operations and going concern (Note 1)

Subsequent events (Note 19)

Approved on behalf of the Board:

(signed) David S. Parsons Director

(signed) William J. Anderson Director

The accompanying notes are an integral part these condensed interim consolidated financial statements.

**TRUE NORTH GEMS INC.**  
**Condensed Interim Consolidated Statements of Changes in Equity - Unaudited**  
**(Expressed in Canadian dollars)**

	Share capital		Reserves		Deficit	Accumulated other comprehensive income	Total common shareholders' equity	Non-controlling interest	Total equity
	Number of Shares	Amount	Warrants	Contributed surplus					
Balance - December 31, 2014	297,232,049	\$ 46,705,857	\$ 306,357	\$ 8,887,612	\$ (28,409,206)	\$ 60,030	\$ 27,550,650	\$ 1,768,774	\$ 29,319,424
Warrants exercised	8,333,334	1,000,000	-	-	-	-	1,000,000	-	1,000,000
Stock options exercised	550,000	60,000	-	-	-	-	60,000	-	60,000
Reallocation of the fair value of warrants exercised		262,846	(262,846)	-	-	-	-	-	-
Reallocation of the fair value of stock options exercised		37,930	-	(37,930)	-	-	-	-	-
Share-based compensation		-	-	744,839	-	-	744,839	-	744,839
Net loss for the period		-	-	-	(2,753,272)	-	(2,753,272)	(73,289)	(2,826,561)
Other comprehensive income for the period		-	-	-	-	1,065,076	1,065,076	86,035	1,151,111
<b>Balance - June 30, 2015</b>	<b>306,115,383</b>	<b>\$ 48,066,633</b>	<b>\$ 43,511</b>	<b>\$ 9,594,521</b>	<b>\$ (31,162,478)</b>	<b>\$ 1,125,106</b>	<b>\$ 27,667,293</b>	<b>\$ 1,781,520</b>	<b>\$ 29,448,813</b>
Balance - December 31, 2015	307,485,383	\$ 48,411,260	\$ 43,511	\$ 16,178,270	\$ (32,088,027)	\$ 3,333,162	\$ 35,878,176	\$ 6,809,728	\$ 42,687,904
Stock options exercised	150,000	15,000	-	-	-	-	15,000	-	15,000
Reallocation of the fair value of stock options exercised		9,000	-	(9,000)	-	-	-	-	-
Reallocation of the fair value of warrants expired		-	(43,511)	43,511	-	-	-	-	-
Net loss for the period		-	-	-	(2,890,717)	-	(2,890,717)	(687,501)	(3,578,218)
Other comprehensive loss for the period		-	-	-	-	(1,405,295)	(1,405,295)	(379,864)	(1,785,159)
<b>Balance - June 30, 2016</b>	<b>307,635,383</b>	<b>\$ 48,435,260</b>	<b>\$ -</b>	<b>\$ 16,212,781</b>	<b>\$ (34,978,744)</b>	<b>\$ 1,927,867</b>	<b>\$ 31,597,164</b>	<b>\$ 5,742,363</b>	<b>\$ 37,339,527</b>

The accompanying notes are an integral part these condensed interim consolidated financial statements.

**TRUE NORTH GEMS INC.**  
**Condensed Interim Consolidated Statements of Loss - Unaudited**  
**(Expressed in Canadian dollars)**

	For the three month period ended June 30,		For the six month period ended June 30,	
	2016	2015	2016	2015
Operating expenses				
Audit and related services	\$ 120,534	\$ 21,705	\$ 127,743	\$ 30,798
Corporate financial services	20,000	-	20,000	-
Depreciation	1,923	2,348	3,823	4,606
Directors fees	21,000	25,818	42,000	66,818
Exploration and evaluation expenditures (recoveries)	-	17	49	(10,156)
Foreign exchange (gain) loss	(311,400)	36,621	359,936	66,674
General and administrative	93,181	146,077	170,286	236,452
Investor relations	25,728	75,422	130,452	156,277
Legal fees	257,352	11,301	261,614	15,258
Rent and occupancy costs	75,099	77,009	155,267	156,514
Revision in reclamation estimate	-	(81,772)	-	(81,772)
Salaries	229,077	182,563	451,211	704,689
Share-based compensation	-	-	-	604,107
Transfer agent and filing fees	7,403	10,527	19,503	21,595
Travel	71,400	65,202	123,077	116,152
Operating loss	(611,297)	(572,838)	(1,864,961)	(2,088,012)
Other income (expenses)				
Gain on sale of available-for-sale investments	20,705	-	20,705	-
Interest and other income	6	100	57	682
Borrowing costs	(13,190)	(4,541)	(19,891)	(9,196)
Loss before income taxes	(603,776)	(577,279)	(1,864,090)	(2,096,526)
Income tax expense	(514,350)	(188,787)	(1,714,128)	(730,035)
Net loss for the period	\$ (1,118,126)	\$ (766,066)	\$ (3,578,218)	\$ (2,826,561)
Loss attributable to:				
Shareholders	\$ (930,752)	\$ (734,379)	\$ (2,890,717)	\$ (2,753,272)
Non-controlling interest	(187,374)	(31,687)	(687,501)	(73,289)
	\$ (1,118,126)	\$ (766,066)	\$ (3,578,218)	\$ (2,826,561)
Loss per share - basic and fully diluted	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.01)
Weighted average number of common shares - basic and fully diluted	307,513,405	300,052,928	307,499,394	298,650,281

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**TRUE NORTH GEMS INC.**  
**Condensed Interim Consolidated Statements of Comprehensive Loss - Unaudited**  
**(Expressed in Canadian dollars)**

