Consolidated Financial Statements of

TRUE NORTH GEMS INC.

As at and for the years ended December 31, 2011 and 2010

Expressed in Canadian dollars

April 18, 2012

Independent Auditor's Report

To the Shareholders of True North Gems Inc.

We have audited the accompanying consolidated financial statements of True North Gems Inc., which comprise the consolidated statements of financial position as at December 31, 2011 and December 31, 2010 and January 1, 2010 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, 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 auditing standards. Those standards require that we comply with ethical requirements and plan and perform our audits 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 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. as at December 31, 2011, December 31, 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

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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

TRUE NORTH GEMS INC.
Consolidated Statements of Financial Position

Expressed in Canadian dollars

	December 31, 2011	December 31, 2010	January 1, 2010
		(note 18)	(note 18)
Current assets			
Cash and cash equivalents	$ 677,663	$ 1,195,493	$ 244,029
Restricted cash (note 5)	58,188	280,000	-
Investments (note 6)	47,635	56,177	27,602
Accounts receivable	56,567	47,777	41,176
Deposits and prepaid expenses	22,037	115,313	12,690
	862,090	1,694,760	325,497
Non-current assets			
Property, plant and equipment (note 7)	735,239	834,505	1,143,864
Exploration and evaluation assets (note 8)	20,441,086	17,633,511	18,830,460
	21,176,325	18,468,016	19,974,324
Total assets	**$ 22,038,415**	**$ 20,162,776**	**$ 20,299,821**
Current liabilities			
Accounts payable and accrued liabilites	$ 323,683	$ 195,678	$ 654,979
Current portion of provision for reclamation (note 9)	250,000	-	-
Loans payable	-	-	110,000
	573,683	195,678	764,979
Non-current liabilities			
Provision for reclamation costs (note 9)	763,395	634,661	505,055
Share subscriptions received	-	100,000	-
	763,395	734,661	505,055
Total liabilities	1,337,078	930,339	1,270,034
Shareholders' equity			
Capital stock (notes 10(a) & (b))	38,237,807	35,486,222	33,307,080
Reserves (note 10(c))	6,511,810	5,923,033	4,321,210
Deficit	(24,056,811)	(22,192,787)	(18,598,503)
Accumulated other comprehensive income	8,531	15,969	-
	20,701,337	19,232,437	19,029,787
Total liabilities and shareholders' equity	**$ 22,038,415**	**$ 20,162,776**	**$ 20,299,821**

Nature of operations and going concern (note 1)
Subsequent events (note 19)

Approved on behalf of the Board:

(signed) David S. Parsons Director (signed) William Anderson Director

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

TRUE NORTH GEMS INC.
Consolidated Statement 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 - January 1, 2010	113,966,133	$ 33,307,080	$ 1,229,757	$ 3,091,453	$ (18,598,503)	$ -	$ 19,029,787
Exploration and evaluation expenditures	571,429	50,000	-	-	-	-	50,000
Non-brokered private placements	41,251,975	3,300,158	-	-	-	-	3,300,158
Reallocation of the fair value of warrants issued	-	(813,086)	-	-	-	-	(813,086)
Capital raising costs	-	(442,121)	-	-	-	-	(442,121)
Warrants issued	-	-	945,868	-	-	-	945,868
Warrants exercised	537,250	53,725	-	-	-	-	53,725
Reallocation of the fair value of warrants on conversion	-	30,466	(30,466)	-	-	-	-
Warrants expired	-	-	(296,352)	296,352	-	-	-
Share-based compensation	-	-	-	686,421	-	-	686,421
Net loss for year	-	-	-	-	(3,594,284)	-	(3,594,284)
Other comprehensive income for year	-	-	-	-	-	15,969	15,969
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**

