Consolidated Financial Statements of

TRUE NORTH GEMS INC.

As at and for the years ended December 31, 2012 and 2011

Expressed in Canadian dollars

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. and its subsidiary, which comprise the consolidated statements of financial position as at December 31, 2012 and December 31, 2011 and the consolidated statements of changes in equity, loss and 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.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of True North Gems Inc. and its subsidiary as at December 31, 2012 and December 31, 2011 and their financial performance and their 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 financial statements which describes 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
Vancouver, British Columbia
April 25, 2013

TRUE NORTH GEMS INC.
Consolidated Statements of Financial Position

Expressed in Canadian dollars

		December 31, 2012		December 31, 2011
Current assets				
Cash and cash equivalents	$	4,157	$	677,663
Restricted cash (note 5)		59,357		58,188
Investments (note 6)		27,479		47,635
Accounts receivable		29,012		56,567
Deposits and prepaid expenses		16,728		22,037
		136,733		862,090
Non-current assets				
Property, plant and equipment (note 7)		589,350		735,239
Exploration and evaluation assets (note 8)		21,885,093		20,441,086
		22,474,443		21,176,325
Total assets	**$**	**22,611,176**	**$**	**22,038,415**
Current liabilities				
Accounts payable and accrued liabilities	$	692,118	$	323,683
Loans payable		13,000		-
Current portion of provision for reclamation costs (note 9)		400,000		250,000
		1,105,118		573,683
Non-current liabilities				
Provision for reclamation costs (note 9)		573,205		763,395
Total liabilities		1,678,323		1,337,078
Shareholders' equity				
Share capital (notes 10(a) & (b))		39,310,384		38,237,807
Reserves (note 10(c))		6,798,151		6,511,810
Deficit		(25,175,682)		(24,056,811)
Accumulated other comprehensive income		-		8,531
		20,932,853		20,701,337
Total liabilities and shareholders' equity	**$**	**22,611,176**	**$**	**22,038,415**

Nature of operations and going concern (note 1)
Subsequent events (note 17)

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	Total equity
Balance - December 31, 2010	156,326,787	$ 35,486,222	$ 1,848,807	$ 4,074,226	$ (22,192,787)	$ 15,969	$ 19,232,437
Exploration and evaluation expenditures	323,625	50,000	-	-	-	-	50,000
Non-brokered private placements	33,826,000	3,382,600	-	-	-	-	3,382,600
Reallocation of the fair value of warrants issued	-	(485,692)	485,692	-	-	-	-
Capital raising costs	-	(345,387)	(58,269)	-	-	-	(403,656)
Warrants issued	-	-	140,062	-	-	-	140,062
Warrants exercised	977,758	97,776	-	-	-	-	97,776
Reallocation of the fair value of warrants on conversion	-	52,288	(52,288)	-	-	-	-
Warrants expired	-	-	(882,334)	882,334	-	-	-
Share-based compensation	-	-	-	73,580	-	-	73,580
Net loss for year	-	-	-	-	(1,864,024)	-	(1,864,024)
Other comprehensive income for year	-	-	-	-	-	(7,438)	(7,438)
Balance - December 31, 2011	191,454,170	38,237,807	1,481,670	5,030,140	(24,056,811)	8,531	20,701,337
Exploration and evaluation expenditures	1,116,071	100,000	-	-	-	-	100,000
Non-brokered private placements	21,882,000	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)
Warrants issued	-	-	18,198	-	-	-	18,198
Warrants expired	-	-	(914,185)	914,185	-	-	-
Share-based compensation	-	-	-	240,098	-	-	240,098
Net loss for year	-	-	-	-	(1,118,871)	-	(1,118,871)
Other comprehensive income for year	-	-	-	-	-	(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

