Consolidated Financial Statements of

TRUE NORTH GEMS INC.

As at and for the years ended December 31, 2013 and 2012

Expressed in Canadian dollars

April 24, 2014

Independent Auditor's Report

To the Shareholders of True North Gems Inc.

We have audited the accompanying consolidated financial statements of True North Gems Inc., which comprise the consolidated statements of financial position as at December 31, 2013 and 2012 and the consolidated statements of changes in equity, loss, comprehensive loss and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of True North Gems Inc. as at December 31, 2013 and 2012 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter
Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which discloses conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about True North Gems Inc.'s ability to continue as a going concern.

signed "PricewaterhouseCoopers LLP"

Chartered Accountants

TRUE NORTH GEMS INC.
Consolidated Statements of Financial Position

Expressed in Canadian dollars

		December 31, 2013		December 31, 2012
Current assets				
Cash and cash equivalents	$	271,095	$	4,157
Restricted cash (note 5)		60,523		59,357
Investments (note 6)		379,228		27,479
Accounts receivable		18,248		29,012
Deposits and prepaid expenses		59,021		16,728
		788,115		136,733
Non-current assets				
Property, plant and equipment (note 7)		473,683		589,350
Exploration and evaluation assets (note 8)		23,993,283		21,885,093
		24,466,966		22,474,443
Total assets	**$**	**25,255,081**	**$**	**22,611,176**
Current liabilities				
Accounts payable and accrued liabilities	$	905,201	$	692,118
Current portion of debts (note 9)		-		13,000
Current portion of provision for reclamation costs (note 10)		484,476		400,000
		1,389,677		1,105,118
Non-current liabilities				
Debts (note 9)		894,091		-
Provision for reclamation costs (note 10)		218,500		573,205
		1,112,591		573,205
Total liabilities		2,502,268		1,678,323
Equity attributable to common shareholders				
Share capital (note 11(a)&(b))		41,962,189		39,310,384
Reserves (note 11(c))		7,447,311		6,798,151
Deficit		(26,802,191)		(25,175,682)
Accumulated other comprehensive income		147,030		-
		22,754,339		20,932,853
Non-controlling interest (note 12)		(1,526)		-
		22,752,813		20,932,853
Total liabilities and shareholders' equity	**$**	**25,255,081**	**$**	**22,611,176**

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 Anderson Director

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

TRUE NORTH GEMS INC.
Consolidated Statements of Changes in Equity

Expressed in Canadian dollars

	Share capital		Reserves						
	Number of Shares	Amount	Warrants	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Total common shareholders' equity	Non-controlling interest	Total equity
Balance - December 31, 2011	$ 191,454,170	$ 38,237,807	$ 1,481,670	$ 5,030,140	(24,056,811)	$ 8,531	$ 20,701,337	$ -	20,701,337
Exploration and evaluation expenditures	1,116,071	100,000	-	-	-	-	100,000	-	100,000
Non-brokered private placements	21,882,000	1,094,100	-	-	-	-	1,094,100	-	1,094,100
Reallocation of the fair value of warrants issued		(30,522)	30,522	-	-	-	-	-	-
Capital raising costs		(91,001)	(2,477)	-	-	-	(93,478)	-	(93,478)
Warrants issued		-	18,198	-	-	-	18,198	-	18,198
Warrants expired		-	(914,185)	914,185	-	-	-		-
Share-based compensation		-	-	240,098	-	-	240,098	-	240,098
Net loss for year		-	-	-	(1,118,871)	-	(1,118,871)	-	(1,118,871)
Other comprehensive loss for year		-	-	-	-	(8,531)	(8,531)	-	(8,531)
Balance - December 31, 2012	214,452,241	39,310,384	613,728	6,184,423	(25,175,682)	-	20,932,853	-	20,932,853
Brokered private placement	32,688,493	2,941,964	-	-	-	-	2,941,964	-	2,941,964
Capital raising costs		(334,053)	-	-	-	-	(334,053)	-	(334,053)
Warrants issued		-	43,511	-	-	-	43,511	-	43,511
Warrants exercised	684,400	34,220	-	-	-	-	34,220	-	34,220
Reallocation of the fair value of warrants on conversion		9,674	(9,674)	-	-	-	-	-	-
Warrants expired		-	(604,054)	604,054	-	-	-	-	-
Share-based compensation		-	-	615,323	-	-	615,323	-	615,323
Net loss for year		-	-	-	(1,626,509)	-	(1,626,509)	(1,526)	(1,628,035)
Other comprehensive income for year		-	-	-	-	147,030	147,030	-	147,030
Balance - December 31, 2013	247,825,134	$ 41,962,189	$ 43,511	$ 7,403,800	$ (26,802,191)	$ 147,030	$ 22,754,339	$ (1,526)	$ 22,752,814

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

TRUE NORTH GEMS INC.
Consolidated Statements of Loss

Expressed in Canadian dollars

	For the year ended December 31, 2013	2012
Operating expenses		
Audit and related services	$ 49,488	$ 40,104
Consulting fees	227,000	190,000
Corporate financial services fees	101,400	22,500
Corporate secretarial and accounting	147,491	134,204
Depreciation	5,251	6,722
Directors fees	54,000	54,000
Exploration and evaluation expenditures	12,759	5,780
Farmout receipts	(22,500)	-
Foreign exchange loss	79,555	4,852
General and administrative	117,172	110,670
Investor relations	54,203	136,300
Legal fees	42,776	23,218
Loss on disposal of property, plant and equipment	-	20,292
Loss on sale of exploration and evaluation assets	47,790	-
Reclamation (note 10)	440	860
Rent and occupancy costs	109,200	148,993
Share-based compensation	439,487	136,352
Transfer agent and filing fees	40,284	24,917
Travel	86,996	84,632
Operating loss	(1,592,792)	(1,144,396)
Other income (expenses)		
Gain on sale of available-for-sale-investments	-	18,670
Interest income	6,991	8,074
Borrowing costs	(64,204)	-
Loss before income taxes	(1,650,005)	(1,117,652)
Income tax recovery (expense)	21,970	(1,219)
Net loss for year	$ (1,628,035)	$ (1,118,871)
Loss attributable to :		
Shareholders	$ (1,626,509)	$ (1,118,871)
Non-controlling interest	(1,526)	-
	$ (1,628,035)	$ (1,118,871)
Loss per share - basic and fully diluted	$ (0.01)	$ (0.01)
Weighted average number of common shares - basic and fully diluted	233,741,154	198,858,966