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 years ended December 31, 2011	2010
Operating expenses		
Audit and related services	$ 43,634	$ 32,028
Consulting fees	248,000	235,396
Corporate financial services fees	175,000	30,000
Corporate secretarial and accounting	109,185	75,150
Depreciation	13,810	16,127
Directors fees	54,000	53,109
Exploration and evaluation expenditures	50,214	1,265
Farm out receipts	-	(102,830)
Foreign exchange loss (gain)	24,865	(9,083)
General and administrative	99,361	105,988
Investor relations	253,515	95,464
Legal fees	3,043	6,233
Loss on sale of property, plant and equipment	-	54,837
Reclamation (note 9)	463,482	27,107
Rent and occupancy costs	111,440	60,783
Salaries and employee benefits	38,165	70,091
Share-based compensation	53,513	418,952
Transfer agent and filing fees	45,115	25,395
Travel	87,940	25,696
Write off of exploration and evaluation expenditures	-	2,351,012
Write off of property, plant and equipment	-	30,578
Operating loss	(1,874,282)	(3,603,297)
Other income (expense)		
Gain on sale of available-for-sale-investments	-	14,794
Interest income (expense)	11,321	(275)
Interest on loans	-	(7,787)
Loss before income taxes	(1,862,961)	(3,596,566)
Deferred income tax recovery (expense)(note 12)	(1,063)	2,282
Net loss for year	(1,864,024)	(3,594,284)
Unrealized gains (losses) on available-for-sale investments	(7,438)	15,969
Comprehensive loss for year	$ (1,871,462)	$ (3,578,315)
Loss per share - basic and fully diluted	$ (0.01)	$ (0.03)
Weighted average number of common shares - basic and fully diluted	180,066,097	123,508,005

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 years ended December 31, 2011	2010
Operating activities		
Net loss for year	$ (1,864,024)	$ (3,501,811)
Adjustments for:		
Deferred income tax expense (recovery)	1,063	(2,282)
Depreciation	13,810	16,127
Gain on sale of available-for-sale investments	-	(14,794)
Loss on sale of property, plant and equipment	-	(54,837)
Reclamation (note 9)	463,482	27,106
Share-based compensation	53,513	418,952
Shares received as option payment	-	(64,500)
Write off of exploration and evaluation expenditures	-	2,429,368
Write off of property, plant and equipment	-	(30,578)
Changes in non-cash working capital items	(1,332,156)	(777,248)
Restricted cash	221,812	(280,000)
Accounts receivable	(8,790)	(6,601)
Deposits and prepaid expenses	93,276	(102,623)
Accounts payable and accrued liabilites	84,550	(215,963)
Reclamation expenditures (note 9)	(88,443)	-
Cash provided by (used in) operating activities	(1,029,751)	(1,382,435)
Investing activities		
Proceeds from sale of investments	-	68,544
Proceeds from sale of property, plant and equipment	-	69,759
Purchase of property, plant and equipment	(32,519)	(3,057)
Exploration and evaluation expenditures	(2,615,838)	(592,978)
Changes in working capital items relating to investing activities	43,496	(241,182)
Cash provided by (used in) investing activities	(2,604,861)	(698,914)
Financing activities		
Repayment of loans	-	(110,000)
Share subscriptions received	-	100,000
Shares and warrants issued for cash	3,282,600	3,353,883
Warrants exercised	97,776	-
Capital raising costs	(263,594)	(309,339)
Changes in working capital items relating to financing activities	-	(1,731)
Cash provided by (used in)financing activities	3,116,782	3,032,813
Increase (decrease) in cash and cash equivalents	(517,830)	951,464
Cash and cash equivalents - beginning of year	1,195,493	244,029
Cash and cash equivalents - end of year	**$ 677,663**	**$ 1,195,493**

Supplemental disclosure of non-cash investing and financing activities (note 13)

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, 2011, the Company had incurred a net loss totalling $1,864,024. The accumulated deficit at December 31, 2011 is $24,056,811.

Based on the financial position at December 31, 2011, available funds are not considered adequate to meet requirements for fiscal 2012 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. There can be no assurances 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 and conversion to International Financial Reporting Standards

In prior financial years, the Company prepared its financial statements in accordance with Canadian generally accepted accounting principles, as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS") and required publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these consolidated financial statements. In these financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

Expressed in Canadian dollars

2. Statement of compliance and conversion to International Financial Reporting Standards - continued

These consolidated financial statements have been prepared in accordance with IFRS, as issued by the IASB, including certain optional transitions and mandatory exemptions from retrospective application of IFRS as described in IFRS 1. The Company has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010 the ("Transition Date") and throughout all periods presented, as if these policies had always been in effect. Note 18 discloses the impact of the transition to IFRS on the Company's reported financial results, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended December 31, 2010.

The accounting policies applied in these consolidated financial statements are based on IFRS effective for the year ended December 31, 2011.

These consolidated financial statements have been authorized for release by the Company's Board of Directors on April 18, 2012.

