

*Condensed Interim Consolidated Financial Statements of*

**TRUE NORTH GEMS INC.**

*As at and for the six month period ended June 30, 2012*

*Expressed in Canadian dollars*

*(Unaudited – prepared by management)*

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

**TRUE NORTH GEMS INC.**  
**Condensed Interim Consolidated Statement of Financial Position**  
**(Unaudited)**

Expressed in Canadian dollars

	<b>June 30, 2012</b>	<b>December 31, 2011</b>
<b>Current assets</b>		
Cash and cash equivalents	\$ 12,486	\$ 677,663
Restricted cash	58,769	58,188
Investments	27,342	47,635
Accounts receivable	60,375	56,567
Deposits and prepaid expenses	32,412	22,037
	191,384	862,090
<b>Non-current assets</b>		
Property, plant and equipment (note 5)	654,018	735,239
Exploration and evaluation assets (note 6)	21,196,577	20,441,086
	21,850,595	21,176,325
<b>Total assets</b>	<b>\$ 22,041,979</b>	<b>\$ 22,038,415</b>
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	799,451	\$ 323,683
Current portion of provision for reclamation	250,000	250,000
Loan payable	33,000	-
	1,082,451	573,683
<b>Non-current liabilities</b>		
Provision for reclamation costs	763,395	763,395
<b>Total liabilities</b>	<b>1,845,846</b>	<b>1,337,078</b>
<b>Shareholders' equity</b>		
Capital stock (notes 7(a) & (b))	38,287,807	38,237,807
Reserves (note 7(c))	6,511,810	6,511,810
Deficit	(24,603,484)	(24,056,811)
Accumulated other comprehensive income	-	8,531
	20,196,133	20,701,337
<b>Total liabilities and shareholders' equity</b>	<b>\$ 22,041,979</b>	<b>\$ 22,038,415</b>

Nature of operations and going concern (note 1)

Subsequent event (note 12)

Approved on behalf of the Board:

(signed) David S. Parsons Director

(signed) William Anderson Director

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

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

Expressed in Canadian dollars

	Share capital		Reserves		Deficit	Accumulated other comprehensive income	Total equity
	Number of Shares	Amount	Warrants	Contributed surplus			
Balance - January 1, 2011	156,326,787	\$ 35,486,222	\$ 1,848,807	\$ 4,074,226	\$(22,188,950)	\$ 15,969	\$ 19,236,274
Exploration and evaluation expenditures	323,625	50,000	-	-	-	-	50,000
Non-brokered private placement	33,826,000	3,382,600	-	-	-	-	3,382,600
Reallocation of the fair value of warrants issued	-	(485,692)	485,692	-	-	-	-
Capital raising costs	-	(345,507)	(58,288)	-	-	-	403,795
Warrants issued	-	-	140,062	-	-	-	140,062
Warrants exercised	586,758	58,676	-	-	-	-	58,676
Reallocation of warrants on conversion	-	38,925	- 38,925	-	-	-	-
Net loss for period	-	-	-	-	(590,684)	-	(590,684)
Other comprehensive income for period	-	-	-	-	-	5,250	5,250
<b>Balance - June 30, 2011</b>	<b>191,063,170</b>	<b>\$ 35,536,222</b>	<b>\$ 1,848,807</b>	<b>\$ 4,074,226</b>	<b>\$(22,485,376)</b>	<b>\$ 26,469</b>	<b>\$ 19,000,348</b>
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	520,833	50,000	-	-	-	-	50,000
Net loss for period	-	-	-	-	(546,673)	-	(546,673)
Other comprehensive income for period	-	-	-	-	-	(8,531)	(8,531)
<b>Balance - June 30, 2012</b>	<b>191,975,003</b>	<b>\$ 38,287,807</b>	<b>\$ 1,481,670</b>	<b>\$ 5,030,140</b>	<b>\$(24,603,484)</b>	<b>\$ -</b>	<b>\$ 20,196,133</b>