	For the three month period ended June 30,		For the six month period ended June 30,	
	2016	2015	2016	2015
Net loss for the period	\$ (1,118,126)	\$ (766,066)	\$ (3,578,218)	\$ (2,826,561)
Items that may be reclassified subsequently to net loss				
Exchange rate differences on translation from functional to presentation currency	39,417	(349,716)	(1,936,541)	1,221,351
Unrealized gain (loss) on available-for-sale investments, net of income tax expense \$21,255 (2015: recovery \$10,010)	95,265	(25,000)	142,245	(70,240)
Realized gain (loss) on available-for-sale investments, net of income tax expense \$1,365 (2015 -\$nil)	9,135	-	9,135	-
Comprehensive loss for the period	\$ (974,309)	\$ (1,140,782)	\$ (5,363,379)	\$ (1,675,450)
Comprehensive (loss) income attributable to:				
Shareholders	\$ (792,439)	\$ (1,084,459)	\$ (4,296,011)	\$ (1,688,196)
Non-controlling interest	(181,870)	(56,323)	(1,067,368)	12,746
	\$ (974,309)	\$ (1,140,782)	\$ (5,363,379)	\$ (1,675,450)

The accompanying notes are an integral part these condensed interim consolidated financial statements.

**TRUE NORTH GEMS INC.**  
**Condensed Interim Consolidated Statements of Cash Flows - Unaudited**  
**(Expressed in Canadian dollars)**

	<b>For the three month period ended June 30,</b>		<b>For the six month period ended June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
<b>Operating activities</b>				
Net loss for the period	\$ (1,118,126)	\$ (766,066)	\$ (3,578,218)	\$ (2,826,561)
Adjustments for:				
Borrowing costs	17,185	4,541	24,003	9,196
Deferred income tax expense	514,350	168,583	1,714,128	709,831
Depreciation	1,923	2,348	3,823	4,606
Gain on sale of available-for-sale investments	(20,705)	-	(20,705)	-
Revision in reclamation estimate	-	(81,772)	-	(81,772)
Share-based compensation	-	-	-	604,107
Unrealized foreign exchange loss - translation	(135,224)	22,914	459,206	42,250
	(740,597)	(649,452)	(1,397,763)	(1,538,343)
Changes in non-cash working capital items (note 14)	486,418	439,722	700,484	1,020,441
Cash provided by (used in) operating activities	(254,179)	(209,730)	(697,279)	(517,902)
<b>Investing activities</b>				
Purchase of property, plant and equipment	(169,614)	(1,143,012)	(929,226)	(2,338,088)
Exploration and evaluation expenditures	(7,182)	(538)	(27,687)	(26,637)
Return of cash held as security	5,867	-	34,617	-
Cash provided by (used in) investing activities	(170,929)	(1,143,550)	(922,296)	(2,364,725)
<b>Financing activities</b>				
Bank overdraft	-	-	198,300	-
Debt advances	329,967	-	329,967	-
Proceeds on sale of investments	94,205	-	94,205	-
Warrants exercised	-	1,000,000	-	1,000,000
Options exercised	15,000	50,000	15,000	60,000
Cash provided by (used in) financing activities	439,172	1,050,000	637,472	1,060,000
Increase (decrease) in cash and cash equivalents	14,064	(303,280)	(982,103)	(1,822,627)
Effect of exchange rate changes on cash and cash equivalent	(2)	(3)	-	(1)
Cash and cash equivalents - beginning of the period	48,742	469,647	1,044,907	1,988,992
<b>Cash and cash equivalents - end of the period</b>	<b>\$ 62,804</b>	<b>\$ 166,364</b>	<b>\$ 62,804</b>	<b>\$ 166,364</b>

The accompanying notes are an integral part these condensed interim consolidated financial statements.

**TRUE NORTH GEMS INC.****Notes to Condensed Interim Consolidated Financial Statements – Unaudited****June 30, 2016****(Expressed in Canadian dollars, except as otherwise noted)**

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**1. Nature of operations and going concern**

True North Gems Inc. (the “Company”) was incorporated in the Yukon Territory under the Business Corporations Act on May 25, 2001. The Company’s corporate office is located at Suite 700, 1055 West Georgia Street, Vancouver, BC V6E 3P3. The Company and its subsidiary (collectively referred to, as the “Company”) are engaged in exploration and development of coloured gemstone deposits in Greenland and Canada.

The Company, through a controlled subsidiary, owns the Aappaluttoq Ruby and Pink Sapphire Deposit located in SW Greenland for which the Company was awarded an exploitation (mining) licence in March of 2014. Additionally, the Company has a portfolio of exploration and evaluation assets in Greenland and Canada that it is currently exploring.

These condensed interim consolidated financial statements (“Consolidated Financial Statements”) have been prepared on a going concern basis, which contemplates that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. During the six month period ended June 30, 2016, the Company incurred a net loss attributable to shareholders totaling \$2,890,717. The accumulated deficit at June 30, 2016 is \$34,978,744. At June 30, 2016, the Company had working capital deficiency of \$7,075,422. These conditions cast significant doubt on the Company’s ability to continue as a going concern.

Based on the Company’s financial position at June 30, 2016, available funds are not considered adequate to meet requirements for the next twelve months based on budgeted and committed expenditures for operations, mine development, project commissioning and project exploration. To meet expenditure requirements over the next year, the Company is dependent upon its ability to access financial resources through the issuance of securities, sale of the Company’s investments, or obtaining debt financing. There can be no assurances that the Company will be successful in accessing these financial resources.