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 is Canadian dollars, 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 A/S (formerly Kitaa Ruby A/S), All inter-entity balances and transactions have been eliminated.

c) Foreign exchange

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 and cash equivalents include deposits at call and term deposits with an original maturity of 90 days or less.

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.

Expressed in Canadian dollars

3. Accounting policies - continued

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.

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 annually 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 are capitalized and deferred until the commercial viability of the asset is established, sold, abandoned or impaired. To the extent that the expenditures are spent to establish ore reserves within the rights to explore, the Company will consider those costs as intangible assets in nature. Those costs are amortized on a units-of-production basis following commencement of commercial production based on proven and probable reserves. 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.

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.

Mineral properties are tested annually 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

At each balance sheet date, or 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 fair 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.

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 balance sheet 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 balance sheet date.

Expressed in Canadian dollars

3. Accounting policies - continued

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.

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 warrant issued.

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

Loans and receivables – These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. 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 one of the above categories are classified as available-for-sale. They 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.

Expressed in Canadian dollars

3. Accounting policies - continued

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.

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. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

r) Adoption of new and revised standards and interpretations

The IASB has issued the following statements, which have not yet been adopted by Company. Unless otherwise stated, each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet assessed the impact that the new and amended standards will have on its consolidated financial statements or whether to early adopt any of the new requirements.

Expressed in Canadian dollars

3. Accounting policies - continued

The following is a brief summary of the new standards.

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.

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.

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.

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.

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. Management anticipates that this standard will be adopted in the Company's consolidated financial statements for the period beginning January 1, 2013 and has not yet considered the potential impact of the adoption of IFRS 13.

Expressed in Canadian dollars

3. Accounting policies - continued

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.

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 evaluation of impairment of exploration and evaluation assets as an area where significant judgments, estimates and assumptions are made.

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.

5. Cash – restricted

On June 1, 2011, funds of $57,500 were invested in a variable rate GIC for a term of one year bearing interest at the rate of 2.05% per annum, as collateral for the credit limit extended by MasterCard.

As at December 31, 2010, the Company had placed $280,000 on deposit with the Bank of Greenland to be held in escrow for the due performance of its obligations for processing of the Greenland 2008 bulk sample, as required by the Bureau of Minerals and Petroleum ("BMP"). During the year ended December 31, 2011, disbursements were made to SGS Mineral Services, Lakefield ("SGS") directly from this account for services rendered by SGS as part of the processing of the bulk sample upon receipt of the BMP's written instruction stating that the Company had fulfilled its obligations.

Expressed in Canadian dollars

6. Investments

	December 31, 2011			December 31, 2010	January 1, 2010
	Cost	Accumulated unrealized holding gain	Carrying value	Carrying value	Carrying value
0.4% Term deposit maturing annually on March 28 (December 31, 2010 - 0.4%; January 1, 2010- 0.2%)	$ 27,135	$ -	$ 27,135	$ 27,177	$ 27,602
50,000 Common shares - Great Western Minerals Ltd. (note 8)	10,750	9,750	20,500	29,000	-
	$ 37,885	**$ 9,750**	**$ 47,635**	**$ 56,177**	**$ 27,602**

7. Property, plant and equipment

	Computer equipment	Computer software	Equipment	Laboratory and gem processing equipment	Office furniture and fixtures	Total
Cost						
Balance - January 1, 2010	$ 54,072	$ 35,374	$ 1,396,240	$ 6,061	$ 92,069	$ 1,583,816
Acquisitions	3,058	-	-	-	-	3,058
Disposals	-	-	(226,535)	-	-	(223,477)
Balance - December 31, 2010	57,130	35,374	1,169,705	6,061	92,069	1,360,339
Acquisitions	6,498	2,533	23,488	-	-	32,519
Balance - December 31, 2011	$ 63,628	$ 37,907	$ 1,193,193	$ 6,061	$ 92,069	$ 1,392,858
Accumulated depreciation						
Balance - January 1, 2010	$ 35,512	$ 23,464	$ 317,007	$ 3,606	$ 60,362	$ 439,951
Depreciation	5,721	3,573	141,116	491	6,342	157,243
Disposals	-	-	(71,360)	-	-	(71,360)
Balance - December 31, 2010	41,233	27,037	386,763	4,097	66,704	525,834
Depreciation	5,788	2,767	117,764	393	5,073	131,785
Balance - December 31, 2011	$ 47,021	$ 29,804	$ 504,527	$ 4,490	$ 71,777	$ 657,619
Carrying amount - January 1, 2010	**$ 18,560**	**$ 11,910**	**$ 1,079,232**	**$ 2,455**	**$ 31,707**	**$ 1,143,864**
Carrying amount - December 31, 2010	**$ 15,897**	**$ 8,337**	**$ 782,942**	**$ 1,964**	**$ 25,365**	**$ 834,505**
Carrying amount - December 31, 2011	**$ 16,607**	**$ 8,103**	**$ 688,666**	**$ 1,571**	**$ 20,292**	**$ 735,239**