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

TRUE NORTH GEMS INC.
Consolidated Statements of Loss and Comprehensive Loss

Expressed in Canadian dollars

	For the year ended December 31, 2012	2011
Operating expenses		
Audit and related services	$ 40,104	$ 43,634
Consulting fees	190,000	248,000
Corporate financial services fees	22,500	175,000
Corporate secretarial and accounting	134,204	109,185
Depreciation	6,722	13,810
Directors fees	54,000	54,000
Exploration and evaluation expenditures	5,780	50,214
Foreign exchange loss	4,852	24,865
General and administrative	109,343	99,361
Investor relations	136,300	253,515
Legal fees	23,218	3,043
Loss on disposal of property, plant and equipment	20,292	-
Reclamation (note 9)	860	463,482
Rent and occupancy costs	148,993	111,440
Salaries and employee benefits	1,327	38,165
Share-based compensation	136,352	53,513
Transfer agent and filing fees	24,917	45,115
Travel	84,632	87,940
Operating loss	(1,144,396)	(1,874,282)
Other income		
Gain on sale of available-for-sale-investments	18,670	-
Interest income	8,074	11,321
Loss before income tax expense	(1,117,652)	(1,862,961)
Income tax expense (note 11)	(1,219)	(1,063)
Net loss for year	(1,118,871)	(1,864,024)
Realized losses (gains) on available-for-sale investments	(8,531)	-
Unrealized gains (losses) on available-for-sale investments	-	(7,438)
Comprehensive loss for year	$ (1,127,402)	$ (1,871,462)
Loss per share - basic and fully diluted	$ (0.01)	$ (0.01)
Weighted average number of common shares - basic and fully diluted	198,858,966	180,066,097

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, 2012	2011
Operating activities		
Net loss for year	$ (1,118,871)	$ (1,864,024)
Adjustments for:		
Depreciation	6,722	13,810
Gain on sale of available-for-sale investments	(18,670)	-
Income tax expense	1,219	1,063
Loss on disposal of property, plant and equipment	20,292	-
Reclamation	860	463,482
Share-based compensation	136,352	53,513
	(972,096)	(1,332,156)
Changes in non-cash working capital items		
Restricted cash	(1,169)	221,812
Accounts receivable	27,555	(8,790)
Deposits and prepaid expenses	5,309	93,276
Accounts payable and accrued liabilites	352,820	84,550
Reclamation expenditures	(65,955)	(88,443)
Cash provided by (used in) operating activities	(653,536)	(1,029,751)
Investing activities		
Proceeds from sale of available-for-sale investments	29,420	-
Purchase of property, plant and equipment	(4,216)	(32,519)
Exploration and evaluation expenditures	(1,092,266)	(2,615,838)
Changes in working capital items relating to investing activities	15,272	43,496
Cash provided by (used in) investing activities	(1,051,790)	(2,604,861)
Financing activities		
Loan advances	13,000	-
Shares and warrants issued for cash	1,094,100	3,282,600
Warrants exercised	-	97,776
Capital raising costs	(75,280)	(263,594)
Cash provided by (used in) financing activities	1,031,820	3,116,782
Decrease in cash and cash equivalents	(673,506)	(517,830)
Cash and cash equivalents - beginning of year	677,663	1,195,493
Cash and cash equivalents - end of year	**$ 4,157**	**$ 677,663**

Supplemental disclosure of non-cash investing and financing activities (note 12)

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 is in the process of exploring its mineral properties and has not yet determined whether its mineral properties contain reserves that are economically recoverable. The amounts shown as mineral properties represent acquisition and exploration expenditures and do not necessarily represent present or future values. Recoverability of the amounts shown for mineral properties 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, 2012, the Company had incurred a net loss totalling $1,118,871. The accumulated deficit at December 31, 2012 is $25,175,682.

Based on the Company’s financial position at December 31, 2012, available funds are not considered adequate to meet requirements for fiscal 2013 based on budgeted expenditures for operations and project exploration and investigation. To meet working capital requirements, the Company will have to access financial resources through equity placements and subsequent to year end, the first tranche of a non brokered private placement, raising $500,000 (note 17). There can be no assurances that the other two tranches of the non brokered private placement will close as planned or that such funds will be available and/or on terms acceptable by the Company. 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, 2012 and the financial statements were approved by the Board of Directors on April 24, 2013.

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 wholly owned subsidiary, True North Gems Greenland A/S. All inter-entity balances and transactions have been eliminated.

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 readily convertible into cash and are subject to insignificant changes in value.

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 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.

Expressed in Canadian dollars

3. Accounting policies - continued

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.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, 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.

The amount shown for mineral property interests does not necessarily represent present or future values. The recoverability of mineral property interests is dependent upon the determination of economically recoverable ore reserves, securing and maintaining title and beneficial interest in the properties, and the ability of the Company to obtain the necessary financing to complete the exploration and development of its mineral property interests and on future profitable production or proceeds from the disposition of mineral property interests.

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 tested at each reporting date for impairment if facts and circumstances indicate that the carrying amount may exceed its recoverable amount.