If the going concern basis was not appropriate for these Consolidated Financial Statements, then adjustments would be necessary to the carrying value of the assets and liabilities, the reported amount of expenses and the classifications used on the statement of financial position. Such adjustments could be material.

**2. Statement of compliance**

These Consolidated Financial Statements are prepared in accordance with International Financial Standard 34 Interim Financial Reporting of the International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS”) and interpretations of the International Financial Reporting Committee (“IFRIC”). Accordingly, these Consolidated Financial Statements do not include all of the information and footnotes required by IFRS for complete financial statements for year-end reporting process.

These Consolidated Financial Statements follow the same accounting policies and methods of application as the Company’s audited financial statements for the year ended December 31, 2015. The policies applied in these Consolidated Financial Statements are based on IFRS issued as of August 25, 2016, the date the Board of Directors approved the financial statements. These Consolidated Financial Statements should be read in conjunction with the Company’s annual consolidated financial statements for the year ended December 31, 2015.

**3. Significant accounting policies****a) Basis of presentation**

The Consolidated Financial Statements have been prepared on an accrual basis and are on a historical cost basis, except for certain financial instruments, which are measured at fair value. The preparation of the Consolidated Financial Statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant are disclosed in Note 3 in the Company’s annual consolidated financial statements for the year ended December 31, 2015.

**TRUE NORTH GEMS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements – Unaudited**  
**June 30, 2016**  
**(Expressed in Canadian dollars, except as otherwise noted)**

These Consolidated Financial Statements are prepared in Canadian dollars. The functional currency of the parent company is Canadian dollars.

**b) Basis of consolidation**

These Consolidated Financial Statements include the accounts of the Company and its subsidiary. All inter-entity balances and transactions have been eliminated.

A subsidiary is an entity controlled by the Company. Control exists when the Company has power over an investee, when the Company is exposed, or has the rights, to variable returns from the investee and when the Company has the ability to affect those returns through its power over the investee. A subsidiary is fully consolidated from the date on which control is obtained by the Company and de-consolidated from the date that control ceases.

The following entity has been consolidated within the Consolidated Financial Statements:

Subsidiary	Jurisdiction of Incorporation & Domiciled	Functional Currency
True North Gems Greenland A/S	Greenland	USD

The change in ownership interest and voting control in the subsidiary is set out below:

	Class A Shares	Ownership Interest	Voting Control
Balance – December 31, 2014	75,532,334	92.39%	92.90%
Shares sold (i)	(5,722,940)	-7.00%	-7.04%
Shares transferred (ii)	(8,175,628)	-10.00%	-10.06%
Balance – December 31, 2015 and June 30, 2016	61,633,766	75.39%	75.80%

- (i) On August 25, 2015, the Company entered into a share purchase and option agreement (the “Share Purchase Agreement”) with Greenland Venture A/S (“Greenland Venture”), under which Greenland Venture purchased 7% of the issued and outstanding Class A shares of True North Gems Greenland A/S (“TNGG”) from the Company for a purchase price of \$5,307,562 (US\$4,000,000) (Note 13).
- (ii) On October 14, 2015, the Company transferred 10% of the Class A shares of TNGG to the LNS Denmark APS (with LNS Greenland A/S are collectively the “LNS Group”) as they achieved the 75% project completion milestone (Note 13).

**c) Comparative figures**

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current period.

**4. Investments**

	June 30, 2016			December 31, 2015	
	Cost	Disposal	Accumulated unrealized holding gain	Carrying value	Carrying value
Endurance Gold Corporation	\$ 175,000	\$ (73,500)	\$ 87,000	\$ 188,500	\$ 100,000
Pacific Ridge Explorations Ltd.	12,000	-	4,000	16,000	4,000
	<b>\$ 187,000</b>		<b>\$ 91,000</b>	<b>\$ 204,500</b>	<b>\$ 104,000</b>



**TRUE NORTH GEMS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements – Unaudited**  
**June 30, 2016**  
**(Expressed in Canadian dollars, except as otherwise noted)**

**5. Property, plant and equipment**

	Mine construction and development costs	Plant and equipment - in construction	Computer equipment and software	Laboratory and gem processing equipment	Office furniture and equipment	Plant and equipment - exploration	Total
<b>Cost</b>							
Balance - December 31, 2015	\$ 32,100,074	\$ 5,755,080	\$ 125,669	\$ 13,634	\$ 3,828	\$ 1,350,973	\$ 39,349,258
Additions	2,274,723	2,432,206	-	-	-	-	4,706,929
Capitalized depreciation	58,400	-	-	-	-	-	58,400
Capitalized interest	218,486	-	-	-	-	-	218,486
Effect of translation	(1,871,051)	(342,608)	-	-	-	-	(2,213,659)
Provision for reclamation (note 10)	179,303	-	-	-	-	-	179,303
Balance - June 30, 2016	\$ 32,959,935	\$ 7,844,678	\$ 125,669	\$ 13,634	\$ 3,828	\$ 1,350,973	\$ 42,298,717
<b>Accumulated depreciation</b>							
Balance - December 31, 2015	\$ -	\$ -	\$ 105,164	\$ 7,649	\$ 2,116	\$ 1,067,738	\$ 1,182,667
Depreciation	-	-	3,061	597	165	58,400	62,223
Effect of translation	-	-	-	-	-	(64,722)	(64,722)
Balance - June 30, 2016	\$ -	\$ -	\$ 108,225	\$ 8,246	\$ 2,281	\$ 1,061,416	\$ 1,180,168
<b>Carrying amount - December 31, 2015</b>	<b>\$ 32,100,074</b>	<b>\$ 5,755,080</b>	<b>\$ 20,505</b>	<b>\$ 5,985</b>	<b>\$ 1,712</b>	<b>\$ 283,235</b>	<b>\$ 38,166,591</b>
<b>Carrying amount - June 30, 2016</b>	<b>\$ 32,959,935</b>	<b>\$ 7,844,678</b>	<b>\$ 17,444</b>	<b>\$ 5,388</b>	<b>\$ 1,547</b>	<b>\$ 289,557</b>	<b>\$ 41,118,549</b>