Expressed in Canadian dollars

8. Exploration and evaluation assets

Greenland Property
The property consists of two prospecting 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 Licence 2011/07. Both licences are subject to renewal on December 31, 2012. 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, 2012, the Company's exploration obligation with respect to Licence 2008/46 is DKK 2,231,900 (CAD $396,162). As at December 31, 2011, the Company has surplus exploration expenditures on Licence 2008/46 amounting to DKK 65,999,956 (CAD $11,714,992) that may be carried forward and credited against the calculated exploration commitment in future years. For the year ending December 31, 2012, the Company's exploration obligation with respect to Licence 2008/01 is DKK 2,782,460 (CAD$493,887). As at December 31, 2011, the Company has surplus exploration expenditures on Licence 2008/01 of DKK858,205 (CAD$152,331), 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 December 31, 2011 and $50,000 worth of shares were issued from treasury on January 9, 2012 (520,833 shares) to discharge the 2011 obligation (note 19). 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.

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) 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.

b) 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.

On August 30, 2010, the Company entered into a Letter Agreement (the "Agreement") with Endurance Gold Corporation ("Endurance") whereby Endurance was granted an option to acquire up to a 75% interest in the Company's 100% owned Bandito Property, Yukon subject to TSX Venture Exchange approval.

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; and,

Expressed in Canadian dollars

8. Exploration and evaluation assets – continued

- 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. The Agreement remains in good standing.

c) Batea Property
The property consists of 56 claims located 200 kilometres east of Whitehorse, Yukon.

d) True Blue Property
The property consists of 335 claims located 55 kilometres south of Ross River, Yukon.

On March 4, 2010, the Company entered into a Letter of Intent (“LOI”) with Great Western Minerals Group Ltd. (“GWMG”) whereby GWMG was granted an option to acquire up to a 65% working interest in the True Blue Property in exchange for a carried interest through to completion of a Bankable Feasibility Study. The Company received payment of $50,000 (April 7, 2010) and was issued 300,000 shares of GWMG on signing. The LOI was subject to a formal option and joint venture agreement being executed by the parties to the LOI on or before May 30, 2010 and requisite regulatory approval. The deadline for completion of the formal option and joint venture agreement was not met; hence, all rights that had been granted to GWMG pursuant to the terms of the LOI have been forfeited and all technical data provided to GWMG by True North has been returned.

Write off of exploration and evaluation expenditures

As at December 31, 2011 and 2010, management of the Company determined that impairment indicators existed and completed an impairment assessment for each of its mineral property interests. These assessments included a determination of fair value for each mineral property using various valuation techniques including commodity price changes and recent expenditures analysis.

As a result of management’s impairment assessment at December 31, 2011, no expenditures were written off. As a result of management’s impairment assessment at December 31, 2010, it was determined that the Baffin Island Property should be carried at its estimated recoverable amount of $909,838, resulting in expenditures amounting to $2,390,190 being written off.

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
Property, plant & equipment - depreciation	117,975	-	-	117,975
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
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**

The following table summarizes the Company's investment in mineral properties as at December 31, 2010:

Areas of Interest	**Greenland Property**	**Baffin Island Property**	**Other Yukon Properties**	**Total**
Acquisiton	$ 568,196	$ 212,346	$ 49,101	$ 829,643
Exploration expenditure	15,808,784	697,492	297,592	16,803,868
Carrying value	**$ 16,376,980**	**$ 909,838**	**$ 346,693**	**$ 17,633,511**