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

TRUE NORTH GEMS INC.
Consolidated Statements of Comprehensive Loss

Expressed in Canadian dollars

	For the year ended December 31, 2013	2012
Net loss for year	$ (1,628,035)	$ (1,118,871)
Item that may be reclassified subsequently to net loss		
Unrealized gain on available-for-sale investments , net of income tax expense	147,030	-
Reclassification adjustment to net loss on realization of gain on available-for-sale investments	-	(8,531)
Comprehensive loss for year	$ (1,481,005)	$ (1,127,402)
Comprehensive income attributable to:		
Shareholders	$ (1,479,479)	$ (1,127,402)
Non-controlling interest	(1,526)	-
	$ (1,481,005)	$ (1,127,402)

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

TRUE NORTH GEMS INC.
Consolidated Statements of Cash Flows

Expressed in Canadian dollars

	For the year ended December 31, 2013	2012
Operating activities		
Net loss for year	$ (1,628,035)	$ (1,118,871)
Adjustments for:		
Borrowing costs	9,846	-
Depreciation	5,251	6,722
Farmout receipts	(7,500)	-
Gain on sale of available-for-sale investments	-	(18,670)
Income tax expense (recovery)	(21,970)	1,219
Loss on disposal of property, plant and equipment	-	20,292
Loss on sale of exploration and evaluation assets	47,790	-
Reclamation	440	860
Share-based compensation	439,487	136,352
Unrealized foreign exchange loss - translation	83,262	-
	(1,071,429)	(972,096)
Changes in non-cash working capital items (note 14)	(408,870)	318,533
Cash provided by (used in) operating activities	(1,480,299)	(653,563)
Investing activities		
Proceeds from sale of available-for-sale investments	-	29,420
Purchase of property, plant and equipment	(12,697)	(4,216)
Proceeds from sale of exploration and evaluation assets	50,000	-
Exploration and evaluation expenditures	(2,078,131)	(1,092,266)
Changes in working capital items relating to investing activities	306,590	15,272
Cash provided by (used in) investing activities	(1,734,238)	(1,051,790)
Financing activities		
Debt advances	852,170	46,000
Debt repayments	(58,500)	(33,000)
Shares and warrants issued for cash	2,941,964	1,094,100
Capital raising costs	(290,542)	(75,280)
Warrants exercised	34,220	-
Cash provided by (used in) financing activities	3,479,312	1,031,820
Increase (decrease) in cash and cash equivalents	264,775	(673,506)
Effect of exchange rate changes on cash and cash equivalents	2,163	-
Cash and cash equivalents - beginning of year	4,157	677,663
Cash and cash equivalents - end of year	**$ 271,095**	**$ 4,157**

Supplemental disclosure of cash flow information (note 14)

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

Expressed in Canadian dollars

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 3114, Bentall Four, 1055 Dunsmuir St. Vancouver, BC V7X 1L3.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 has a portfolio of exploration and evaluation assets that it is currently exploring. The Aappaluttoq Ruby Deposit located in SW Greenland for which the Company was awarded an exploitation (mining) licence in March of 2014 will be developed into a producing mine (note 19(b)). The amounts shown as exploration and evaluation assets represent acquisition and exploration expenditures and do not necessarily represent present or future values. Recoverability of the amounts shown for exploration and evaluation assets is dependent on the discovery of economically recoverable mineral reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to complete the exploration and development of its mineral properties and on future profitable production or proceeds from the disposition of the mineral properties.

These consolidated financial statements are 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 year ended December 31, 2013, the Company had incurred a net loss attributable to shareholders totalling $1,626,509. The accumulated deficit at December 31, 2013 is $26,802,191.

Based on the Company's financial position at December 31, 2013, available funds are not considered adequate to meet requirements for fiscal 2014 based on budgeted expenditures for operations, mine development and project exploration. To meet working capital requirements, the Company will have to access financial resources through the issuance of securities or resource secured debt. Subsequent to year end, the Company completed a $1,500,000 financing (note 19(a)); however, additional financial resources will be required. These conditions cast significant doubt on the Company to continue as a going concern.

If the going concern assumption were not appropriate for these financial statements, then adjustments would be necessary to the carrying values of assets, liabilities, the reported income and expenses and the consolidated statement of financial position classifications used. Such adjustments could be material.

2. Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Committee ("IFRIC"). The policies applied in these consolidated financial statements are based on IFRS effective December 31, 2013 and the financial statements were approved by the Board of Directors on April 24, 2014.

Expressed in Canadian dollars

3. 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 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 4.

These consolidated financial statements are prepared in Canadian dollars. The functional currency of the Company and its subsidiary is the Canadian dollar, which is the presentation currency.

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	CAD

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

	Parent Company's Holdings		
	Class A Shares	Ownership Interest	Voting Control
Balance – December 31, 2012	500	100%	100.00%
Sale of share (note 12)	(1)	(.02%)	(0.18%)
Balance – December 31, 2013	499	99.8%	99.82%

Expressed in Canadian dollars

3. Accounting policies - continued

c) Foreign currency transactions
Transactions in currencies other than the functional currency of the reporting entity are recorded at rates of exchange prevailing on the dates of such transactions. Monetary assets and liabilities that are denominated in currencies other than the functional currency are translated at rates prevailing at the end of each reporting period. Non-monetary items that are measured in terms of historical cost in the foreign currency are not re-translated.

d) Cash and cash equivalents
Cash is cash on deposit with banks and cash equivalents are money market investments with maturities on date of acquisition of 90 days or less. Cash and cash equivalents are designated as loans and receivables.

e) Accounts receivable
Accounts receivable are stated at carrying value, which approximates fair value due to short terms to maturity, less provision for impairment. A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due.

f) Property, plant and equipment
Property, plant and equipment are stated at cost of acquisition less accumulated depreciation and impairment losses. Depreciation is provided for on a declining balance and straight-line basis at rates calculated to write off the cost less estimated residual value of each asset over it expected useful life. The residual value is the estimated amount that would currently be obtained from disposal of the asset if the asset was already of the age and in the condition expected at the end of its useful life.