**Mine construction and development costs**

*Aappaluttoq Ruby and Pink Sapphire Project*

The property is located in southwest Greenland, south of the capital Nuuk. The site of the Aappaluttoq Ruby and Pink Sapphire Project is located on Exploitation Licence 2014/21, which is registered with the Government of Greenland to TNGG. This licence is a 30-year exclusive mining licence covering an area of approximately 20 square kilometres granted on March 14, 2014 and expiring on March 7, 2044.

**6. Restricted cash - reclamation**

Pursuant to the terms of the Escrow and Pledge Agreement dated September 22, 2014 between TNGG, the Government of Greenland and the Bank of Greenland, TNGG is required to place DKK 22,505,500 (approx. \$4.5 million) into an escrow account based on stages of the construction activity at the Aappaluttoq project. The funds are being held at the Bank of Greenland as security for the fulfillment of any abandonment (closure) obligations. As at June 30, 2016, DKK 8,823,307 (\$1,702,902) (December 31, 2015: DKK 8,823,307 (\$1,777,012)) is being held in escrow in compliance with the government requirements for the stage of construction.

**7. Deposit on finance lease obligation**

As prescribed by the Option Agreement and Amendment No.1 to the Option Agreement (Note 13) between the LNS Group and the Company, the LNS Group is required to complete the majority of the Aappaluttoq mine construction and infrastructure. Upon reaching 50% and 75% construction and infrastructure completion milestones, 5% of shares in the Company's subsidiary TNGG were to be transferred from the Company to LNSG for each milestone. An additional 10% is to be transferred upon construction and infrastructure completion. Concurrently, the Company entered into the Lease and Purchase Agreement and the Amendment No.1 to the Lease and Purchase Agreement in fiscal 2013 and 2014 respectively.

The Option Agreement and Lease and Purchase Agreement represent the acquisition of a finance lease from LNSG for consideration of an additional 20% interest in TNGG and the present value of lease payments for mining equipment. The value assigned to the Option Agreement was determined to be the difference between the present value of the lease payments and the estimated value of the leased assets.

**TRUE NORTH GEMS INC.****Notes to Condensed Interim Consolidated Financial Statements – Unaudited****June 30, 2016****(Expressed in Canadian dollars, except as otherwise noted)**

On October 14, 2015, the Company received notification from the LNS Group that 75% of the construction and infrastructure had been completed at the Aappaluttoq mine, triggering the transfer of 10% of TNGG shares from the Company to the LNS Group. As the interest in TNGG transferred to the LNS Group on these construction milestones forms part of the consideration of the Lease and Purchase Agreement, the value attributable to TNGG equity issued has been accounted for as a deposit its lease obligations. The total value attributed to the Option Agreement is US\$8,749,119 of which US\$4,374,559 (\$5,690,864) was recognized at the date the shares were transferred. As the Company retained control of TNGG in this transaction, it was accounted for as a reallocation of equity between the controlling interest and the non-controlling interest.

**8. Exploration and evaluation assets**

The following table details the expenditures on exploration and evaluation assets by area of interest:

<b>Areas of Interest</b>	<b>Greenland Property</b>	<b>Baffin Island Property</b>	<b>Other Yukon Properties</b>	<b>Total</b>
Balance - December 31, 2015	\$ 2,529,202	\$ 903,625	\$ 1	\$ 3,432,828
Effect of translation	(151,835)	-	-	(151,835)
Technical services	27,687	-	-	27,687
<b>Balance - June 30, 2016</b>	<b>\$ 2,405,054</b>	<b>\$ 903,625</b>	<b>\$ 1</b>	<b>\$ 3,308,680</b>

***Greenland Property***

The property consists of the following:

<b>Licences</b>	<b>Licence Renewal Date</b>	<b>2016 Exploration Obligation</b>		<b>Surplus Expenditures - December 31, 2015</b>	
		<b>DKK</b>	<b>CAD</b>	<b>DKK</b>	<b>CAD</b>
Exploration Licences					
Fiskenaasset - Licence 2008/46	December 31, 2018	-	\$ -	14,935,681	\$ 2,882,613
Qaqqatsiaq - Licence 2008/01	December 31, 2017	-	\$ -	918,318	\$ 177,237
Manitsoq - Licence 2014/47	December 31, 2018	832,040	\$ 160,585	571,498	\$ 110,300

Surplus expenditures on the exploration licences may be carried forward and credited against the calculated exploration commitment in future years, which is subject to confirmation by the Mineral Licencing and Safety Authority (“MLSA”).

None of the Fiskenaasset – Licence 2008/46, Qaqqatsiaq - Licence 2008/01 or Maniitsoq - Licence 2014/47 are subject to any agreements, royalties or encumbrances.

Additionally, the Company holds a non-exclusive prospecting licence, Licence 2016/18, for West Greenland that expires December 31, 2018, which has no minimum expenditure levels over the licence term to maintain in good standing.

***Baffin Island Property***

The property is located on southeastern Baffin Island, Nunuvut, near the town of Kimmirut. The Company holds a 100% interest in 10 claims, NAIP I to NAIPI 10, which 2 claims are subject to a 2% Net Smelter Returns royalty and a 2% Gross Overriding royalty. Conversion of NAIPI 1 TO NAIPI 4 claims to a mining lease was initiated in 2011 and the lease applications are still underway.