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 - January 1, 2010	$ 15,193,955	$ 3,248,284	$ 388,221	$ 18,830,460
Total acquisition costs for year	70,360	-	-	70,360
Exploration expenditure				
Advances	(4,942)	-	-	(4,942)
Aviation	25,203	-	-	25,203
Camp construction and operation	16,855	-	-	16,855
Equipment - depreciation	132,904	8,212	-	141,116
Equipment rental & maintenance	8,687	-	-	8,687
Other	149,087	(6,965)	(7,602)	134,520
Reclamation (note 9)	102,500	-	-	102,500
Share-based compensation	247,159	-	-	247,159
Technical services	336,990	11,159	2,745	350,894
Travel	23,702	160	-	23,862
Total exploration for year	1,038,145	12,566	(4,857)	1,045,854
Total expenditures before the following	16,302,460	3,260,850	383,364	19,946,674
Farmout receipts	-	-	(36,670)	(36,670)
Gemstone test marketing study	74,519	-	-	74,519
Write off of exploration and evaluation expenditures	-	(2,351,012)	-	(2,351,012)
Balance - December 31, 2010	**$ 16,376,979**	**$ 909,838**	**$ 346,694**	**$ 17,633,511**

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.

	2011	2010
Current	$ 250,000	$ -
Non-current	763,695	634,661
	$ 1,013,695	**$ 634,661**

Changes to the provision are as follows:

	Greenland Property	Baffin Island Property	Tsa da Glizsa	Total
Balance - January 1, 2010	$ 55,000	$ 25,000	$ 425,055	$ 505,055
Revision in estimates	102,500	-	27,106	129,606
Balance - December 31, 2010	157,500	25,000	452,161	634,661
Revision in estimates	3,695	2,500	461,282	467,477
Expenditures	-	-	(88,443)	(88,443)
Balance - December 31, 2011	**$ 161,195**	**$ 27,500**	**$ 825,000**	**$1,013,695**

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.

ii. The Company completed a non-brokered private placement of 41,251,975 units at a price of $0.08 per unit in two tranches that closed on October 1 and October 22, 2010 respectively. The gross proceeds of the unit placement totalled $3,300,158. 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 $0.10 per share in year one and $0.15 per share in year two. If the trading price of the common shares of the Company closes above $0.30 for a period of 10 consecutive days at any time after the four month hold period has lapsed, the Company will have the right to accelerate the expiry date of all unexercised warrants. Finder's fees of $271,620 were paid and 3,345,246 finder's warrants were issued, convertible into one common share at a price of $0.10 for a two year period. Directors and officers of the Company acquired 2,807,500 of the units issued.

Expressed in Canadian dollars

10. Equity - continued

c) Reserves

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

Warrants

	December 31, 2011			December 31, 2010		
	Number of warrants		Amount	Number of warrants		Amount
Opening balance	58,058,356	$	1,848,807	46,245,466	$	1,229,757
Warrants issued	19,403,300		567,485	23,971,233		945,868
Warrants exercised	(977,758)		(52,288)	(537,250)		(30,466)
Warrants expired	(33,812,740)		(882,334)	(11,621,093)		(296,352)
Closing balance	**42,671,158**	**$**	**1,481,670**	**58,058,356**	**$**	**1,848,807**

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). The fair value of the 23,971,233 warrants issued in connection with unit private placements completed during the financial year ended December 31, 2010 totalled $1,056,941 before warrant issue costs amounting to $111,073 (net $945,868).

The warrants were valued using the Black-Scholes valuation model, using the following assumptions:

Year ended December 31, 2011

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

Year ended December 31, 2010

Warrant term	Volatility	Dividend yield	Risk-free interest rate	Warrants Issued		Fair value		Warrant issue costs		Net
2 years	105%	0%	1.37%	8,588,300	$	303,699	$	46,249	$	257,450
2 years	105%	0%	1.37%	1,221,371		57,577		-		57,577
2 years	106%	0%	1.39%	12,037,687		509,387		64,824		444,563
2 years	106%	0%	1.39%	2,123,875		186,278		-		186,278
				23,971,233	$	1,056,941	$	111,073	$	945,868

Expressed in Canadian dollars

10. Equity - continued

At December 31, 2011, the following share purchase warrants are outstanding:

Number of warrants outstanding	Exercise price	Expiry date
8,588,300	$0.15	01-Oct-2012
1,221,371	$0.10	01-Oct-2012
11,446,687	$0.15	22-Oct -2012
2,011,500	$0.10	22-Oct-2012
13,838,000	$015/$0.20	26-Apr-2012/2013
2,275,300	$0.12	26-Apr-2013
3,075,000	$0.15/$0.20	29-Apr-2012/2013
215,000	$0.12	29-Apr-2013
42,671,158		

