

Condensed Interim Consolidated Financial Statements of

TRUE NORTH GEMS INC.

As at and for the three month period ended March 31, 2014

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

	March 31,	December 31,
	2014	2013
Current assets		
Cash and cash equivalents	\$ 509,923	\$ 271,095
Restricted cash	60,691	60,523
Investments (note 5)	286,782	379,228
Accounts receivable	36,309	18,248
Deposits and prepaid expenses	93,168	59,021
	986,873	788,115
Non-current assets		
Property, plant and equipment (note 6)	442,474	473,683
Exploration and evaluation assets (note 7)	25,089,066	23,993,283
	25,531,540	24,466,966
Total assets	\$ 26,518,413	\$ 25,255,081
Current liabilities		
Accounts payable and accrued liabilities	\$ 814,934	\$ 905,201
Current portion of provision for reclamation costs (note 8)	163,818	484,476
	978,752	1,389,677
Non-current liabilities		
Long-term debt (note 9)	933,296	894,091
Provision for reclamation costs (note 8)	218,500	218,500
	1,151,796	1,112,591
Total liabilities	2,130,548	2,502,268
Equity attributable to common shareholders		
Share capital (note 10(a)&(b))	43,737,897	41,962,189
Reserves (note 10(c))	7,734,610	7,447,311
Deficit	(27,145,276)	(26,802,191)
Accumulated other comprehensive income	62,640	147,030
	24,389,871	22,754,339
Non-controlling interest (note 11)	(2,006)	(1,526)
	24,387,865	22,752,813
Total liabilities and shareholders' equity	\$ 26,518,413	\$ 25,255,081

Nature of operations and going concern (note 1)

Approved on behalf of the Board:

(signed) David S. Parsons Director

(signed) William 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 (loss)	Total common shareholders' equity	Non-controlling interest	Total equity
	Number of Shares	Amount	Warrants	Contributed surplus					
Balance - December 31, 2012	214,452,241	\$ 39,310,384	\$ 613,728	\$ 6,184,423	\$ (25,175,682)	\$ -	\$ 20,932,853	\$ -	20,932,853
Net loss for period	-	-	-	-	(198,383)	-	(198,383)	-	(198,383)
Other comprehensive loss for period	-	-	-	-	-	(43,750)	(43,750)	-	(43,750)
Balance - March 31, 2013	214,452,241	\$ 39,310,384	\$ 613,728	\$ 6,184,423	\$ (25,374,065)	\$ (43,750)	\$ 20,690,719	\$ -	\$ 20,690,719
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)	\$ 22,752,813
Exploration and evaluation expenditures	4,168,820	550,000	-	-	-	-	550,000	-	550,000
Non brokered private placement	16,666,667	1,500,000	-	-	-	-	1,500,000	-	1,500,000
Reallocation of the fair value of warrants issued	-	(264,959)	264,959	-	-	-	-	-	-
Capital raising costs	-	(9,333)	(2,002)	-	-	-	(11,335)	-	(11,335)
Share-based compensation	-	-	-	24,342	-	-	24,342	-	24,342
Net loss for period	-	-	-	-	(343,085)	-	(343,085)	(479)	(343,564)
Other comprehensive loss for period	-	-	-	-	-	(84,390)	(84,390)	-	(84,390)
Balance - March 31, 2014	268,660,621	\$ 43,737,897	\$ 306,468	\$ 7,428,142	\$ (27,145,276)	\$ 62,640	\$ 24,389,871	\$ (2,006)	\$ 24,387,865

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 March 31,	
	2014	2013
Operating expenses		
Audit and related services	\$ 215	\$ -
Consulting fees	45,000	45,000
Corporate secretarial and accounting	41,504	35,439
Depreciation	1,185	1,221
Directors fees	13,500	13,500
Exploration and evaluation expenditures	(903)	6,943
Farmout receipts	(14,500)	(52,500)
Foreign exchange loss	53,207	80
General and administrative	53,610	14,825
Investor relations	57,130	14,877
Legal fees	1,161	1,297
Loss on sale of exploration and evaluation assets	-	47,790
Rent and occupancy costs	27,300	27,300
Share-based compensation	24,342	-
Transfer agent and filing fees	(699)	16,096
Travel	6,850	24,450
Operating loss	(308,902)	(196,318)
Other income (expenses)		
Interest income	2,961	355
Borrowing costs	(25,013)	(2,420)
Loss before income taxes	(330,954)	(198,383)
Income tax expense	(12,610)	-
Net loss for period	\$ (343,564)	\$ (198,383)
Loss attributable to :		
Shareholders	\$ (343,085)	\$ (198,383)
Non-controlling interest	(479)	-
	\$ (343,564)	\$ (198,383)
Loss per share - basic and fully diluted	\$ (0.00)	\$ (0.00)
Weighted average number of common shares - basic and fully diluted	264,148,993	214,452,241