Expressed in Canadian dollars

3. Accounting policies - continued

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 may not be recoverable. When impairment indicators are evident, a formal estimate of recoverable amount is performed and an impairment loss is recognized to the extent that the carrying amount exceeds the recoverable amount. 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. The Company believes it has conducted its exploration and evaluation activities in compliance with applicable environmental laws and regulations.

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.

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.

Expressed in Canadian dollars

3. Accounting policies - continued

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.

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:

Expressed in Canadian dollars

3. Accounting policies - continued

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 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. Investments have been designated as available-for sale and are carried at fair value with changes in fair value recognized directly in equity. 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 equity and recognized in the statement of loss.

All financial assets are subject to review for impairment at each reporting date. Financial assets are impaired when 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 accrued liabilities, 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.

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.

Expressed in Canadian dollars

3. Accounting policies - continued

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

IFRS 9 – Financial instruments - classification and measurement
IASB intends to replace IAS 39 - *Financial Instruments: Recognition and Measurement* ("IAS 39") in its entirety with IFRS 9 - *Financial Instruments* ("IFRS 9") in three main phases. IFRS 9 will be the new standard for the financial reporting of financial instruments, and is effective for annual periods beginning on or after January 1, 2015, with earlier adoption permitted. In November 2009 and October 2010, IFRS 9 (2009) and IFRS 9 (2010) were issued, respectively, which address the classification and measurement of financial assets and financial liabilities. IFRS 9 (2009) requires that all financial assets be classified as subsequently measured at amortized cost or at fair value based on the Company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. IFRS 9 (2010) requires that financial liabilities are classified as subsequently measured at amortized cost except for financial liabilities classified as fair value through profit or loss, financial guarantees and certain other exceptions. IFRS 9 (2009) and IFRS 9 (2010) are effective for annual periods beginning on or after January 1, 2015. Early adoption is permitted and the standard is required to be applied retrospectively. The Company is currently assessing the impact of adopting this standard on the consolidated financial statements.

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 implementation of this standard is not expected to have a material impact on 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 implementation of this standard is not expected to have a material impact on 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 implementation of this standard is not expected to have a material impact on the Company’s 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 implementation of this standard is not expected to have a material impact on the Company’s consolidated financial statements.

Amendments to other standards
In addition, there have been amendments to existing standards, including IAS 27, Separate Financial Statements (IAS 27) and IAS 28, Investments in Associates and Joint Ventures (IAS 28). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS referred to above. There is no impact on the consolidated financial statements.

Expressed in 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.

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 carrying values and assessment of impairment of exploration and evaluation assets is based on costs incurred and management's estimate of net recoverable value. Estimates may not necessarily reflect actual recoverable value as this will be dependent on the status of the exploration program, the nature of the mineral deposit, commodity prices, adequate funding and the ability of the Company to achieve commercial production. Management concluded there were no impairment indicators as at December 31, 2012.

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, 2012. 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 1.95% (2011 - 2.05%) per annum, as collateral for the credit limit extended by MasterCard.

6. Investments

	December 31, 2012			December 31, 2011
	Cost	**Accumulated unrealized holding gain**	**Carrying value**	**Carrying value**
1% Term deposit maturing July 9, 2013 (December 31, 2011 - 0.4%)	$ 27,479	$ -	$ 27,479	$ 27,135
50,000 Common shares - Great Western Minerals Ltd.	-	-	-	20,500
	$ 27,479	**$ -**	**$ 27,479**	**$ 47,635**

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, 2010	$ 92,504	$ 6,061	$ 92,069	$ 1,169,705	$ 1,360,339
Additions	9,031	-	-	23,488	32,519
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
Accumulated depreciation					
Balance - December 31, 2010	$ 41,233	$ 4,097	$ 66,704	$ 386,763	$ 498,797
Depreciation	35,592	393	5,073	117,764	158,822
Balance - December 31, 2011	76,825	4,490	71,777	504,527	657,619
Depreciation	7,314	314	671	121,514	129,814
Disposals	-	-	(71,777)	-	(71,777)
Balance - December 31, 2012	$ 84,139	$ 4,804	$ 671	$ 626,041	$ 715,656
Carrying amount - December 31, 2011	**$ 24,710**	**$ 1,571**	**$ 20,292**	**$ 688,666**	**$ 735,239**
Carrying amount - December 31, 2012	**$ 17,784**	**$ 1,257**	**$ 3,157**	**$ 567,152**	**$ 589,350**

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.

Expressed in Canadian dollars

8. Exploration and evaluation assets – continued

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. 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.