**TRUE NORTH GEMS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements – Unaudited**  
**June 30, 2016**  
**(Expressed in Canadian dollars, except as otherwise noted)**

*Other Yukon Properties*

**a) Tsa da Glisza Property**

Pursuant to an agreement dated March 7, 2002 with Expatriate Resources Ltd., the Company acquired 100% of the Tsa da Glisza Property. The property consists of 93 claims located in the Watson Lake Mining District, Yukon Territory. There has been no recent exploration activity on this property.

**b) True Blue Property**

The property consists of 301 claims located 55 kilometres south of Ross River, Yukon.

**9. Loans payable**

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
Current debt (a)	\$ 334,044	\$ -
Non-current debt		
Equity investment - Class B shares (b)	\$ 154,837	\$ 151,533
Term loan (c)	1,911,891	1,773,214
Loans payable	\$ 2,066,728	\$ 1,924,747

**a) Short term shareholder loans**

On April 30, 2016 and May 31, 2016, TNGG entered into convertible debt agreements with the LNS Group and Greenland Venture (the “Lenders”) for amounts of DKK 825,000 and DKK 885,000 (cumulatively \$329,967). Interest, at a rate of 10% per annum, is payable, along with the principal, by September 1, 2016. The Lenders may convert the loan amounts in full (but not in part) into Class D shares of TNGG at any time the loan is outstanding at a conversion rate of 1 Class D share per 1 DKK of loan outstanding.

**b) Equity investment – Class B shares**

Greenland Venture holds 500 Class B shares with a par value of DKK 1,000 per share, currently representing a 0.61% ownership stake in TNGG. The Class B shares have preferential right to dividends of 10% per annum calculated on the basis of their nominal value, meaning that the B-shares shall receive its preferential dividends before any dividends are paid to the A-shares. The preferential right is cumulative and is transferred to later years if no dividends are declared. The DKK 500,000 equity is considered a financial liability for accounting purposes based on features of the put option granted to Greenland Venture’s exercisable on or after fifth anniversary date of the funding of the final draw (June 14, 2013). The expected settlement amount of the obligation is anticipated to be DKK 750,000 and the premium of DKK 250,000 is being accreted over the term as a borrowing cost and the 10% annual cumulative dividend is being accrued as a borrowing cost.

**c) Term loan**

During the year ended December 31, 2015, TNGG and Greenland Venture entered into a term loan, with a principal amount of DKK 7,909,255. The loan bears interest at a rate of 2% per month, and the principal and accrued interest is repayable on July 31, 2017. The Company has unconditionally and irrevocably guaranteed repayment to Greenland Venture of the loan principal, accrued interest, and any costs and expenses payable in connection with the loan.

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**10. Provision for reclamation**

The Company has an obligation under various agreements to reclaim and restore the lands disturbed by its exploration and mine development activities. Changes to the provision are as follows:

	<b>Greenland Property</b>	<b>Baffin Island Property</b>	<b>Total</b>
Balance - December 31, 2015	1,584,009	28,500	1,612,509
Effect of translation	(96,852)	-	(96,852)
Revision in estimates	179,303	-	179,303
<b>Balance - June 30, 2016</b>	<b>\$ 1,666,460</b>	<b>\$ 28,500</b>	<b>\$ 1,694,960</b>

The Company's provision for reclamation recorded for the period ended June 30, 2016 includes the decommissioning and closure of the Aappaluttoq Ruby and Pink Sapphire Deposit that is currently being developed into a mine. The expected timing of the cash flows in respect of the provision is based on the life of the mining operations. The provision is calculated as the present value of future net cash outflows based on an inflation rate of 0.3% (December 31, 2015 – 0.4%) and discount rate of 0.19% (December 31, 2015 – 0.95%). The discount rate is a risk-free rate determined based on the Denmark 10 year bond yield. The inflation rate used in determining the present value of the future cash outflows is based on the Denmark inflation rate as the majority of the expenditures are expected to be incurred in Danish krone.

**11. Finance lease obligation**

	<b>June 30, 2016</b>			<b>December 31, 2015</b>	
	<b>Future minimum lease payments</b>	<b>Interest</b>	<b>Present value of minimum lease payments</b>	<b>Present value of minimum lease payments</b>	
Less than 1 year	\$ 148,225	\$ (794)	147,431	\$ 153,848	
Between 1 and 5 years	580,544	(16,992)	563,552	600,344	
More than 5 years	-	-	-	61,177	
	<b>\$ 728,769</b>	<b>\$ (17,786)</b>	<b>\$ 710,983</b>	<b>\$ 815,369</b>	

On June 1, 2015, the Company entered into a finance lease agreement with a security company in Greenland. The agreement is for 72 months (6 years), without any possibility of termination unless the remaining lease obligations are paid in full. The monthly lease payment is DKK 64,000 (\$12,352), with an implicit interest rate of 0.99% per annum. At the end of the term, the Company has the option to buy the equipment for DKK 1,000 (\$198).

The security & surveillance equipment under finance lease has been recognized in property, plant and equipment at the present value of minimum lease payments. Interest charges on lease equipment during the period were approximately \$1,898. Other than interest, no costs were incurred relating to the lease. The lease is secured by the assets under lease. At June 30, 2016, the net carrying amount of the leased equipment is DKK4,506,402 (\$869,744).

**12. Equity**

**a) Authorized**

An unlimited number of common shares without par value are authorized for issue

**b) Reserves**

Reserves consist of share purchase warrants and the accumulated fair value of common share stock options recognized as share-based compensation.