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

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

Expressed in Canadian dollars

	For the three month period ended June 30,		For the six month period ended June 30,	
	2012	2011	2012	2011
Operating expenses				
Audit and related services	\$ (1,452)	\$ (10,166)	\$ (1,452)	\$ 5,584
Consulting fees	55,000	52,500	100,000	105,000
Corporate financial services fees	-	52,500	22,500	120,000
Corporate secretarial and accounting	38,309	30,000	74,361	48,750
Depreciation	1,696	3,402	3,392	6,605
Directors fees	13,500	13,500	27,000	27,000
Exploration and evaluation expenditures	5,116	6,716	5,788	10,214
Foreign exchange loss	- 667	9,558	3,299	17,536
General and administrative	25,823	25,478	55,344	49,617
Investor relations	25,111	34,660	85,802	78,815
Legal fees	2,060	1,673	7,322	1,673
Loss on disposal of property, plant and equipment	-	-	20,292	-
Rent and occupancy costs	13,796	21,103	91,814	39,918
Salaries and employee benefits	1,143	15,981	1,753	30,483
Transfer agent and filing fees	5,475	8,246	16,895	17,719
Travel	2,854	30,616	57,355	35,251
Operating loss	(187,765)	(295,767)	(571,465)	(594,165)
Other income				
Gain on sale of available-for-sale-investments	-	-	18,670	-
Interest income	2,487	2,259	7,341	2,731
Loss before income taxes	(185,277)	(293,508)	(545,454)	(591,434)
Deferred income tax recovery (expense)	-	(750)	(1,219)	750
Net loss for period	(185,277)	(294,258)	(546,673)	(590,684)
Realized losses (gains) on available-for-sale investments	-	(5,250)	(8,531)	5,250
Comprehensive loss for period	\$ (185,277)	\$ (299,508)	\$ (555,204)	\$ (585,434)
Loss per share - basic and fully diluted	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.00)
Weighted average number of common shares - basic and fully diluted	191,975,003	180,653,189	193,009,741	168,700,227

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

**TRUE NORTH GEMS INC.**  
**Condensed Interim Consolidated Statements of Cash Flows**  
**(Unaudited)**

Expressed in Canadian dollars

	For the three month period ended June 30,		For the six month period ended June 30,	
	2012	2011	2012	2011
<b>Operating activities</b>				
Net loss for period	\$ (187,954)	\$ (294,258)	\$ (546,673)	\$ (590,684)
Adjustments for:				
Deferred income tax expense (recovery)	-	750	1,219	(750)
Depreciation	1,696	3,402	3,392	6,605
Gain on sale of available-for-sale investments	-	-	(18,670)	-
Loss on disposal of property, plant and equipment	-	-	20,292	-
	(186,258)	(290,106)	(540,440)	(584,829)
Changes in non-cash working capital items				
Restricted cash	(290)	215,909	(581)	215,909
Accounts receivable	(13,314)	(1,624)	(3,808)	(33,164)
Deposits and prepaid expenses	4,077	(45,933)	(10,375)	(36,757)
Accounts payable and accrued liabilities	116,479	(65,644)	217,351	24,101
Cash provided by (used in) operating activities	(79,306)	(187,398)	(337,853)	(414,740)
<b>Investing activities</b>				
Proceeds from sale of available-for-sale investments	-	-	29,420	-
Purchase of property, plant and equipment	-	(2,599)	(3,827)	(3,887)
Exploration and evaluation expenditures	(490,406)	(756,363)	(644,127)	(1,584,893)
Changes in working capital items relating to investing activities	280,346	(123,535)	258,210	141,355
Cash provided by (used in) investing activities	(210,060)	(882,497)	(360,324)	(1,447,425)
<b>Financing activities</b>				
Loan advances	33,000	-	33,000	-
Private placement	-	3,237,600	-	3,282,600
Warrant exercise	-	58,676	-	58,676
Capital raising costs	-	(263,732)	-	(263,732)
Cash provided by (used in) financing activities	33,000	3,032,544	33,000	3,077,544
Increase (decrease) in cash and cash equivalents	(256,366)	1,962,649	(665,177)	1,215,379
Cash and cash equivalents - beginning of period	268,852	448,223	677,663	1,195,493
<b>Cash and cash equivalents - end of period</b>	<b>\$ 12,486</b>	<b>\$ 2,410,872</b>	<b>\$ 12,486</b>	<b>\$ 2,410,872</b>
<b>Supplemental disclosure of non-cash investing and financing activities</b>				
Shares issued for acquisition of mineral properties	\$ -	\$ -	\$ 50,000	\$ 50,000