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, 2013, the Company's exploration obligation with respect to Licence 2008/46 is in the process of being negotiated with the BMP. As at December 31, 2012, the Company has surplus exploration expenditures on Licence 2008/46 amounting to DKK 27,506,753 (CAD $4,835,687) 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, 2013, the Company's exploration obligation with respect to Licence 2008/01 is DKK 2,855.680 (CAD$502,029). As at December 31, 2012, the Company has surplus exploration expenditures on Licence 2008/01 of DKK 1,571,009 (CAD$276,183) 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 April 2, 2013 and $50,000 worth of shares were issued from treasury on December 31, 2012 (595,238 shares) to discharge the 2012 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. 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 consisted of 81 contiguous, unpatented claims registered with the Watson Lake Mining Recorder when optioned to Endurance Gold Corporation (see below). Since then two phases of staking have increased the property to 253 claims.

Expressed in Canadian dollars

8. Exploration and evaluation assets – continued

Pursuant to the terms of the Option Agreement (the “Agreement”) Endurance Gold Corporation (“Endurance”) was granted the right to acquire up to a 75% interest in the Company’s 100% owned Bandito Property, Yukon (note 17(b)) .

Under the terms of the Agreement, Endurance can earn a 51% interest as follows:

- On receipt of regulatory approval an initial cash payment of $25,000 (September 10, 2010) and additional cash payments of $100,000 by December 31, 2012 ($50,000 paid January 16, 2012 and $50,000 paid January 18, 2013); and,
- Incur $1,000,000 in exploration expenditure on or before December 31, 2013.

Once Endurance earns a 51% working interest in the property, it may earn an additional 24% interest by issuing 200,000 shares and incurring an additional $1,000,000 in exploration expenditures by December 31, 2015. Regulatory approval of the Agreement was obtained on September 7, 2010.

b) Straw Property (note 17(a))

The property comprises 43 claims located in the Finlayson District, Yukon Territory.

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.

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**

Expressed in Canadian dollars

8. Exploration and evaluation assets – continued

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 9)	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**

The following table summarizes the Company's investment in mineral properties as at December 31, 2011:

Areas of Interest	**Greenland Property**	**Baffin Island Property**	**Other Yukon Properties**	**Total**
Acquisiton	$ 761,157	$ 212,346	$ 49,101	$ 1,022,604
Exploration expenditure	18,414,551	692,003	311,928	19,418,482
Carrying value	**$ 19,175,708**	**$ 904,349**	**$ 361,029**	**$ 20,441,086**

Expressed in Canadian dollars

8. Exploration and evaluation assets – continued

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, 2010	$ 16,376,980	$ 909,838	$ 346,693	$ 17,633,511
Total acquisition costs for year	192,961	-	-	192,961
Exploration expenditure				
Advances	1,365	-	-	1,365
Aviation	52,767	-	5,017	57,784
Camp construction and operation	85,852	-	195	86,047
Equipment rental & maintenance	19,530	-	-	19,530
Gemstone processing	450,094	-	-	450,094
Other	102,631	-	7,523	110,154
Permitting	593,520	-	-	593,520
Plant and equipment - depreciation	117,975	-	-	117,975
Reclamation (note 9)	3,695	-	-	3,695
Share-based compensation	20,067	-	-	20,067
Technical services	913,730	-	900	914,630
Travel	163,531	-	701	164,232
Total exploration for year	2,524,757	-	14,336	2,539,092
Total expenditures before the following	19,094,698	909,838	361,028	20,365,565
Gemstone test marketing study	81,010	(5,489)	-	75,521
Balance - December 31, 2011	**$ 19,175,708**	**$ 904,349**	**$ 361,029**	**$ 20,441,086**

Expressed in Canadian dollars

9. Provision for reclamation

The Company has an obligation under various agreements to reclaim and restore the lands disturbed by its exploration activities.

		2012		2011
Current	$	400,000	$	250,000
Non-current		573,205		763,695
	$	**973,205**	$	**1,013,695**

Changes to the provision are as follows:

	Greenland Property	Baffin Island Property	Tsa da Glizsa	Total
Balance - December 31, 2010	$ 157,500	$ 25,000	$ 452,161	$ 634,661
Revision in estimates	3,695	2,200	461,282	467,177
Expenditures	-	-	(88,443)	(88,443)
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

The revison 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.