The depreciation rates applicable to each category of asset are as follows:

Computer equipment and software	30% declining balance
Laboratory and gem processing equipment	20% declining balance
Office furniture and equipment	20% declining balance
Plant and equipment – exploration	3 or 10 years straight line

The carrying value of tangible capital assets is assessed at each reporting date for indicators of impairment and any impairment charged to the statement of loss. The expected useful life of tangible capital assets is reviewed annually.

g) Exploration and evaluation assets
Exploration and evaluation expenditures are capitalized once the legal right to explore a mineral property interest has been acquired. Exploration and evaluation expenditures are recorded at cost less accumulated impairment losses. Direct costs related to the acquisition, claim maintenance and exploration and evaluation of mineral property interests together with any incidental revenues are capitalized and deferred until the commercial viability of the asset is established, sold, abandoned or impaired. The depreciation of property and equipment assets in connection with exploring or evaluating a mineral property interest of this nature will be included in the cost of the intangible asset.

Expressed in Canadian dollars

3. Accounting policies - continued

Once the technical feasibility, commercial viability of extracting the mineral resource has been determined and an exploitation licence has been granted, the property is considered to be a mine under development and the capitalized costs associated with that mine are re-classified from exploration and evaluation assets as "mines under construction". Exploration and evaluation assets are also tested for impairment before the assets are transferred to mines under construction.

From time to time, the Company acquires and disposes of mineral property interests pursuant to the terms of option agreements. Options are exercisable entirely at the discretion of the optionee, and accordingly, are recorded as mineral property costs (recoveries) when payments are made or received until the original cost is recovered and after which subsequent recoveries are recorded in the statement of loss.

Exploration and evaluation assets are assessed for impairment at each reporting date when facts and circumstances suggest that the carrying amount may exceed its recoverable amount.

h) Impairment on a non-financial asset

The carrying amounts of non-current assets are reviewed for impairment at each reporting date and whenever facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. When facts and circumstances suggest the carrying amount exceeds recoverable amount, the Company is measures, presents and discloses any resulting impairment. The recoverable amount of an asset or cash generating group of assets is measured at the higher of the fair market value less costs to sell and the value in use. Previously recognized impairment losses are reversed in subsequent periods if the conditions giving rise to impairment reverse.

i) Provisions for site restoration

Obligations to retire a non-financial asset, including dismantling, restoration and similar activities, are provided for at the time they are incurred or an event occurs giving rise to such an obligation. The Company is subject to laws and regulations relating to environmental matters, including land reclamation and discharge of hazardous materials, in all jurisdictions in which it operates. The Company may be found to be responsible for damage caused by prior owners and operators of its unproven mineral interests and in relation to interests previously held by the Company.

On initial recognition, the estimated net present value of a provision is recorded as a liability and a corresponding amount is added to the capitalized cost of the related non-financial asset or charged to statement of loss if the property has been written off. The provision is evaluated at the end of each reporting period for changes in the estimated amount or timing of settlement of the obligation.

j) Income taxes

Income tax expenses or recovery comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Expressed in Canadian dollars

3. Accounting policies - continued

Current tax expense is the expected payable on the taxable income for the period using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent it is no longer probable that the related tax benefit will be realized.

Deferred tax assets and liabilities are offset when there is legally enforceable right to set off current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Deferred tax is provided on temporary differences arising between the carrying amounts of net assets and liabilities for financial reporting purposes and the amounts used for taxation purposes using the liability method. Deferred tax is not recognized for temporary differences which arise on the initial recognition of assets or liabilities in a transaction that is not a business combination that affect neither accounting nor taxable loss. Deferred tax is also not recognized for temporary differences relating to investments in subsidiaries to the extent that it is probable they will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using rates enacted or substantively enacted at the financial position date.

k) Share-based payment transactions

The Company grants stock options to directors, officers, employers and service providers. Each tranche in an award is considered a separate award with its own vesting period and fair values. The Company applies the fair-value method of accounting for share-based payments. The fair value is calculated using the Black-Scholes option pricing model.

Share-based payments for employees and others providing similar services are determined based on the grant date fair value. Share-based payments for non-employees is determined based on the fair value of the goods or services received or option granted measured at the date on which the Company obtains the goods or services.

Compensation expense is recognized over each tranche’s vesting period, in the consolidated statement of loss or capitalized as appropriate, based on the number of awards that vest less the estimated forfeitures. The number of forfeitures likely to occur is estimated on the grant date. If stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

The Company may also issue common shares for the acquisition of exploration and evaluation assets. The shares will be recorded at the market price of the shares on the stock exchange where the Company’s shares are traded at date of issuance, which is usually the date of approval of the transaction by the stock exchange.

Expressed in Canadian dollars

3. Accounting policies - continued

l) Share capital

i. Proceeds from the exercise of stock options and warrants, in addition to the estimated fair value attributable to these equity instruments, are recorded as share capital when exercised.

ii. Share capital issued for non-monetary consideration is recorded at an amount based on estimated fair market value reduced by an estimate of transaction costs incurred when such shares are issued for cash.

iii. On a unit offering, the Company prorates the proceeds between the relative fair values of the shares issued and the Black-Scholes value of the warrants issued.

m) Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Loans and receivables – These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Cash and cash equivalents, certain of the Company's investments and accounts receivable have been designated as loans and receivables and are initially recorded at fair value. After initial measurement, loans and receivable are carried at amortized cost using the effective interest method less any allowance for impairment. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization period.

Available-for-sale – Non-derivative financial assets not included in loans and receivables are classified as available-for-sale. Certain of the investments have been designated as available-for sale and are carried at fair value with changes in fair value recognized directly in other comprehensive income (loss). Where a decline in the fair value of an available-for-sale asset constitutes objective evidence of impairment, the amount of the loss is removed from other comprehensive income (loss) and recognized in the statement of loss.

All financial assets are subject to review for impairment at each reporting date. The Company assesses at each reporting period, whether there is objective evidence that a financial asset or group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which is described above.

n) Financial liabilities

Financial liabilities are recognized when the Company becomes a party to the contractual terms of the instrument. Financial liabilities are derecognized when they are extinguished, discharged, cancelled or expire.

The Company classifies its financial liabilities as other financial liabilities. This category includes accounts payable and debt consisting of Class B shares in TNGG and loan payable, all of which are initially recognized at fair value net of any directly attributable transaction costs. Subsequent to initial recognition, these financial instruments are measured at amortized cost using the effective interest method.