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

TRUE NORTH GEMS INC.
Condensed Interim Consolidated Statements of Comprehensive Loss
(Unaudited)

Expressed in Canadian dollars

	For the three month period ended March 31,	
	2014	2013
Net loss for period	\$ (343,564)	\$ (198,383)
Item that may be reclassified subsequently to net loss		
Unrealized loss on available-for-sale investments , net of income tax expense	(84,390)	(43,750)
Comprehensive loss for period	\$ (427,954)	\$ (242,133)
Comprehensive income attributable to:		
Shareholders	\$ (427,476)	\$ (242,133)
Non-controlling interest	(479)	-
	\$ (427,954)	\$ (242,133)

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

	For the three month period ended March 31,	
	2014	2013
Operating activities		
Net loss for period	\$ (343,564)	\$ (198,383)
Adjustments for:		
Borrowing costs	5,030	-
Depreciation	1,185	1,221
Farmout receipts	(4,500)	(37,500)
Income tax expense	12,610	-
Loss on sale of exploration and evaluation assets	-	47,790
Share-based compensation	24,342	-
Unrealized foreign exchange loss - translation	29,372	-
	(275,525)	(186,872)
Changes in non-cash working capital items (note 12)	(526,075)	149,550
Cash provided by (used in) operating activities	(801,600)	(37,322)
Investing activities		
Purchase of property, plant and equipment	(1,250)	-
Proceeds from sale of exploration and evaluation assets	-	50,000
Exploration and evaluation expenditures	(514,509)	(185,892)
Changes in working capital items relating to investing activities	68,919	26,244
Cash provided by (used in) investing activities	(446,840)	(109,648)
Financing activities		
Debt advances	-	641,990
Shares and warrants issued for cash	1,500,000	-
Capital raising costs	(11,335)	-
Cash provided by (used in) financing activities	1,488,665	641,990
Increase (decrease) in cash and cash equivalents	240,225	495,020
Effect of exchange rate changes on cash and cash equivalents	(1,397)	-
Cash and cash equivalents - beginning of period	271,095	4,157
Cash and cash equivalents - end of period	\$ 509,923	\$ 499,177

Supplemental disclosure of cash flow information (note 12)

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
March 31, 2014

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.

These condensed interim consolidated financial statements include the accounts of True North Gems Inc. and its subsidiary, as detailed below:

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

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

Parent Company’s Holdings		
Class A Shares	Ownership Interest	Voting Control
499	99.8%	99.82%

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 on March 10, 2014 will be developed into a producing mine (note 7). 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 three month period ended March 31, 2014, the Company had incurred a net loss attributable to shareholders totalling \$343,085. The accumulated deficit at March 31, 2014 is \$27,145,276.

Based on the Company’s financial position at March 31, 2014, 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. These conditions cast significant doubt on the Company to continue as a going concern.

TRUE NORTH GEMS INC.
Notes to Condensed Interim Consolidated Financial Statements - unaudited
March 31, 2014

Expressed in Canadian dollars

1. Nature of operations and going concern - continued

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 condensed interim 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 condensed interim 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 condensed interim 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, 2013. The policies applied in these condensed interim consolidated financial statements are based on IFRS issued as of May 26, 2014, the date the Board of Directors approved the financial statements. These condensed interim consolidated financial statements should be read in conjunction with the Company’s annual consolidated financial statements for the year ended December 31, 2013.

3. Significant accounting policies

Basis of presentation

The condensed interim 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 condensed interim 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 condensed interim consolidated financial statements are prepared in Canadian dollars. The functional currency of the Company is Canadian dollars.