10. Equity

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

b) Private placements

i. The Company completed a non-brokered private placement of 33,826,000 units at a price of $0.10 per unit in two tranches that closed on April 26 and April 29, 2011 respectively. The gross proceeds of the unit placement totalled $3,382,600. 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 at a price of $0.15 per share in year one and $0.20 per share in year two. Finder's fees of $245,030 were paid and 2,490,300 finder's warrants were issued, convertible into one common share at a price of $0.12 for a two year period.

Expressed in Canadian dollars

10. Equity - continued

ii. The Company completed a non-brokered private placement of 21,882,00 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.

c) Reserves

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

Warrants

	December 31, 2012		**December 31, 2011**	
	Number of warrants	**Amount**	**Number of warrants**	**Amount**
Opening balance	42,671,158	$ 1,481,670	58,058,356	$ 1,848,807
Warrants issued	12,251,600	46,243	19,403,300	567,485
Warrants exercised	-	-	(977,758)	(52,288)
Warrants expired	(23,267,858)	(914,185)	(33,812,740)	(882,334)
Closing balance	**31,654,900**	**$ 613,728**	**42,671,158**	**$ 1,481,670**

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). 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
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

10. Equity - continued

The fair value of the 19,403,300 warrants issued in connection with the unit private placement completed during the year ended December 31, 2011 totalled $625,754 before warrant issue costs amounting to $58,269 (net $567,485).

Warrant term	Volatility	Dividend yield	Risk-free interest rate	Warrants Issued	Fair value	Warrant issue costs	Net
2 years	87.67%	0%	1.74%	13,838,000	$ 401,480	$ 47,675	$ 353,805
2 years	87.67%	0%	1.74%	2,275,300	129,409	-	129,409
2 years	87.67%	0%	1.70%	3,075,000	84,212	10,594	73,618
2 years	87.67%	0%	1.70%	215,000	10,653	-	10,653
				19,403,300	$ 625,754	$ 58,269	$ 567,485

At December 31, 2012, the following share purchase warrants are outstanding:

Number of warrants outstanding	Exercise price	Expiry date
13,838,000	$0.20	26-Apr-2013
2,275,300	$0.12	26-Apr-2013
3,075,000	$0.20	29-Apr-2013
215,000	$0.12	29-Apr-2013
7,254,000	$0.12	09-Aug-2013
1,014,400	$0.05	09-Aug-2013
3,687,000	$0.12	02-Nov-2013
296,200	$0.05	02-Nov-2013
31,654,900		

Expressed in Canadian dollars

10. Equity - continued

Stock options

On June 28, 2012, 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, 2012, 2,720,224 options are available for future grant under the Plan.

Stock option transactions for the years ended December 31, 2012 and 2011 and the number of stock options outstanding and exercisable are summarized for the respective financial year ends as follows:

	December 31, 2012		**December 31, 2011**	
	Number of options	**Weighted Average Exercise Price of Options Exercisable**	**Number of options**	**Weighted Average Exercise Price of Options Exercisable**
Opening balance	15,505,000	$0.19	15,205,000	$0.20
Options granted	4,050,000	$0.10	1,100,000	$0.15
Options expired	(830,000)	$0.56	(350,000)	$0.42
Options forfeited	-	-	(450,000)	$0.25
Closing balance	18,725,000	$0.15	15,505,000	$0.19

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

The fair value of the 1,100,000 options granted during the year ended December 31, 2011 resulted in a compensation expense of $73,580 ($53,513 was charged to operations and $20,067 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	83.7%	0%	1.45%	1,100,000	$	73,580

Expressed in Canadian dollars

10. Equity - continued

At December 31, 2012, 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
4,050,000	$0.10	$0.10	4.98 years
13,650,000	$0.15	$0.15	2.44 years
1,025,000	$0.38	$0.38	0.25 years
18,725,000			

11. 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:

	2012	2011
Statutory rates	25.1%	26.5%
Income tax recovery computed at statutory rates	$ 280,283	$ 493,448
Other permanent differences	(114,952)	(119,996)
Permanent differences on share-based compensation	(34,157)	(19,489)
Deferred tax benefits not recognized	(132,393)	(355,026)
Income tax expense	**$ (1,219)**	**$ (1,063)**

At December 31, 2012 and 2011, the deferred tax assets are not recognized on the following temporary differences as it is not likely that sufficient profitable future taxable profits will be available to utilize such differences:

	2012	2011
Deferred tax assets		
Financing costs	$ 93,759	$ 128,183
Non-capital loss carry forwards	2,990,017	2,736,938
Other	368,492	326,213
Total gross deferred income tax assets	3,452,268	3,191,334
Deferred tax assets not recognized	(3,360,039)	(3,123,526)
	92,229	67,808
Deferred tax liabilities		
Exploration and evaluation expenditures	(92,229)	(67,808)
	$ -	**$ -**