Expressed in Canadian dollars

3. Accounting policies - continued

o) Loss per share
Basic loss per share is calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares, which comprise share options granted and warrants outstanding.

When a loss is incurred during the reporting period, the exercise of options and warrants is considered anti-dilutive and the basic and diluted loss per share are the same.

p) Segment reporting
The Company operates in a single reportable operating segment – the acquisition, exploration and development of mineral properties.

q) Related party transactions
Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities.

r) New accounting policies and accounting standards not yet effective

New accounting policies and accounting standards

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee (“IFRIC”). The Standards that are applicable to the Company are as follows:

IFRS 10 – Consolidation
IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its control over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements. This standard is effective for annual periods beginning on or after January 1, 2013. The adoption of this standard did not result in any change to the Company’s consolidated financial statements.

Expressed in Canadian dollars

3. Accounting policies - continued

IFRS 11 – Joint arrangements
IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Venturers, entities have the choice to proportionately consolidate or equity account for interests in joint ventures IFRS 11 is effective for annual periods beginning on or after January 1, 2013. The adoption of this standard did not result in any change to the Company's consolidated financial statements.

IFRS 12 – Disclosure of interests in other entities
IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. This standard is effective for annual periods beginning on or after January 1, 2013. The adoption of this standard did not result in any change to the Company's consolidated financial statements. Enhanced disclosures are included in these consolidated financial statements.

IFRS 13 – Fair value measurements
IFRS 13 is effective for annual periods beginning on or after January1, 2013, with earlier adoption permitted and sets out in a single IFRS framework for measuring fair value and new required disclosures about the fair value measurements. This standard is effective for annual periods beginning on or after January 1, 2013. The adoption of this standard did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at December 31, 2013. Enhanced disclosures are included in these consolidated financial statements.

IAS 1-Presentation in the financial statements
IAS 1 was amended to change the disclosure of items presented in Other Comprehensive Income ("OCI"), including a requirement to separate items presented in OCI into two groups based on whether or not they will be recycled to profit or loss in the future. The amendments to IAS 1 became effective for the fiscal year beginning January 1, 2013 and appropriate disclosures have been included in these consolidated financial statements.

Expressed in Canadian dollars

3. Accounting policies - continued

Amendments to other standards issued but not yet adopted

IFRS 9 – Financial instruments - classification and measurement
IFRS 9 is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 has two measurement categories: amortized costs and fair value. All equity instruments are measured at fair value. A debt instrument is recorded at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is measured at fair value with change in fair value through profit or loss. In addition, this new standard has been updated to include guidance on financial liabilities and derecognition of financial instruments. The extent of impact of IFRS 9 has not yet been determined.

IFRIC 21-Levies
IFRIC 21 is an interpretation of IAS 37, Provisions, contingent liabilities and contingent assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to the liability to pay a levy is the activity described in relevant legislation that triggers the payment of the levy. IFRIC is effective the fiscal year beginning January 1, 2014. The final interpretation is currently being evaluated to determine the impact is expected to have on the consolidated financial statements.

IAS 36- Impairment of assets
IAS 36 addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendments are effective for the fiscal year beginning January 1, 2014. The final interpretation is currently being evaluated to determine the impact is expected to have on the consolidated financial statements.

4. Significant accounting estimates and judgments

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.

The Company has identified the following accounting policies under which significant judgments, estimates and assumptions are made where actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the Company's statement of financial position as reported in future years. Actual results may differ from these estimates.

Expressed in Canadian dollars

4. Significant accounting estimates and judgments - continued

Information about estimates and judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is in the notes to the consolidated financial statements where applicable.

a) Accounting estimates

Valuation of share based payments and warrants
The Company uses the Black-Scholes option pricing model in order to calculate the fair value of stock options granted and warrants issued. Option pricing models require the input of highly subjective assumptions including the expected price volatility, forfeiture rate and expected life. Historical price volatility, forfeiture rate and option life were used as a starting point for the development of future expectations. Changes in the subjective input assumptions can materially affect the fair value estimate; and, therefore, the existing models do not necessarily provide a reliable single measure of fair value of the Company's stock options at date of grant.

b) Accounting judgments

Exploration and evaluation assets – impairment assessment
The application of the Company's accounting policy for exploration and evaluation expenditures requires judgment in determining whether it is likely that the future economic benefits are probable either from future exploitation or sale or where activities have not reached a stage, which permits a reasonable assessment of the existence of reserves. The deferral policy requires management to make certain estimates and assumptions about future events or circumstances, in particular, whether an economically viable extraction operation can be established. Estimates and assumptions made may change if new information becomes available. If, after and expenditures is capitalized, information becomes available suggesting that the recovery of the expenditure is unlikely, the amount capitalized is written off in the statement of loss in the period when the new information becomes available.

Financial liability – put option
The determination of the fair value of the financial liability relating to the put option involves significant judgment. On initial recognition, the fair value of the financial liability is based on the expected fair value of the resources given up in the future to settle the liability. Judgment was required by management in determining that the put option related to the Class B shares held by Greenland Venture A/S does not result in the transfer of risks and rewards of ownership and therefore, accounted for as a financial liability.

Going concern
These consolidated financial statements have been prepared on the assumption that the Company is able to continue as a going concern. Additional information relating to the going concern assumption is disclosed in note 1.

Expressed in Canadian dollars

4. Significant accounting estimates and judgments - continued

Site restoration and environmental provisions
The Company has accounted for site restoration and environmental provisions that existed as of the year end based on facts and circumstances that existed as at December 31, 2013. The Company reviews facts and circumstances surrounding its exploration program, existing laws, contracts and other policies. A material reclamation obligation involves a number of estimates relating to timing, type of costs and associated contract negotiations and a review of potential methods and technical advancements.

5. Cash – restricted

On June 1, 2011, funds of $57,500 were invested in a variable rate GIC for a term of one year, reinvested annually on the anniversary date, bearing interest at the rate of 1.2% (2012 - 1.95%) per annum, as collateral for the credit limit extended by MasterCard.