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.

Expressed in Canadian dollars

4. Significant accounting estimates and judgments - continued

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.

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 an expenditure 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.

TRUE NORTH GEMS INC.
Notes to Condensed Interim Consolidated Financial Statements - unaudited
March 31, 2014

Expressed in Canadian dollars

4. Significant accounting estimates and judgments - continued

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.

Site restoration and environmental provisions

The Company has accounted for site restoration and environmental provisions that existed as of the period end based on facts and circumstances that existed as at March 31, 2014. 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. Investments

	March 31, 2014			December 31, 2013	
	Cost	Accumulated unrealized holding gain (loss)	Carrying value	Carrying value	
.8% Term deposit maturing July 9, 2014	\$ 27,782	\$ -	\$ 27,782	\$ 27,728	
Endurance Gold Corporation (note 12)	175,000	75,000	250,000	350,000	
Pacific Ridge Explorations Ltd. (note 7)	12,000	(3,000)	9,000	1,500	
	\$ 214,782	\$ 72,000	\$ 286,782	\$ 379,228	

TRUE NORTH GEMS INC.
Notes to Condensed Interim Consolidated Financial Statements - unaudited
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6. 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, 2013	\$ 114,620	\$ 6,061	\$ 3,828	\$ 1,193,193	\$ 1,317,702
Acquisitions	1,250	-	-	-	1,250
Balance - March 31, 2014	\$ 115,870	\$ 6,061	\$ 3,828	\$ 1,193,193	\$ 1,318,952
Accumulated depreciation					
Balance - December 31, 2013	\$ 90,108	\$ 5,055	\$ 1,302	\$ 747,554	\$ 844,019
Depreciation	1,906	50	125	30,378	32,459
Balance - March 31, 2014	\$ 92,014	\$ 5,105	\$ 1,427	\$ 777,932	\$ 876,478
Carrying amount - December 31, 2013	\$ 24,512	\$ 1,006	\$ 2,527	\$ 445,639	\$ 473,682
Carrying amount - March 31, 2014	\$ 23,856	\$ 956	\$ 2,401	\$ 415,261	\$ 442,474

7. Exploration and evaluation assets

Greenland Property

The property consists of an exploitation licence (mining), two exploration licences and a prospecting licence registered with the Bureau of Minerals and Petroleum of the Government of Greenland ("BMP"); respectively, the Aappaluttoq Ruby Deposit – Licence 2014/21, the Fiskenaasset property – Licence 2008/46, Qaqqatsiaq - Licence 2008/01 and Licence 2011/07.

Aappaluttoq Ruby Deposit – Licence 2014/21 is an exclusive 30-year exploitation (mining) licence awarded to the Company on March 10, 2014 by the Government of Greenland. The exploration licences were both subject to renewal on December 31, 2012. Applications were made to the BMP for renewal of the Fiskenaasset 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. 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.

TRUE NORTH GEMS INC.
Notes to Condensed Interim Consolidated Financial Statements - unaudited
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7. Exploration and evaluation assets – continued

To maintain the exploration 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 \$747,220). As at December 31, 2013, the Company has surplus exploration expenditures on Licence 2008/46 amounting to DKK 36,897,568 (CAD \$7,523,414) that may be carried forward and credited against the calculated exploration commitment in future years. For the year ending December 31, 2014, the Company's exploration obligation with respect to Licence 2008/01 is DKK 1,221,380 (CAD \$249,039). As at December 31, 2013, the Company has surplus exploration expenditures on Licence 2008/01 of DKK 1,272,982 (CAD \$259,561) that may be carried forward and credited against the calculated exploration commitment in future years.

Licence 2008/46 was obtained by the Company satisfying all the terms of an option agreement with Brereton Engineering and Developments Ltd. ("Brereton"). The Company was required to make a one time cash payment of \$500,000 and issue \$500,000 worth of shares from treasury to Brereton when Licence 2014/21 was granted. The \$500,000 worth of shares were issued from treasury (3,703,704 shares) to Brereton. Brereton have agreed to postponement of the \$500,000 cash payment until the Company has its financing in place for its obligations for the remaining portion of the budgeted capital expenditures. In recognition of this concession, the Company agreed to pay interest on the \$500,000 at the rate of 1% per month (\$5,000 per month) commencing April 1, 2014, payable quarterly. 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) 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 5)). An additional cash payment of \$10,000 and 150,000 shares (fair value at date of issue \$4,500 (note 5)) of Pacific were received January 9, 2014 and the agreement was completed.