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

**TRUE NORTH GEMS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements - unaudited**  
**June 30, 2012**

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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 six month period ended June 30, 2012, the Company had incurred a net loss totalling \$546,673. The accumulated deficit at June 30, 2012 is \$24,603,484.

Based on the financial position at June 30, 2012, 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**

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

These condensed interim consolidated financial statements follow the same accounting policies and methods of application as the Company’s audited financial statements for the year ended December 31, 2011. The policies applied in these condensed interim consolidated financial statements are based on IFRS issued as of August 23, 2012, the date the Board of Directors approved the financial statements. These condensed interim consolidated financial statements should be read in conjunction with the Company’s annual consolidated financial statements for the year ended December 31, 2011.

Expressed in Canadian dollars

**3. Significant accounting policies**

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

**4. Significant accounting estimates and judgments**

The preparation of the condensed interim 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.

**TRUE NORTH GEMS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements - unaudited**  
**June 30, 2012**

Expressed in Canadian dollars

**5. Property, plant and equipment**

	Computer hardware and software	Equipment	Laboratory and gem processing equipment	Office furniture and fixtures	Total
<b>Cost</b>					
Balance - December 31, 2011	\$ 101,535	\$ 1,193,193	\$ 6,061	\$ 92,069	\$ 1,392,858
Additions	-	-	-	3,827	3,827
Disposals	-	-	-	(92,069)	(92,069)
<b>Balance - June 30, 2012</b>	<b>\$ 101,535</b>	<b>\$ 1,193,193</b>	<b>\$ 6,061</b>	<b>\$ 3,827</b>	<b>\$ 1,304,616</b>
<b>Accumulated depreciation</b>					
Balance - December 31, 2011	\$ 76,825	\$ 504,527	\$ 4,490	\$ 71,777	\$ 657,619
Depreciation	3,686	60,757	156	157	64,756
Disposals	-	-	-	(71,777)	(71,777)
<b>Balance - June 30, 2012</b>	<b>\$ 80,511</b>	<b>\$ 565,284</b>	<b>\$ 4,646</b>	<b>\$ 157</b>	<b>\$ 650,598</b>
<b>Carrying amount - December 31, 2011</b>	<b>\$ 24,710</b>	<b>\$ 688,666</b>	<b>\$ 1,571</b>	<b>\$ 20,292</b>	<b>\$ 735,239</b>
<b>Carrying amount - June 30, 2012</b>	<b>\$ 21,024</b>	<b>\$ 627,909</b>	<b>\$ 1,415</b>	<b>\$ 3,670</b>	<b>\$ 654,018</b>

**6. 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 \$387,681). As at June 30, 2012, the Company has surplus exploration expenditures on Licence 2008/46 amounting to DKK 65,999,956 (CAD \$11,464,192) 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\$483,313). As at June 30, 2012, the Company has surplus exploration expenditures on Licence 2008/01 of DKK 858,205 (CAD\$149,070) that may be carried forward and credited against the calculated exploration commitment in future years.

Licence 2008/46 was obtained by the Company satisfying all the terms of an option agreement with Brereton Engineering and Developments Ltd. (“Brereton”). 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. 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.



**TRUE NORTH GEMS INC.**

**Notes to Condensed Interim Consolidated Financial Statements - unaudited**

**June 30, 2012**

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Expressed in Canadian dollars

**6. Exploration and evaluation assets - continued**

**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.

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.