6. Investments

		2013			2012
	Cost		Accumulated unrealized holding gain (loss)	Carrying value	Carrying value
.8% Term deposit maturing July 9, 2014	$ 27,728		$ -	$ 27,728	$ 27,479
Endurance Gold Corporation (notes 8 & 14)	175,000		175,000	350,000	-
Pacific Ridge Explorations Ltd. (notes 8 & 14)	7,500		(6,000)	1,500	-
	$ 210,228		**$ 169,000**	**$ 379,228**	**$ 27,479**

Expressed in Canadian dollars

7. Property, plant and equipment

	Computer equipment and software	Laboratory and gem processing equipment	Office furniture and equipment	Plant and equipment - exploration	Total
Cost					
Balance - December 31, 2011	$ 101,535	$ 6,061	$ 92,069	$ 1,193,193	$ 1,392,858
Additions	388	-	3,828	-	4,216
Disposals	-	-	(92,069)	-	(92,069)
Balance - December 31, 2012	101,923	6,061	3,828	1,193,193	1,305,005
Acquisitions	12,697	-	-	-	12,697
Balance - December 31, 2013	$ 114,620	$ 6,061	$ 3,828	$ 1,193,193	$ 1,317,702
Accumulated depreciation					
Balance - December 31, 2011	$ 76,825	$ 4,490	$ 71,777	$ 504,527	$ 657,619
Depreciation	7,314	314	671	121,514	129,813
Disposals	-	-	(71,777)	-	(71,777)
Balance - December 31, 2012	84,139	4,804	671	626,041	715,655
Depreciation	5,969	251	631	121,513	128,364
Balance - December 31, 2013	$ 90,108	$ 5,055	$ 1,302	$ 747,554	$ 844,019
Carrying amount - December 31, 2012	$ 17,784	$ 1,257	$ 3,157	$ 567,152	$ 589,350
Carrying amount - December 31, 2013	$ 24,512	$ 1,006	$ 2,526	$ 445,639	$ 473,683

8. Exploration and evaluation assets

Greenland Property

The property consists of two exploration licences registered with the Bureau of Minerals and Petroleum of the Government of Greenland ("BMP"); respectively, the Fiskenaesset property – Licence 2008/46 and Qaqqatsiaq - Licence 2008/01.

Both Licences were subject to renewal on December 31, 2012. Applications have been made to the BMP for renewal of the Fiskenaesset property – Licence 2008/46 and Qaqqatsiaq - Licence 2008/01 for a further term of two years to December 31, 2014 and five years to December 31, 2017 respectively, which is pending ministerial approval. Licence 2008/01 was renewed in December 2013 and renewal of Licence 2008/46 is still pending. Although the Company has followed protocol in making applications for the renewal of the licences and believes the renewal will be granted, there can be no assurance ministerial approval will be received. If the licences are not renewed it could result in a material change in the financial position of the Company.

Expressed in Canadian dollars

8. Exploration and evaluation assets – continued

To maintain the licences in good standing, the Company is required to meet minimum expenditure levels, as prescribed by the BMP annually. For the year ending December 31, 2014, the Company's exploration obligation with respect to Licence 2008/46 is DKK 3,664,640 (CAD $719,735). As at December 31, 2013, the Company has surplus exploration expenditures on Licence 2008/46 amounting to DKK 36,897,568 (CAD $7,246,682) that may be carried forward and credited against the calculated exploration commitment in future years, which is subject to confirmation by the BMP. For the year ending December 31, 2014, the Company's exploration obligation with respect to Licence 2008/01 is DKK 1,221,380 (CAD $239,879). As at December 31, 2013, the Company has surplus exploration expenditures on Licence 2008/01 of DKK 1,272,982 (CAD $250,014) that may be carried forward and credited against the calculated exploration commitment in future years, which is subject to confirmation by the BMP.

Licence 2008/46 was obtained by the Company satisfying all the terms of an option agreement with Brereton Engineering and Developments Ltd. ("Brereton"). Ongoing commitments from the option agreement include cash payments of $50,000 and the issue of $50,000 worth of shares from treasury annually for each year the Company maintains the exploration licence. The cash payment of $50,000 was made on January 4, 2014 and $50,000 worth of shares were issued from treasury on January 13, 2014 (465,116 shares) to discharge the 2013 obligation. Once an exploitation licence is obtained, the Company is required to make a one time cash payment of $500,000 and issue $500,000 worth of shares from treasury to Brereton. Subsequent to year end, an exploitation licence was granted to the Company (notes 19(b)) and as such, $500,000 worth of shares were issued from treasury (3,703,704 shares) to Brereton (note 19(c)) and the $500,000 cash payment has yet to be paid. Licence 2008/01 is not subject to any agreements, royalties or encumbrances.

Additionally, the Company holds a non-exclusive prospecting licence, Licence 2011/07, for West Greenland that expires December 31, 2015, 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 of which 2 claims are subject to a 2% Net Smelter Returns royalty and a 2% Gross Overriding royalty.

Other Yukon Properties

a) Bandito Property

The Bandito Property is located in southeastern Yukon. The property consists of 253 contiguous, unpatented claims registered with the Watson Lake Mining Recorder.

Expressed in Canadian dollars

8. Exploration and evaluation assets – continued

During the year ended December 31, 2013, the Company entered into an agreement to sell its 100% interest in the Bandito project to Endurance Gold Corporation ("Endurance") subject to a 1% net smelter return ("NSR"). Consideration was a $50,000 cash payment (January 29, 2013) and issue of 5,000,000 shares (fair value at date of issue $175,000 (note 6)). Shares are being released in three tranches, one million were subject to the standard four month hold period, two million will be released on July 1, 2013 and the final two million will be released December 31, 2013. Endurance has the right to acquire one half of the NSR at any time for a cash payment of $1,000,000. A further cash payment of $500,000 is payable to the Company in two tranches with the initial $150,000 payable upon completion and filing of a bankable feasibility study on the Bandito project and the balance to be paid after project financing is secured. This agreement replaces the previous option agreement between Endurance and the Company.

b) Straw Property

During the year ended December 31, 2013, the Company entered into an Option Agreement with Pacific Ridge Exploration Ltd. ("Pacific") whereby Pacific has the right to acquire a 100% interest in 43 claims located in the Finlayson District, Yukon Territory by making an initial cash payment of $15,000 (paid February 4, 2013) and issue of 250,000 shares on closing (fair value at date of issue $7,500 (note 6)). An additional cash payment of $10,000 and 150,000 shares of Pacific were received January 9, 2014 and the agreement was completed.