TRUE NORTH GEMS INC.
Notes to Condensed Interim Consolidated Financial Statements - unaudited
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Expressed in Canadian dollars

7. Exploration and evaluation assets – continued

b) 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.

c) True Blue Property

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

The following table summarizes the Company's investment in mineral properties as at March 31, 2014:

Areas of Interest	Greenland Property	Baffin Island Property	Other Yukon Properties	Total
Acquisition	\$ 1,741,780	\$ 212,346	\$ 1	\$ 1,954,126
Exploration expenditure	22,443,660	691,279	-	23,134,939
Carrying value	\$ 24,185,440	\$ 903,625	\$ 1	\$ 25,089,066

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, 2013	\$ 23,089,657	\$ 903,625	\$ 1	\$ 23,993,283
Total acquisition costs for period	648,593	-	-	648,593
Exploration expenditure				
Advances	44,250	-	-	44,250
Camp construction and operation	60,743	-	-	60,743
Gemstone processing	704	-	-	704
Licence and application fees	8,000	-	-	8,000
Other	139,033	-	-	139,033
Permitting	10,076	-	-	10,076
Plant and equipment - depreciation	31,274	-	-	31,274
Technical services	121,625	-	-	121,625
Travel	11,487	-	-	11,487
Total exploration for period	427,192	-	-	427,192
Total expenditures before the following	24,165,442	903,625	1	25,069,068
Gemstone test marketing study	19,998	-	-	19,998
Balance - March 31, 2014	\$ 24,185,440	\$ 903,625	\$ 1	\$ 25,089,066

TRUE NORTH GEMS INC.
Notes to Condensed Interim Consolidated Financial Statements - unaudited
March 31, 2014

Expressed in Canadian dollars

8. 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, 2013	\$ 190,000	\$ 28,500	\$ 484,476	\$ 702,976
Expenditures	-	-	(320,658)	(320,658)
Balance - March 31, 2014	\$ 190,000	\$ 28,500	\$ 163,818	\$ 382,318

9. Long-term debt

	March 31, 2014	December 31, 2014
Long-term debt		
Equity investment – Class B shares	\$ 101,950	\$ 98,200
Borrowing costs	15,746	10,291
Term loan	815,600	785,600
Total long-term debt	\$ 933,296	\$ 894,091

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.

TRUE NORTH GEMS INC.
Notes to Condensed Interim Consolidated Financial Statements - unaudited
March 31, 2014

Expressed in Canadian dollars

10. Equity

- a) Authorized – Unlimited number of common shares without par value
- b) Private placement
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. 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.
- c) Reserves
Reserves consist of share purchase warrants and the accumulated fair value of common share stock options recognized as share-based compensation.

Warrants

	March 31, 2014		December 31, 2013	
	Number of warrants	Amount	Number of warrants	Amount
Opening balance	980,656	\$ 43,511	31,654,900	\$ 613,728
Warrants issued	8,333,334	262,957	980,656	43,511
Warrants exercised	-	-	(684,400)	(9,674)
Warrants expired	-	-	(30,970,500)	(604,054)
Closing balance	9,313,990	\$ 306,468	980,656	\$ 43,511

The fair value of the 8,333,334 warrants issued in connection with the unit private placement completed during the three month period ended March 31, 2014 totalled \$262,957. 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	126.01%	0%	1.12%	8333,334	\$ 264,959	\$ 2,002	\$ 262,957

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10. Equity - continued

At March 31, 2014, 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
8,333,334	\$0.09/\$0.12	07 Jan 2015/2016
9,313,990		

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 March 31, 2014, 2,566,062 options are available for future grant under the Plan.