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**i) Warrants**

	June 30, 2016		December 31, 2015	
	Number of warrants	Amount	Number of warrants	Amount
Opening balance	980,656	\$ 43,511	9,313,990	\$ 306,357
Warrants expired	(980,656)	(43,511)	-	-
Warrants exercised	-	-	(8,333,334)	(262,846)
<b>Closing balance</b>	<b>-</b>	<b>\$ -</b>	<b>980,656</b>	<b>\$ 43,511</b>

During the six month period ended June 30, 2016, 980,656 share purchase warrants expired unexercised.

**ii) Stock options**

On June 23, 2015, the shareholders approved the Stock Option Plan (the “Plan”), for which up to 10% of the issued share capital can be reserved for issuance to executive officers, directors, employees and consultants. The exercise price of the options is set at the Company’s closing share price on the day before the grant date less the applicable discount permitted under the TSX Venture Exchange policies. The options have a maximum term of five years and vest at date of grant. At June 30, 2016, 11,963,538 options are available for future grant under the Plan.

Stock option transactions for the six month period ended June 30, 2016 and year ended December 31, 2015 and the number of stock options outstanding and exercisable are summarized for the respective financial period ends as follows:

	June 30, 2016		December 31, 2015	
	Number of options	Weighted Average Exercise Price of Options Exercisable	Number of options	Weighted Average Exercise Price of Options Exercisable
Opening balance	18,950,000	\$0.13	18,800,000	\$0.13
Options granted	-	-	7,800,000	\$0.16
Options exercised	(150,000)	0.10	(1,920,000)	\$0.14
Options expired	-	-	(5,430,000)	\$0.15
Options forfeited	-	-	(300,000)	\$0.12
<b>Closing balance</b>	<b>18,800,000</b>	<b>\$0.13</b>	<b>18,950,000</b>	<b>\$0.13</b>

The fair value of the 7,800,000 options granted during the year ended December 31, 2015 resulted in a compensation expense of \$760,816 (\$620,084 was charged to operations and \$140,732 was charged to mine construction and development costs).

The options were valued using the Black-Scholes valuation model with the following assumptions:

Expected life	Volatility	Dividend yield	Risk-free interest rate	Options granted	Fair value
5 years	75.15%	0%	0.78%	7,100,000	\$ 689,103
5 years	75.32%	0%	0.74%	500,000	55,736
5 years	71.59%	0%	0.82%	200,000	15,977
				<b>7,800,000</b>	<b>\$ 760,816</b>

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At June 30, 2016, stock options outstanding are as follows:

<b>Number of options outstanding and exercisable</b>	<b>Range of exercise prices</b>	<b>Weighted Average Exercise Price of Options Exercisable</b>	<b>Weighted Average Remaining Contractual Life</b>
3,100,000	\$0.10	\$0.10	1.48
7,400,000	\$0.12	\$0.12	2.39
8,300,000	\$0.15-\$0.17	\$0.16	3.40
18,800,000	\$0.13	\$0.13	2.69

**13. Non-controlling interest**

*LNS Group*

The Company and the LNS Group entered into an Option Agreement dated August 7, 2013, as amended effective October 30, 2014, whereby the LNS Group was granted the option to earn 20% of the issued and outstanding Class A shares of TNGG. To earn in, the LNS Group is contributing all infrastructure and engineering costs together with construction until operational status is achieved for the Aappaluttoq Ruby and Pink Sapphire mine. The earn in occurs as certain milestones of the project are achieved. On October 14, 2015, the Company transferred 10% of TNGG Class A shares (8,175,128 Class A shares) to the LNS Group as they achieved the 75% project completion milestone as per the Option Agreement. As a result of the transfer of shares to the LNS Group during the year ended December 31, 2015, the Company recorded an increase to its non-controlling interest in the amount of \$2,572,122 and a dilution gain of \$3,080,684.

In addition, the relationship between the Company and the LNS Group is governed by four additional agreements, which will be effective upon earn in, the TNGG Shareholders Agreement, the Lease and Purchase Agreement, the Management Agreement and the Pledge Agreement (whereby the Company has pledged the Class A TNGG shares, which may be earned by the LNS Group as security for the LNS Group's earn in expenditures).

The Shareholders' Agreement and Amendment No. 1 dated August 7, 2014 and October 30, 2014 respectively formalize the procedural protocols for management of TNGG and grant certain rights to the LNS Group with respect to directing the relevant activities of TNGG. The Lease and Purchase Agreement and Amendment No. 1 dated August 7, 2014 and October 30, 2014 respectively, is a nine year lease for the ore storage facility, two port facilities, mine operations camp, workshop, site roads, power plant and the fuel and explosive storage facility at the project. The lease commences once the LNS Group achieves operational status of all infrastructure. The lease fee is DKK 998,985 (approximately \$0.2 million) per month for the first twelve months and escalates by 2.5% per annum thereafter. The Company has the right to acquire all of the leased assets at any time during the lease term for DKK 94,650,000 (approximately \$18.3 million) of which all of the lease payments to date of exercise will be credited to the purchase price. After the lease term the Company may acquire all of the assets for DKK 8,000,000 (approximately \$1.5 million). Additionally, the Company has the option to acquire only the primary crusher and processing facility assets at any time during the lease term for DKK 29,650,000 (approximately \$5.7 million) of which the proportionate amount of lease payments to date of exercise for these assets will be credited to the purchase price. After the lease term the Company may acquire these assets for DKK 3,300,000 (approximately \$0.6 million). The Management Agreement and Amendment No. 1 dated August 7, 2014 and October 30, 2014 respectively governs all parties' cooperation, division of duties and each participant's obligations in respect of exploration, marketing and mining activities.