c) 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. Currently, the Company is incurring costs with respect to reclamation of the property.

d) True Blue Property

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

Expressed in Canadian dollars

8. Exploration and evaluation assets – continued

The following table summarizes the Company's investment in mineral properties as at December 31, 2013:

Areas of Interest	**Greenland Property**	**Baffin Island Property**	**Other Yukon Properties**	**Total**
Acquisition	$ 1,093,187	$ 212,346	$ 1	$ 1,305,534
Exploration expenditure	21,996,470	691,279	-	22,687,749
Carrying value	**$ 23,089,657**	**$ 903,625**	**$ 1**	**$ 23,993,283**

The following table details the expenditures on mineral properties by area of interest:

Areas of Interest	**Greenland Property**	**Baffin Island Property**	**Other Yukon Properties**	**Total**
Balance - December 31, 2012	$ 20,658,687	$ 903,625	$ 322,781	$ 21,885,093
Total acquisition costs for year	220,426	-	-	220,426
Exploration expenditure				
Advances	67,776	-	-	67,776
Aviation	48,192	-	-	48,192
Camp construction and operation	121,906	-	-	121,906
Engineering	309,906	-	-	309,906
Gemstone processing	26,069	-	-	26,069
Licence and application fees	149,541	-	-	149,541
Other	86,320	-	10	86,330
Permitting	335,676	-	-	335,676
Plant and equipment - depreciation	123,113	-	-	123,113
Reclamation (note 10)	3,900	-	-	3,900
Share-based compensation	129,784	-	-	129,784
Technical services	563,946	-	-	563,946
Travel	128,277	-	-	128,277
Total exploration for year	2,094,406	-	10	2,094,416
Total expenditures before the following	22,973,519	903,625	322,791	24,199,935
Farmout receipts	-	-	(50,000)	(50,000)
Gemstone test marketing study	116,138	-	-	116,138
Sale of exploration and evaluation assets	-	-	(272,790)	(272,790)
Balance - December 31, 2013	**$ 23,089,657**	**$ 903,625**	**$ 1**	**$ 23,993,283**

Expressed in Canadian dollars

8. Exploration and evaluation assets – continued

The following table summarizes the Company's investment in mineral properties as at December 31, 2012:

Areas of Interest	**Greenland Property**	**Baffin Island Property**	**Other Yukon Properties**	**Total**
Acquisition	$ 872,761	$ 212,346	$ 49,101	$ 1,134,208
Exploration expenditure	19,785,926	691,279	273,680	20,750,885
Carrying value	**$ 20,658,687**	**$ 903,625**	**$ 322,781**	**$ 21,885,093**

The following table details the expenditures on mineral properties by area of interest:

Areas of Interest	**Greenland Property**	**Baffin Island Property**	**Other Yukon Properties**	**Total**
Balance - December 31, 2011	$ 19,175,708	$ 904,349	$ 361,029	$ 20,441,086
Total acquisition costs for year	111,604	-	-	111,604
Exploration expenditure				
Aviation	63,514	-	-	63,514
Camp construction and operation	115,838	-	-	115,838
Gemstone processing	211,795	-	-	211,795
Licence and application fees	97,022	-	2,940	99,962
Other	54,361	-	288	54,649
Permitting	93,102	-	-	93,102
Plant and equipment - depreciation	123,090	-	-	123,090
Reclamation (note 10)	24,905	-	-	24,905
Share-based compensation	103,746	-	-	103,746
Technical services	362,347	(724)	8,524	370,147
Travel	50,384	-	-	50,384
Total exploration for year	1,300,104	(724)	11,752	1,311,132
Total expenditures before the following	20,587,416	903,625	372,781	21,863,822
Farmout receipts	-	-	(50,000)	(50,000)
Gemstone test marketing study	71,271	-	-	71,271
Balance - Decembr 31, 2012	**$ 20,658,687**	**$ 903,625**	**$ 322,781**	**$ 21,885,093**

Expressed in Canadian dollars

9. Debt

		2013		**2012**
Debt (a)				
Equity investment – Class B shares	$	98,200	$	-
Borrowing costs		10,291		-
Term loan		785,600		-
		894,091		-
Debt payable to key management personnel (b) (note 15)		-		3,000
Debt payable (b)		-		10,000
		785,600		13,000
Current portion of loans payable		-		(13,000)
Long-term portion of loans payable	$	785,600	$	-

a) During the year ended December 31, 2013, a financial agreement was entered into with Greenland Venture A/S ("Greenland Venture") whereby Greenland Venture invested DKK 4,500,000 in the Company's wholly owned subsidiary, True North Gems Greenland A/S ("TNGG").

i. Greenland Venture was issued 500 Class B shares with a par value of DKK 1,000 per share representing a 50% ownership stake in TNGG. The Class B shares entitle the holder to 9.1% of the votes and 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 component 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.

ii. The DKK 4,000,000 term loan bears interest at the rate of 10% per annum payable annually in arrears. The principal balance of DKK 4,000,000 and any accrued interest thereon are repayable on the fifth anniversary date of the funding of the final draw (June 14, 2013) on the credit facility (the "Maturity Date") with repayment guaranteed by True North Gems Greenland S/A's ("TNGG") parent company, True North Gems Inc. TNGG is entitled to repay the loan in full or in part including accrued payable interest thereon as at the date of repayment and including an early payout premium of 5% of the outstanding loan at any time before the Maturity Date.

b) These loans were unsecured and without interest or stated terms of repayment.

Expressed in Canadian dollars

10. Provision for reclamation

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

	Greenland Property	Baffin Island Property	Tsa da Glizsa	Total
Balance - December 31, 2011	$ 161,195	$ 27,200	$ 825,000	$ 1,013,395
Revision in estimates	24,905	860	-	25,765
Expenditures	-	-	(65,955)	(65,955)
Balance - December 31, 2012	186,100	28,060	759,045	973,205
Revision in estimates	3,900	440	-	4,340
Expenditures	-	-	(274,569)	(274,569)
Balance - December 31, 2013	$ 190,000	$ 28,500	$ 484,476	$ 702,976

The revision in estimate relating to the Greenland Property is capitalized as an exploration and evaluation expenditure. The changes to the provision for Baffin Island Property and Tsa da Glizsa are recorded in the statement of loss.