Stock options

Stock option transactions for the years ended December 31, 2011 and 2010 and the number of stock options outstanding and exercisable are summarized for the respective financial year ends as follows:

	December 31, 2011		December 31, 2010	
	Number of options	Weighted Average Exercise Price of Options Exercisable	Number of options	Weighted Average Exercise Price of Options Exercisable
Opening balance	15,205,000	$0.20	8,675,000	$0.25
Options granted	1,100,000	$0.15	7,200,000	$0.15
Options expired	(350,000)	$0.42	(670,000)	$0.40
Options forfeited	(450,000)	$0.25	-	-
Closing balance	15,505,000	$0.19	15,205,000	$0.20

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

The fair value of the 7,200,000 options granted during the fiscal year ended December 31, 2010 resulted in a compensation expense of $686,421 ($418,952 was charged to operations and $267,469 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	82.98%	0%	2.52%	900,000	$	46,648
5 years	84.80%	0%	2.39%	6,300,000		639,773
				7,200,000	$	686,421

At December 31, 2011, 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
13,650,000	$0.15	$0.15	3.44
1,025,000	$0.38	$0.38	1.26
830,000	$0.56	$0.56	0.79
15,505,000			

11. Commitment

The Company is party to an operating lease for premises expiring on September 30, 2013 (note 19). The future minimum lease payments in each of the next two years and in aggregate are as follows:

2012	$	115,344
2013		86,508
	$	201,852

12. 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:

		2011		2010
Statutory rates		26.5%		28.1%
Income tax recovery computed at statutory rates	$	493,448	$	1,010,751
Other permanent differences		(119,996)		(43,409)
Permanent differences on share-based compensation		(19,489)		(192,907)
Deferred tax benefits not recognized		(355,026)		(772,153)
Deferred income taxes recovery (expense)	**$**	**(1,063)**	**$**	**2,282**

Expressed in Canadian dollars

12. Income taxes - continued

The tax effects of temporary timing differences that give rise to significant components of the future tax assets and future tax liabilities are as follows:

		2011		2010
Deferred tax assets				
Financing costs	$	128,183	$	148,564
Non-capital loss carry forwards		2,736,938		2,432,672
Other		326,213		294,267
Total gross deferred income tax assets		3,191,334		2,875,503
Deferred tax asset not recognized		(3,123,526)		(2,587,893)
		67,808		287,610
Deferred tax liabilities				
Exploration and evaluation expenditures		(67,808)		(287,610)
Net future income tax	**$**	-	**$**	-

At December 31, 2011, the Company has non-capital losses of approximately $10,947,753, 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
	$	10,947,753

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

		2011		2010
Provision for reclamation – Greenland	$	3,695	$	102,500
Shares issued for acquisition of mineral properties	$	50,000	$	50,000
Stock options granted to project management	$	20,067	$	267,469
Warrants issued to agents	$	140,062	$	243,855

Expressed in Canadian dollars

14. 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, 2010, loans from key management personnel totalling $110,000 plus accrued interest thereon of $15,737 were repaid.

Details of key management personnel compensation are as follows:

		2011		**2010**
Services provided:				
Consulting fees	$	476,665	$	399,900
Directors fees		54,000		53,109
Share-based compensation		33,445		347,866
Key management personnel compensation	$	564,110	$	800,875
Balances receivable from key management personnel	$	-	$	101
Balances payable to key management personnel	$	54,713	$	13,961

15. 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, 2011			December 31, 2010		
	Canada	Greenland	Total	Canada	Greenland	Total
Property, plant and equipment	$ 38,556	$ 696,683	$ 735,239	$ 51,562	$ 782,943	$ 834,505
Exploration and evaluation expenditures	1,265,379	19,175,708	20,441,086	1,256,531	16,376,980	17,633,511
Total	$ 1,303,935	$ 19,872,391	$ 21,176,325	$ 1,308,093	$ 17,159,922	$ 18,468,015

16. 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.

Expressed in Canadian dollars

16. Management of capital risk - continued

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.

17. Financial instruments

a) Fair values
The carrying value of the Company's advances and accounts receivable, accounts payable, accrued charges and loans payable approximate their fair value at December 31, 2011 and 2010 due to their short term nature.