*Greenland Venture*

On August 25, 2015, the Company entered into a Share Purchase Agreement with Greenland Venture, under which Greenland Venture purchased 5,722,940 issued Class A shares (the "Purchased Shares") of TNGG from the Company for a purchase price of \$5,307,562 (US\$4,000,000). The Purchased Shares represented 7% of the issued and outstanding shares of TNGG. As a result of this transaction, since the Company still retained control of TNGG after the sale of a portion of its shareholdings, the proceeds have been allocated to equity attributable to common shareholders and non-controlling interest. A dilution gain of \$3,626,216 was recorded on the transaction.

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The Company has the option under the Share Purchase Agreement to repurchase 2,861,470 of the Purchased Shares, representing 3.5% of the issued and outstanding shares of TNGG, from Greenland Venture for three years from the closing of the share purchase. The repurchase price under the option is US\$2,000,000, plus a premium of:

- (i) US\$1,000,000 if the Company exercises the repurchase option on or before the first anniversary of the closing of the share purchase;
- (ii) US\$2,500,000 if the Company exercises the repurchase option after the first anniversary but before or on the second anniversary of the closing of the share purchase; or
- (iii) US\$4,750,000 if the Company exercises the repurchase option after the second anniversary of the closing of the share purchase.

Should the Company exercise the repurchase option in the first year it will have the right to reacquire all 2,861,470 of the Purchased Shares. If the Company exercises the repurchase option in the second or third year, then LNS Group will have a pro-rata right to participate in the repurchase option up to its interest in TNGG.

**Summary Financial Information**

Set out below is summary financial information for TNGG that is material to the group. The amounts disclosed for TNGG are based on those amounts included in Consolidated Financial Statements before intercompany eliminations.

**Summary of statements of financial position**

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
<b>NCI percentage</b>	<b>24.14%</b>	<b>24.14%</b>
Current assets	\$ 37,498	\$ 627,262
Less - current liabilities	(19,677,121)	(9,178,822)
	(19,639,623)	(8,551,560)
Non - current assets	49,986,507	48,287,352
Less - non-current liabilities	(7,524,978)	(5,812,297)
	42,461,529	42,475,055
Net assets	\$ 22,821,906	\$ 33,923,496
Accumulated NCI	\$ 5,742,363	\$ 6,809,728

**Summary of statements of loss and comprehensive loss**

	<b>For the three month period ended June 30,</b>		<b>For the six month period ended June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Net loss for the period	\$ (775,908)	\$ (449,819)	\$ (2,846,921)	\$ (1,040,389)
Loss allocated to NCI	\$ (187,374)	\$ (31,687)	\$ (687,501)	\$ (73,289)
Comprehensive income (loss) for the period	\$ (753,113)	\$ (799,552)	\$ (4,419,936)	\$ 180,944
Comprehensive income (loss) allocated to NCI	\$ (181,870)	\$ (56,323)	\$ (1,067,368)	\$ 12,746

**Summary of statements of cash flows**

	<b>For the three month period ended June 30,</b>		<b>For the six month period ended June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Cash flows from operating activities	\$ (750,970)	\$ 236,947	\$ (2,535,707)	\$ 54,377
Cash flows from investing activities	\$ (54,936)	\$ (2,168,011)	\$ 879,475	\$ (2,708,988)
Cash flows from financing activities	\$ 764,278	\$ 1,590,751	\$ 1,076,777	\$ 1,590,751

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**14. Supplementary disclosure of cash flow information**

	For the three month period ended		For the six month period ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Changes in non-cash working capital items				
Accounts receivable	\$ 4,155	\$ 55,354	\$ 834	\$ 23,331
Deposits and prepaid expenses	(4,860)	8,279	33,051	5,789
Accounts payable and accrued liabilities	487,123	376,089	666,599	991,321
	\$ 486,418	\$ 439,722	\$ 700,484	\$ 1,020,441

	For the three month period ended		For the six month period ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Non-cash investing and financing activities				
Property, plant and equipment				
Depreciation	29,674	27,284	58,400	55,723
Effect of translation	102,677	(336,582)	(2,148,936)	11,237,093
Reclamation	93,025	292,549	179,303	524,000
Interest payable	114,109	-	218,486	-
Share-based compensation	-	-	-	140,732
Exploration and evaluation assets				
Effect of translation	6,943	(30,205)	(151,835)	100,707

	For the three month period ended		For the six month period ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Interest income received	\$ 6	\$ 682	\$ 57	\$ 682

**15. Related party transactions**

Key management personnel are those persons that have the authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly. Key management personnel include the Company's directors and members of the senior management group.

Details of key management personnel compensation are as follows:

	For the six month period ended	
	June 30,	
	2016	2015
Services provided:		
Salaries	\$ 426,234	\$ 531,853
Directors fees	42,000	41,000
Share-based compensation	-	555,579
Key management personnel compensation	\$ 468,234	\$ 1,128,432

  

	June 30,	December 31,
	2016	2015
Balances payable to key management personnel for compensation	\$ 716,347	\$ 403,196

Balances payable are included in accounts payable and accrued liabilities.