Stock option transactions for the three month period ended March 31, 2014 and the year ended December 31, 2013 and the number of stock options outstanding and exercisable are summarized for the respective financial period ends as follows:

	March 31, 2014		December 31, 2013	
	Number of options	Weighted Average Exercise Price of Options Exercisable	Number of options	Weighted Average Exercise Price of Options Exercisable
Opening balance	24,000,000	\$0.13	18,725,000	\$0.15
Options granted	300,000	\$0.12	7,350,000	\$0.12
Options expired	-	-	(950,000)	\$0.38
Options forfeited	-	-	(1,125,000)	\$0.16
Closing balance	24,300,000	\$0.13	24,000,000	\$0.13

The fair value of the 300,000 options granted during the three month period ended March 31, 2014 resulted in a compensation expense of \$24,342 that was charged to operations. The options were valued using the Black-Scholes valuation model with the following assumptions:

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10. Equity - continued

Expected life	Volatility	Dividend yield	Risk-free interest rate	Options Granted	Fair value
5 years	85.81%	0%	1.62%	300,000	\$ 24,342

At March 31, 2014, 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	1.18 years
3,900,000	\$0.10	\$0.10	3.73 years
7,650,000	\$0.12	\$0.12	4.64 years
24,300,000	\$0.13	\$0.13	2.68 years

11. Non-controlling interest

On August 7, 2013, the Company and LNS Greenland A/S (“LNSG”) entered into an Option Agreement 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). On execution of the Agreement, 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. The Class A share entitles the holder to a .18% of the votes. TSX Venture Exchange approval of the Option Agreement was obtained on March 14, 2014.

12. Supplementary disclosure of cash flow information

Three month period ended March 31,	2014	2013
Changes in non-cash working capital items		
Restricted cash	\$ (168)	\$ (287)
Accounts receivable	(18,062)	(423)
Deposits and prepaid expenses	(34,147)	8,452
Accounts payable and accrued charges	(153,040)	141,808
Reclamation expenditures	(320,658)	-
	\$ (526,075)	\$ 149,550

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12. Supplementary disclosure of cash flow information - continued

Three month period ended March 31,	2014		2013	
Non-cash investing and financing activities				
Shares received on sale of exploration and evaluation assets (note 5)	\$	-	\$	175,000
Exploration and evaluation assets				
Shares issued- acquisition of exploration and evaluation assets	\$	550,000	\$	-
Interest income received	\$	2,738	\$	-

13. 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:

Three month period ended March 31,	2014		2013	
Services provided:				
Consulting fees	\$	109,453	\$	112,567
Directors fees		13,500		13,500
Key management personnel compensation	\$	122,953	\$	126,067

	March 31,		December 31,	
	2014		2013	
Balances payable to key management personnel for compensation	\$	96,395	\$	319,050

Balances payable are included in accounts payable and accrued liabilities.

14. 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:

	March 31, 2014			December 31, 2013		
	Canada	Greenland	Total	Canada	Greenland	Total
Property, plant and equipment	\$ 15,160	\$ 427,314	\$ 442,474	\$ 15,095	\$ 458,588	\$ 473,683
Exploration and evaluation assets	903,626	24,185,440	25,089,066	903,626	23,089,657	23,993,283
Total	\$ 918,786	\$ 24,612,754	\$ 25,531,540	\$ 918,721	\$ 23,548,245	\$ 24,466,966

Expressed in Canadian dollars

15. 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.

15. 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.

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16. Financial instruments – continued

At March 31, 2014 and December 31, 2013, the Company's financial assets that are measured and recognized at fair value on a recurring basis are categorized as follows:

		March 31, 2014	December 31, 2013
Investments	Level 1	\$ 259,000	\$ 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 March 31, 2014 and December 31, 2013 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 kroner. 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 March 31, 2014, the Company is exposed to currency risk through the following assets and liabilities denominated in US dollars and Danish kroner:

	March 31, 2014		December 31, 2013	
	USD	DKK	USD	DKK
Cash	(1,751)	230,218	9	281,133
Accounts payable and accrued liabilities	(9)	(1,064,531)	(889)	(2,010,964)
Borrowing costs	-	(431,781)		(320,822)
Long-term debt	-	(4,500,000)	-	(4,500,000)
Net liability position	(1,760)	(5,766,094)	(880)	(6,550,653)

Based on the above net exposure as at March 31, 2014 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 \$117,765 (December 31, 2013 - \$128,748) in the Company's net loss.

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16. Financial instruments – continued

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 15.

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