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, 2011, the Company is exposed to currency risk through the following assets and liabilities denominated in US dollars and Danish krones:

	2011		**2010**	
	USD	**DKK**	**USD**	**DKK**
Cash	6,780	17,671	55	35,001
Accounts payable and accrued liabilities	-	(568,516)	(1,713)	(251,963)
Net asset (liability) position	6,780	(550,845)	(1,658)	(216,962)

Based on the above net exposure as at December 31, 2011 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 $9,088 (2010 - $4,042) in the Company's net loss.

Expressed in Canadian dollars

17. 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 14.

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

18. Explanations of transitions to IFRS

The accounting policies in note 3 have been applied in preparing the consolidated financial statements as at and for the years ended December 31, 2011 and 2010.

In preparing its opening IFRS consolidated statement of financial position and comparative information for financial statements for the year ended December 31, 2010, the Company has adjusted amounts reported previously in the consolidated financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from previous Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables.

Expressed in Canadian dollars

18. Explanations of transitions to IFRS – continued

Reconciliation of Assets, Liabilities and Equity

	note	As at January 1, 2010 GAAP	Effect of transition to IFRS	IFRS	As at December 31, 2010 GAAP	Effect of transition to IFRS	IFRS
ASSETS							
Current							
Cash		$ 244,029		$ 244,029	$ 1,195,493		$ 1,195,493
Restricted cash		-		-	280,000		280,000
Investments		27,602		27,602	56,177		56,177
Accounts receivable		41,176		41,176	47,777		47,777
Deposits and prepaid expenses		12,690		12,690	115,313		115,313
		325,497		325,497	1,694,760		1,694,760
Property, plant and equipment	(a)	64,632	$ 1,079,232	1,143,864	51,562	$ 782,943	834,505
Exploration and evaluation assets	(a),(b)	19,909,692	(1,079,232)	18,830,460	18,637,298	(1,003,787)	17,633,511
Deferred capital raising costs		-		-	-		-
		$20,299,821	$ -	$20,299,821	$20,383,620	$ (220,844)	$20,162,776
LIABILITIES							
Current							
Accounts payable and accrued liabilities		$ 654,979		$ 654,979	$ 195,678		$ 195,678
Loans payable		110,000		110,000	-		-
		764,979		764,979	195,678		195,678
Provision for reclamation costs		505,055		505,055	634,661		634,661
Share subscriptions received		-		-	100,000		100,000
		1,270,034		1,270,034	930,339		930,339
SHAREHOLDERS' EQUITY							
Capital stock		33,307,080		33,307,080	35,486,222		35,486,222
Warrants		1,229,757		1,229,757	1,848,807		1,848,807
Contributed surplus		3,091,453		3,091,453	4,074,226		4,074,226
Deficit	(a),(b)	(18,598,503)		(18,598,503)	(21,971,943)	$ (220,844)	(22,192,787)
Accumulated other comprehensive income		-		-	15,969		15,969
		19,029,787		19,029,787	19,453,281	(220,844)	19,232,437
		$20,299,821		$20,299,821	$20,383,620	$ (220,844)	$20,162,776

Expressed in Canadian dollars

18. Explanations of transitions to IFRS - continued

Reconciliation of Loss and Comprehensive Loss

	note	GAAP	Effect of transition to IFRS	IFRS
		Year ended December 31, 2010		
Operating expenses				
Audit fees		$ 32,028		$ 32,028
Consulting and corporate development fees		235,396		235,396
Corporate financial services fees		30,000		30,000
Corporate secretarial and accounting fees		75,150		75,150
Depreciation		16,127		16,127
Directors fees		53,109		53,109
Expenditures on mineral properties		1,265		1,265
Farm out receipts		(102,830)		(102,830)
Foreign exchange gain		(9,083)		(9,083)
General and administrative		105,988		105,988
Investor/shareholder relations		95,464		95,464
Legal fees		6,233		6,233
Loss on sale of property, plant and equipment	(a)	-	54,837	54,837
Reclamation		27,107		27,107
Rent and occupancy costs		60,783		60,783
Salaries and employee benefits		70,091		70,091
Share-based compensation		418,952		418,952
Transfer agent and filing fees		25,395		25,395
Travel		25,696		25,696
Write off of exploration and evaluation expenditures	(a),(b)	2,390,190	(39,178)	2,351,012
Write off of property, plant and equipment	(a)	-	30,578	30,578
Operating loss		(3,557,061)	(46,237)	(3,603,297)
Other income (loss)				
Gain on sale of available-for-sale-investments		14,794		14,794
Interest income (expense)		(275)		(275)
Interest on loans		(7,787)		(7,787)
Loss before income taxes		(3,550,329)	(46,237)	(3,596,566)
Deferred income tax recovery	(b)	176,889	(174,607)	2,282
Net loss for year		(3,373,440)	(220,844)	(3,594,284)
Unrealized gains on available-for-sale investments		15,969		15,969
Comprehensive loss for period		$ (3,357,471)	$ (220,844)	$ (3,578,315)
Loss per share - basic and fully diluted		$ (0.03)		$ (0.03)
Weighted average number of common shares - basic and fully diluted		123,508,005		123,508,005