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The Company's operations comprise one reportable segment, exploration and development of mineral properties. The Company carries on business in Canada and Greenland. The carrying value of the Company's non-current assets on a geographical basis is as follows:

	June 30, 2016			December 31, 2015		
	Canada	Greenland	Total	Canada	Greenland	Total
Property, plant and equipment	\$ 15,539	\$ 41,103,010	\$ 41,118,549	\$ 17,922	\$ 38,148,669	\$ 38,166,591
Restricted cash - reclamation	-	1,702,902	1,702,902	-	1,777,012	1,777,012
Deposit on finance lease obligation	-	5,690,864	5,690,864	-	6,054,391	6,054,391
Exploration and evaluation assets	903,626	2,405,054	3,308,680	903,626	2,529,202	3,432,828
Total	\$ 919,166	\$ 50,901,829	\$ 51,820,995	\$ 921,548	\$ 48,509,274	\$ 49,430,822

**17. Management of capital risk**

The Company's objectives when managing its capital is to maintain the ability to continue as a going concern in order to pursue the development of its mineral properties for the benefits of its stakeholders and to maintain flexible capital structure, which optimizes the costs of capital at an acceptable risk level.

In the management of capital, the Company includes the components of shareholders' equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

The Company monitors actual expenses to budget for exploration and mine development projects and overheads to manage costs, commitments and exploration and mine development activities.

In order to maximize ongoing development efforts, the Company does not currently pay out dividends.

The Company's investment policy is generally to invest its cash in highly liquid short-term interest bearing investments with maturities 90 days or less from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations. Periodically, the Company will invest in interest bearing investments with maturities exceeding 90 days, if it is for a specific purpose.

The Company will be required to access financial resources through the issuance of securities via equity placements in the junior resource market, sale of the Company's investments or obtaining debt financing in the current year to sustain operations of the Company. Further information related to management of capital risk and liquidity is set out in Note 1.

**18. Financial instruments****a) Fair values**

The Company's financial assets and liabilities consist of cash and cash equivalents, restricted cash, accounts receivable, investments, bank overdraft, accounts payable, payable to LNS Group and loans payable.

The following provides a description of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

Level 1 – quoted prices in active markets for identical assets or liabilities;

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Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and,

Level 3 – inputs for the asset or liability that are not based on observable market data.

At June 30, 2016 and December 31, 2015, the Company’s financial assets that are measured and recognized at fair value on a recurring basis are categorized as follows:

		<b>June 30 2016</b>	<b>December 31, 2015</b>
Investments	Level 1	\$204,500	\$104,000

The carrying value of the Company’s cash and cash equivalents, accounts receivable, bank overdraft, accounts payable and payable to LNS Group are representative of their respective fair value at June 30, 2016 and December 31, 2015 due to their short term nature. The fair value of bank overdraft, accounts payable, payables to LNS Group and loans payable may be less than the carrying value as a result of the Company’s credit and liquidity risk.

**b) Management of financial risk**

The Company’s financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk and interest risk:

i) *Currency risk*

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada and Greenland and a portion of its expenses are incurred in US dollars and Danish krone. A significant change in the currency exchange rates between the Canadian dollar relative to the US dollar and Danish krone could have an effect on the Company’s results of operations. The Company has not hedged its exposure to currency fluctuations.

At June 30, 2016, the Company is exposed to currency risk through the following assets and liabilities denominated in US dollars and Danish krone:

	<b>June 30, 2016</b>		<b>December 31, 2015</b>	
	<b>USD</b>	<b>DKK</b>	<b>USD</b>	<b>DKK</b>
Cash	\$ 3,126	(73,606)	\$ 185,457	2,806,597
Accounts receivable	-	65,148	-	69,182
Bank overdraft	-	(1,000,000)	-	-
Accounts payable and accrued liabilities	(84,814)	(4,379,845)	(16,023)	(1,674,050)
Accounts payable to LNS Group	-	(24,365,964)	-	(5,770,924)
Borrowing costs	-	(1,924,909)	-	(823,202)
Current loans payable	-	(1,730,794)	-	(9,232,456)
Non-current loans payable	-	(8,783,503)	-	(9,232,456)
Finance lease obligation	-	(3,683,846)	-	(4,048,505)
<b>Net liability position</b>	<b>\$ (81,688)</b>	<b>(45,877,321)</b>	<b>\$ 169,434</b>	<b>(27,905,814)</b>

Based on the above net exposure as at June 30, 2016 and assuming that all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the US dollar and the Danish krone would result in an increase/decrease of approximately \$0.90 million (December 31, 2015: \$0.36 million) in the Company’s net loss.

ii) *Credit risk*

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

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The Company's term deposits included in short-term investments are held through large Canadian financial institutions. Term deposits are composed of financial instruments issued by Canadian banks with high investment-grade ratings. The term deposit matures annually.

*iii) Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach is to ensure that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed circumstances. The Company manages liquidity risk through the management of its capital structure and financial leverage as outlined in Notes 1 and 17.

Bank overdraft, accounts payable and accrued liabilities, and payable to LNS Group are due within the current operating period.

*iv) Interest risk*

Interest risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to its loans payable. This risk is immaterial as at June 30, 2016.

**19. Subsequent Events**

- a) Effective July 1, 2016, TNGG entered into a convertible debt agreement with the Company, LNS Group and Greenland Venture (the "Lenders") for an amount of DKK 730,000 (\$140,891). Interest, at a rate of 20% per annum, is payable, along with the principal, by September 1, 2016. The Lenders may convert the loan amount in full (but not in part) into Class D shares of TNGG at any time the loan is outstanding at a conversion rate of 1 Class D share per 1 DKK of loan outstanding.
- b) Effective August 1, 2016, TNGG entered into a convertible debt agreement with the Company and the LNS Group (the "Lenders") for an amount of DKK 276,000 (\$53,268). Interest, at a rate of 20% per annum, is payable, along with the principal, by September 1, 2016. The Lenders may convert the loan amount in full (but not in part) into Class D shares of TNGG at any time the loan is outstanding at a conversion rate of 1 Class D share per 1 DKK of loan outstanding.