11. Equity

a) Authorized – Unlimited number of common shares without par value

b) Private placements

i. The Company completed a non-brokered private placement of 21,882,000 units at a price of $0.05 per unit in two tranches that closed on August 9 and November 2, 2012 respectively. The gross proceeds of the unit placement totalled $1,094,100. Each unit comprised of one common share and one-half share purchase warrant, each whole share purchase warrant entitling the holder to acquire one common share for a period of one year at a price of $0.12 per share. Finder's fees of $65,530 were paid and 1,310,600 finder's warrants were issued, convertible into one common share at a price of $0.05 for a period of one year. Directors and officers acquired 964,000 of the units issued.

ii. The Company completed a brokered private placement of 32,688,493 units at a price of $0.09 per unit in two tranches that closed on April 5 and June 14, 2013 respectively. The gross proceeds of the unit placement totalled $2,941,964. Finder's fees of $147,098 were paid and 980,656 finder's warrants were issued, convertible into one common share at a price of $0.09 for a period of three years.

Expressed in Canadian dollars

11. Equity - continued

c) Reserves

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

Warrants

	2013			**2012**		
	Number of warrants		**Amount**	**Number of warrants**		**Amount**
Opening balance	31,654,900	$	613,728	42,671,158	$	1,481,670
Warrants issued	980,656		43,511	12,251,600		46,243
Warrants exercised	(684,400)		(9,674)	-		-
Warrants expired	(30,970,500)		(604,054)	(23,267,858)		(914,185)
Closing balance	**980,656**	**$**	**43,511**	**31,654,900**	**$**	**613,728**

The fair value of the 980,656 broker warrants issued in connection with the unit private placement completed during the year ended December 31, 2013 totalled $43,511 .The warrants were valued using the Black-Scholes valuation model, using the following assumptions:

Warrant term	Volatility	Dividend yield	Risk-free interest rate	Warrants Issued		Fair value		Warrant issue costs		Net
2 years	131.85%	0%	2.41%	166,667	$	8,437	$	-	$	8,437
2 years	135.44%	0%	2.67%	813,989		35,074		-		35,074
				980,656	$	43,511	$	-	$	43,511

The fair value of the 12,251,600 warrants issued in connection with the unit private placement completed during the year ended December 31, 2012 totalled $48,720 before warrant issue costs amounting to $2,477 (net $46,243).

Warrant term	Volatility	Dividend yield	Risk-free interest rate	Warrants Issued		Fair value		Warrant issue costs		Net
1 year	68.22%	0%	1.10%	7,254,000	$	17,446	$	1,710	$	15,736
1 year	68.22%	0%	1.10%	1,014,400		13,746		-		13,746
1 year	75.65%	0%	1.67%	3,687,000		13,075		767		12,309
1 year	75.65%	0%	1.67%	296,200		4,453		-		4,453
				12,251,600	$	48,720	$	2,477	$	46,243

Expressed in Canadian dollars

11. Equity - continued

At December 31, 2013, the following share purchase warrants are outstanding:

Number of warrants outstanding	Exercise price	Expiry date
166,667	$0.09	04 Apr 2016
813,989	$0.09	13 Jun 2016
980,656		

Stock options

On June 13, 2013, 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 and 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 December 31, 2013, 782,513 options are available for future grant under the Plan.

Stock option transactions for the years ended December 31, 2013 and 2012 and the number of stock options outstanding and exercisable are summarized for the respective financial year ends as follows:

	2013		2012	
	Number of options	**Weighted Average Exercise Price of Options Exercisable**	**Number of options**	**Weighted Average Exercise Price of Options Exercisable**
Opening balance	18,725,000	$0.15	15,505,000	$0.19
Options granted	7,350,000	$0.12	4,050,000	$0.10
Options expired	(950,000)	$0.38	(830,000)	$0.56
Options forfeited	(1,125,000)	$0.16	-	-
Closing balance	24,000,000	$0.13	18,725,000	$0.15

The fair value of the7,350,000 options granted during the year ended December 31, 2013 resulted in a compensation expense of $615,323 ($439,487 was charged to operations and $175,836 was charged to exploration and evaluation expenditures). The options were valued using the Black-Scholes valuation model with the following assumptions:

Expressed in Canadian dollars

11. Equity - continued

Expected life	Volatility	Dividend yield	Risk-free interest rate	Options Granted		Fair value
5 years	89.91%	0%	1.62%	7,050,000	$	590,307
5 years	89.06%	0%	1.82%	300,000		25,016
				7,350,000	$	615,323

The fair value of the 4,050,000 options granted during the year ended December 31, 2012 resulted in a compensation expense of $240,098 ($136,352 was charged to operations and $103,746 was charged to exploration and evaluation expenditures). 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	86.8%	0%	1.40%	4,050,000	$	240,098

At December 31, 2013, stock options outstanding are as follows:

Number of options outstanding and exercisable	Range of exercise prices	Weighted Average Exercise Price of Options Exercisable	Weighted Average Remaining Contractual Life
12,750,000	$0.15	$0.15	1.43 years
3,900,000	$0.10	$0.10	3.98 years
7,350,000	$0.12	$0.12	4.88 years
24,000,000	$0.13	$0.13	2.90 years

12. Non-controlling interest (note 19(d))

LNS Greenland A/S ("LNSG") acquired from the Company 1 Class A share with a par value of DKK 1,000 representing a 2% ownership stake in TNGG (note 1). The Class A share entitles the holder to a .18% of the votes.

Expressed in Canadian dollars

13. Income taxes

The Company's provision for income taxes differs from the amounts computed by applying the combined Canadian federal and provincial income tax rates as a result of the following:

		2013		**2012**
Statutory rates		25.75%		25.1%
Income tax recovery computed at statutory rates	$	419,219	$	280,283
Other permanent differences		(4,084)		(114,952)
Permanent differences on share-based compensation		(158,446)		(34,157)
Rate differences		2,264		-
Deferred tax benefits not recognized		(236,983)		(132,393)
Income tax recovery (expense)	**$**	**21,970**	**$**	**(1,219)**

At December 31, 2013 and 2012, the deferred tax assets are not recognized on the following temporary differences as it is not likely that sufficient future taxable profits will be available to utilize such differences:

		2013		**2012**
Deferred tax assets				
Financing costs	$	111,409	$	93,759
Non-capital loss carry forwards		3,408,736		2,990,017
Other		400,110		368,492
Unrealized gain on available-for-sale investments		38,228		-
Total gross deferred income tax assets		3,958,483		3,452,268
Deferred tax assets not recognized		(3,905,975)		(3,360,039)
		52,508		92,229
Deferred tax liabilities				
Exploration and evaluation expenditures		(52,508)		(92,229)
	$	**-**	**$**	**-**

Expressed in Canadian dollars

13. Income taxes - continued

At December 31, 2013, the Company has non-capital losses of approximately $13,269,909, which may be carried forward to apply against future year's income for Canadian income tax purposes, subject to final determination by taxation authorities, expiring as follows:

2014	$	1,086,387
2015		1,084,454
2026		1,371,187
2027		1,812,507
2028		2,104,451
2029		1,273,826
2030		997,877
2031		1,217,064
2032		1,012,306
2033		1,309,850
	$	13,269,909

14. Supplementary disclosure of cash flow information

		2013		**2012**
Changes in non-cash working capital items				
Restricted cash	$	(1,166)	$	(1,196)
Accounts receivable		10,764		27,555
Deposits and prepaid expenses		(42,293)		5,309
Accounts payable and accrued charges		(101,605)		352,820
Reclamation expenditures		(274,570)		(65,955)
	$	(408,870)	$	318,533

Expressed in Canadian dollars

14. Supplementary disclosure of cash flow information - continued

		2013		2012
Non-cash investing and financing activities				
Shares received on farm-out of exploration and evaluation assets (note 6)	$	7,500	$	-
Shares received on sale of exploration and evaluation assets (note 6)	$	175,000	$	-
Exploration and evaluation assets				
Shares issued- acquisition of exploration and evaluation assets	$	-	$	100,000
Reclamation – Greenland	$	3,900	$	24,905
Stock options granted to project management – exploration expenditure	$	129,784	$	103,746
Stock options granted to project management – Gemstone test marketing study	$	46,052	$	-
Warrants issued to agents	$	43,511	$	18,198

		2013		2012
Interest income received	$	5,578	$	6,561

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.

During the year ended December 31, 2012, the Company was loaned $36,000 from key management personnel of which $33,000 was repaid during the year and the balance of $3,000 was outstanding at December 31, 2012. During the year ended December 31, 2013, the Company was loaned $44,000 from key management personnel. The outstanding loan balance of $47,000 was repaid during the year.

Details of key management personnel compensation are as follows:

		2013		2012
Services provided:				
Consulting fees	$	507,272	$	423,653
Directors fees		54,000		54,000
Share-based compensation		351,672		192,671
Key management personnel compensation	$	912,944	$	670,324

		2013		2012
Balances payable to key management personnel for compensation	$	134,815	$	227,808

Balances payable are included in accounts payable and accrued liabilities.

Expressed in Canadian dollars

16. Segmented information

The Company's operations comprise one reportable segment, exploration 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:

	2013			2012		
	Canada	Greenland	Total	Canada	Greenland	Total
Property, plant and equipment	$ 15,095	$ 458,588	$ 473,683	$ 16,929	$ 572,421	$ 589,350
Exploration and evaluation assets	903,626	23,089,657	23,993,283	1,226,406	20,658,687	21,885,093
Total	$ 918,721	$ 23,548,245	$ 24,466,966	$ 1,243,335	$ 21,231,108	$ 22,474,443

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 on all exploration projects and overheads to manage costs, commitments and exploration activities.

In order to maximize ongoing development efforts, the Company does not 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 equity placements in the junior resource market 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.

Expressed in Canadian dollars

18. Financial instruments

a) Fair values

The Company's financial assets and liabilities consist of cash and cash equivalents, accounts receivable, investments, accounts payable and debt.

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;
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 December 31, 2013, the Company's financial assets that are measured and recognized at fair value on a recurring basis are categorized as follows:

			2013		**2012**
Investments	Level 1	$	351,500	$	-

The carrying value of the Company's cash and cash equivalents, accounts receivable and accounts payable are representative of their respective fair value at December 31, 2013 and 2012 due to their short term nature. The fair value of accounts payable and debt 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, interest risk and price 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 krones. 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.

Expressed in Canadian dollars

18. Financial instruments – continued

At December 31, 2013, the Company is exposed to currency risk through the following assets and liabilities denominated in US dollars and Danish krones:

	2013		**2012**	
	USD	**DKK**	**USD**	**DKK**
Cash	9	281,133	119	42,503
Accounts payable and accrued liabilities	(889)	(2,010,964)	(632)	(595,226)
Loan payable	-	(4,000,000)	-	-
Net liability position	(880)	(5,729,831)	(513)	(552,723)

Based on the above net exposure as at December 31, 2013 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 $112,534 (2012 - $9,768) 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.

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.

Accounts payable and accrued liabilities are due within the current operating period.

Expressed in Canadian dollars

19. Subsequent events

From January 1, 2014 to April 24, 2014:

a) The Company completed a non-brokered private placement of 16,667,667 units at a price of $0.09. The gross proceeds of the unit placement totalled $1,500,000 (note 1). Each unit comprised of one common share and one-half share purchase warrant, each whole share purchase warrant entitling the holder to acquire one common share for a period of two years at a price of $0.12 per share.

b) The Company was awarded an exclusive 30-year exploitation licence (mining) "Licence 2014/21" by the Government of Greenland for the Aappaluttoq Ruby Deposit, SW Greenland (notes 1 & 8).

c) The Company issued $500,000 worth of shares from treasury (3,703,704 shares) to satisfy its obligation to Brereton upon an exploitation licence being awarded (notes 19(b)).

d) The TSX Venture Exchange approved the Option Agreement dated August 7, 2013 between the Company and LNS Greenland A/S ("LNSG") under which LNSG has been granted an option to earn a 20% interest of the issued and outstanding Class A shares of True North Gems Greenland A/S ("TNGG") in exchange for approximately US$23 million, the majority of the Aappaluttoq mine costs. The relationship between the Company and LNSG will be governed by four additional agreements, the TNGG Shareholders Agreement, the Lease and Purchase Agreement, the Management Agreement and the Pledge Agreement (whereby the Company has pledged Class A TNGG shares, which maybe earned by LNSG as security for LNSG's earn-in expenditures).

e) The Company granted options to a consultant entitling them to acquire 300,000 common shares at a price of $0.12 per share up to February 3, 2019.