Expressed in Canadian dollars

18. Explanations of transitions to IFRS – continued

Reconciliation of Cash Flows		Year ended December 31, 2010		
	note	GAAP	Effect of transition to IFRS	**IFRS**
Operating activities				
Net loss for year		$ (3,373,440)	$ (220,844)	$ (3,594,284)
Adjustments for:				
Depreciation		16,127		16,127
Gain on sale of available-for-sale investments		(14,794)		(14,794)
Loss on sale of property, plant and equipment	(a)	-	54,837	54,837
Recovery of future income taxes	(b)	(176,889)	174,607	(2,282)
Reclamation		27,106		27,106
Share-based compensation		418,952		418,952
Shares received as option payment		(64,500)		(64,500)
Write off of exploration and evaluation expenditures	(a),(b)	2,390,190	(39,178)	2,351,012
Write off of property, plant and equipment	(a)	-	30,578	30,578
Changes in non-cash working capital items		(777,248)	-	(777,249)
Restricted cash		(280,000)		(280,000)
Accounts receivable		(6,601)		(6,601)
Deposits and prepaid expenses		(102,623)		(102,623)
Accounts payable and accrued liabilites		(215,963)		(215,963)
Cash provided by (used in) operating activities		(1,382,435)	-	(1,382,436)
Investing activities				
Proceeds from sale of investments		68,544		68,544
Proceeds from sale of property, plant and equipment	(a)	-	69,759	69,759
Purchase of property, plant and equipment		(3,057)		(3,057)
Exploration and evaluation expenditures	(a),(b)	(523,219)	(69,759)	(592,978)
Reclamation expenditures		-		-
Changes in working capital items relating to investing activities		(241,182)		(241,182)
Cash provided by (used in) investing activities		(698,914)	-	(698,914)
Financing activities				
Repayment of loans		(110,000)		(110,000)
Share subscriptions received		100,000		100,000
Shares and warrants issued for cash		3,353,883		3,353,883
Capital raising costs		(309,339)		(309,339)
Changes in working capital items relating to financing activities		(1,731)		(1,731)
Cash provided by (used in) financing activities		3,032,813	-	3,032,813
Increase in cash and cash equivalents		951,464	-	951,463
Cash and cash equivalents - beginning of year		244,029		244,029
Cash and cash equivalents - end of year		**$1,195,493**	**$ -**	**$1,195,492**

Expressed in Canadian dollars

18. Explanations of transitions to IFRS – continued

a) Under Canadian GAAP, the Company had charged its plant and equipment used in exploration activities to the exploration and evaluation assets related to the specific project. Under IFRS, the plant and equipment has been reclassified into property, plant and equipment. The depreciation on those assets are charged to exploration and evaluation expenditures. The disposition of plant and equipment under IFRS has resulted in a loss being recognized in the statement of comprehensive loss and a write down of plant and equipment.

b) The method of accounting for income taxes under IFRS is similar to Canadian GAAP. However, deferred income taxes that arise from the initial recognition of assets or liabilities that do not impact profit and loss other than in a business combination are prohibited. The Company's deferred income tax liability under Canadian GAAP primarily arose as a result of the difference between book value and tax basis on additions to its mineral properties, which were accounted for as acquisitions of assets. The opening balance sheet reflects the reversal of these amounts totalling $174,608 of which $8,600 related to the Baffin Property on which an impairment provision was recorded in the statement of comprehensive loss for the year ended December 31, 2010.

19. Subsequent events

From January 1, 2012 to April 18, 2012:

a) The Company issued 520,833 shares to fulfill its Greenland 2011 property payment obligation.

b) The Company entered into an agreement with its landlord whereby the parties agreed that the lease would be surrendered effective January 26, 2012 upon payment of approximately $31,000. The Company has entered into a new shared office agreement, for which the fee structure is yet to be determined.