Expressed in Canadian dollars

11. Income taxes - continued

At December 31, 2012, the Company has non-capital losses of approximately $11,960,059, 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
	$	11,960,059

12. Supplementary disclosure of non-cash investing and financing activities

		2012		2011
Provision for reclamation – Greenland	$	24,905	$	3,695
Shares issued for acquisition of mineral properties	$	100,000	$	50,000
Stock options granted to project management	$	103,746	$	20,067
Warrants issued to agents	$	18,198	$	140,062

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.

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 remains outstanding at December 31, 2012.

Details of key management personnel compensation are as follows:

		2012		2011
Services provided:				
Consulting fees	$	423,653	$	476,665
Directors fees		54,000		54,000
Share-based compensation		192,671		33,445
Key management personnel compensation	$	670,324	$	564,110

Expressed in Canadian dollars

13. Related party transactions

		2012		2011
Balances payable to key management personnel for compensation	$	227,808	$	54,713

Balances payable are included in accounts payable and accrued liabilities.

14. Segmented information

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

	December 31, 2012			December 31, 2011		
	Canada	Greenland	Total	Canada	Greenland	Total
Property, plant and equipment	$ 13,097	$ 576,253	$ 589,350	$ 38,556	$ 696,683	$ 735,239
Exploration and evaluation expenditures	1,226,407	20,658,686	21,885,093	1,265,378	19,175,708	20,441,086
Total	$ 1,239,504	$ 21,234,939	$ 22,474,443	$ 1,303,934	$ 19,872,391	$ 21,176,325

15. Management of capital risk

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties 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.

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

16. Financial instruments

a) Fair values
The carrying value of the Company's accounts receivable approximate their fair value at December 31, 2012 and 2011 due to their short term nature. The fair value of accounts payable, accrued liabilities and loans payable may be less than the carrying value as a result of the Company's credit and liquidity risk.

b) Management of financial risk
The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk, 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.

At December 31, 2012, the Company is exposed to currency risk through the following assets and liabilities denominated in US dollars and Danish krones:

	2012		**2011**	
	USD	**DKK**	**USD**	**DKK**
Cash	119	42,503	6,780	17,671
Accounts payable and accrued liabilities	(632)	(595,226)	-	(568,516)
Net asset (liability) position	(513)	(552,723)	6,780	(550,845)

Based on the above net exposure as at December 31, 2012 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 $9,768 (2011 - $9,088) 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.

Expressed in Canadian dollars

16. Financial instruments - continued

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.

17. Subsequent events

From January 1, 2013 to April 24, 2013:

a) 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 and an additional cash payment of $10,000 and issue of 150,000 shares on or before January 31, 2014.

b) 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. Shares are being released in three tranches, one million are 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.

c) A financial agreement was entered into with Greenland Venture A/S ("Greenland Venture") whereby Greenland Venture will invest DKK 4,500,000 (approximately CAD $803,700) in the Company's wholly owned subsidiary, True North Gems Greenland A/S ("TNGG"). The investment consists of a DKK 500,000 (approximately CAD $89,300) equity component and DKK 4,000,000 loan (approximately CAD $714,400) bearing interest at the rate of 10% per annum. The loan term is five years with repayment guaranteed by TNGG's parent company, True North Gems Inc. To date, the equity component has been funded and DKK 3,100,000 (approximately CAD $553,660) has been drawn on loan facility.

d) The Company entered into a best efforts agency agreement ("Agency Agreement") with Casimir Capital LP ("Casimir") for a non brokered private placement of up to 175,000,000 common shares at a price of $0.09 per share for aggregate gross proceeds of up to $15,750,000. The financing will be completed in three tranches. The initial tranche has been completed; whereby the Company raised $500,000 through the sale of 5,555,555 common shares. A cash commission of $25,000 was paid and 166,667 broker warrants issued, convertible into one common share at a price of $0.09 for a three year period. The second tranche will consist of the issue of 47,701,948 common shares for gross proceeds of $4,293,175 and is scheduled to close on or before May 5, 2013. The third tranche will comprise the issue of 121,742,496 common shares for gross proceeds of $10,956,825 subject to shareholders and requisite regulatory approvals. It is anticipated that the final tranche will close on or before July 15, 2013 and in any event no later than August 1, 2013.