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,
- 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.

b) Batea Property

The property consists of 56 claims located 200 kilometres east of Whitehorse, Yukon.

c) Straw Property

The property consists of 43 claims located 130 kilometres south of Ross River, Yukon.

d) True Blue Property

The property consists of 335 claims located 55 kilometres south of Ross River, Yukon.

e) 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.

**TRUE NORTH GEMS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements - unaudited**  
**June 30, 2012**

Expressed in Canadian dollars

**6. Exploration and evaluation assets – continued**

The following table summarizes the Company's investment in mineral properties as at June 30, 2012:

<b>Areas of Interest</b>	<b>Greenland Property</b>	<b>Baffin Island Property</b>	<b>Other Yukon Properties</b>	<b>Total</b>
Acquisition	\$ 818,545	\$ 212,346	\$ 49,101	\$ 1,079,992
Exploration expenditure	19,156,809	691,279	268,497	20,116,585
<b>Carrying value</b>	<b>\$ 19,975,354</b>	<b>\$ 903,625</b>	<b>\$ 317,598</b>	<b>\$ 21,196,577</b>

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

<b>Areas of Interest</b>	<b>Greenland Property</b>	<b>Baffin Island Property</b>	<b>Other Yukon Properties</b>	<b>Total</b>
Balance - December 31, 2011	\$ 19,175,707	\$ 904,349	\$ 361,030	\$ 20,441,086
Total acquisition costs for period	57,388	-	-	57,388
Exploration expenditure				
Advances	65,000	-	-	65,000
Camp construction and operation	21,994	-	-	21,994
Equipment rental & maintenance	6,355	-	-	6,355
Gemstone processing	221,776	-	-	221,776
Other	61,140	-	3,118	64,258
Permitting	43,018	-	-	43,018
Property, plant & equipment - depreciation	61,364	-	-	61,364
Technical services	201,735	(724)	3,450	204,461
Travel	19,627	-	-	19,627
Total exploration for period	702,009	(724)	6,568	707,853
Total expenditures before the following	19,935,104	903,625	367,598	21,206,327
Farmout receipts	-	-	(50,000)	(50,000)
Gemstone test marketing study	40,250	-	-	40,250
<b>Balance - June 30, 2012</b>	<b>\$ 19,975,354</b>	<b>\$ 903,625</b>	<b>\$ 317,598</b>	<b>\$ 21,196,577</b>

**7. Equity**

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

**TRUE NORTH GEMS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements - unaudited**  
**June 30, 2012**

Expressed in Canadian dollars

**7. Equity - continued**

b) Private placements

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.

c) Reserves

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

Warrants

	June 30, 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	-	-	19,403,300	567,485
Warrants exercised	-	-	(977,758)	(52,288)
Warrants expired	-	-	(33,812,740)	(882,334)
<b>Closing balance</b>	<b>42,671,158</b>	<b>\$ 1,481,670</b>	<b>42,671,158</b>	<b>\$ 1,481,670</b>

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

Warrant term	Volatility	Dividend yield	Risk-free interest rate	Warrants Issued	Fair value	Warrant issue costs	Net
2 years	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
				<b>19,403,300</b>	<b>\$ 625,754</b>	<b>\$ 58,269</b>	<b>\$ 567,485</b>

**TRUE NORTH GEMS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements - unaudited**  
**June 30, 2012**

Expressed in Canadian dollars

**7. Equity - continued**

At June 30, 2012, the following share purchase warrants are outstanding:

<b>Number of warrants outstanding</b>	<b>Exercise price</b>	<b>Expiry date</b>
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	\$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
42,671,158		

**Stock options**

Stock option transactions for the six month period ended June 30, 2012 and the year ended December 31, 2011 and the number of stock options outstanding and exercisable are summarized for the respective financial period ends as follows:

	<b>June 30, 2012</b>		<b>December 31, 2011</b>	
	<b>Number of options</b>	<b>Weighted Average Exercise Price of Options Exercisable</b>	<b>Number of options</b>	<b>Weighted Average Exercise Price of Options Exercisable</b>
Opening balance	15,505,000	\$0.19	15,205,000	\$0.20
Options granted	-	-	1,100,000	\$0.15
Options expired	-	-	(350,000)	\$0.42
Options forfeited	-	-	(450,000)	\$0.25
Closing balance	15,505,000	\$0.19	15,505,000	\$0.19

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:

<b>Expected life</b>	<b>Volatility</b>	<b>Dividend yield</b>	<b>Risk-free interest rate</b>	<b>Options Granted</b>	<b>Fair value</b>
5 years	83.7%	0%	1.45%	1,100,000	\$ 73,580

**TRUE NORTH GEMS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements - unaudited**  
**June 30, 2012**

Expressed in Canadian dollars

**7. Equity - continued**

At June 30, 2012, stock options outstanding are as follows:

<b>Number of options outstanding and exercisable</b>	<b>Range of exercise prices</b>	<b>Weighted Average Exercise Price of Options Exercisable</b>	<b>Weighted Average Remaining Contractual Life</b>
13,650,000	\$0.15	\$0.15	2.94
1,025,000	\$0.38	\$0.38	0.76
830,000	\$0.56	\$0.56	0.30
15,505,000			

**8. 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 six month period ended June 30, 2012, two director related companies loaned the Company \$33,000. The loans are without interest or stated terms of repayment and are included in current liabilities.

Details of key management personnel compensation are as follows:

	<b>June 30, 2012</b>	<b>June 30, 2011</b>
Services provided:		
Consulting fees	\$ 213,250	\$ 214,650
Directors fees	27,000	27,000
Key management personnel compensation	\$ 240,250	\$ 241,650
Balances payable to key management personnel	\$ 208,708	\$ 29,383

**9. 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:

	June 30, 2012			December 31, 2011		
	Canada	Greenland	Total	Canada	Greenland	Total
Property, plant and equipment	\$ 19,870	\$ 634,148	\$ 654,018	\$ 38,556	\$ 696,683	\$ 735,239
Exploration and evaluation expenditures	1,221,223	19,975,354	21,196,577	1,265,380	19,175,707	20,441,086
<b>Total</b>	<b>\$ 1,241,093</b>	<b>\$ 20,609,502</b>	<b>\$ 21,850,595</b>	<b>\$ 1,303,936</b>	<b>\$ 19,872,390</b>	<b>\$ 21,176,325</b>

**10. 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.

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Expressed in Canadian dollars

**10. Management of capital risk - continued**

In the management of capital, the Company includes the components of shareholders' equity. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets. In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

The Company'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.

**11. Financial instruments**

a) Fair values

The carrying value of the Company's advances and accounts receivable, accounts payable, accrued liabilities and loans payable approximate their fair value at June 30, 2012 and December 31, 2011 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 kroner. A significant change in the currency exchange rates between the Canadian dollar relative to the US dollar and Danish krone could have an effect on the Company's results of operations. The Company has not hedged its exposure to currency fluctuations.

At June 30, 2012, the Company is exposed to currency risk through the following assets and liabilities denominated in US dollars and Danish kroner:

	June 30, 2012		December 31, 2011	
	USD	DKK	USD	DKK
Cash (bank indebtedness)	(750)	51,805	6,780	17,671
Accounts payable and accrued liabilities	-	(504,956)	-	(568,516)
Net asset (liability) position	(750)	(453,151)	6,780	(550,845)

Based on the above net exposure as at June 30, 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 \$7,948 (December 31, 2011- \$9,088) in the Company's net loss.

Expressed in Canadian dollars

**11. 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 10.

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

**12. Subsequent event**

On August 9, 2012, the Company completed a non-brokered private placement of 14,508,000 units at a price of \$0.05 per unit. The gross proceeds of the unit placement totalled \$725,400. 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 \$50,720 were paid and 1,014,400 finder's warrants were issued, convertible into one common share at a price of \$0.05 for a one year period.