

Condensed Interim Consolidated Financial Statements of

TRUE NORTH GEMS INC.

As at and for the six month period ended June 30, 2013

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

	June 30, 2013	December 31, 2012
Current assets		
Cash and cash equivalents	\$ 2,176,007	\$ 4,157
Restricted cash	59,935	59,357
Investments (notes 5 & 7)	137,615	27,479
Accounts receivable	27,951	29,012
Deposits and prepaid expenses	27,733	16,728
	2,429,241	136,733
Non-current assets		
Property, plant and equipment (note 6)	526,706	589,350
Exploration and evaluation assets (note 7)	22,275,242	21,885,093
	22,801,948	22,474,443
Total assets	\$ 25,231,189	\$ 22,611,176
Current liabilities		
Accounts payable and accrued liabilities	\$ 436,031	\$ 692,118
Current portion of loans payable (note 8)	-	13,000
Current portion of provision for reclamation costs (note 9)	327,452	400,000
	763,483	1,105,118
Non-current liabilities		
Accounts payable	60,247	-
Loans payable (note 8)	733,600	-
Provision for reclamation costs (note 9)	573,205	573,205
	1,367,052	573,205
Total liabilities	2,130,535	1,678,323
Equity attributable to common shareholders		
Share capital (note 10(a)&(b))	41,918,295	39,310,384
Reserves (note 10(c))	6,841,662	6,798,151
Deficit	(25,630,848)	(25,175,682)
Accumulated other comprehensive loss	(102,500)	-
	23,026,609	20,932,853
Non-controlling interest (note 11)	74,045	-
	23,100,654	20,932,853
Total liabilities and shareholders' equity	\$ 25,231,189	\$ 22,611,176

Nature of operations (note 1)

Subsequent event (note 17)

Approved on behalf of the Board:

(signed) David S. Parsons Director

(signed) William Anderson Director

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

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

Expressed in Canadian dollars

	Share capital		Reserves		Deficit	Accumulated other comprehensive income (loss)	Total common shareholders' equity	Non-controlling interest	Total equity
	Number of Shares	Amount	Warrants	Contributed surplus					
Balance - December 31, 2011	191,454,170	\$ 38,237,807	\$ 1,481,670	\$ 5,030,140	(24,056,811)	\$ 8,531	\$ 20,701,337	\$ -	\$ 20,701,337
Exploration and evaluation expenditures	520,833	50,000	-	-	-	-	50,000	-	50,000
Net loss for period	-	-	-	-	(546,673)	-	(546,673)	-	(546,673)
Other comprehensive loss for period	-	-	-	-	-	(8,531)	(8,531)	-	(8,531)
Balance - June 30, 2012	191,975,003	\$ 38,287,807	\$ 1,481,670	\$ 5,030,140	\$ (24,603,484)	\$ -	\$ 20,196,133	\$ -	\$ 20,196,133
Balance - December 31, 2012	214,452,241	\$ 39,310,384	\$ 613,728	\$ 6,184,423	(25,175,682)	\$ -	\$ 20,932,853	\$ -	\$ 20,932,853
Brokered private placement	32,688,493	2,941,964	-	-	-	-	2,941,964	-	2,941,964
Capital raising costs	-	(334,053)	-	-	-	-	(334,053)	-	(334,053)
Warrants issued	-	-	43,511	-	-	-	43,511	-	43,511
Warrants expired	-	-	(567,485)	567,485	-	-	-	-	-
Net loss for period	-	-	-	-	(455,166)	-	(455,166)	(15,255)	(470,421)
Other comprehensive loss for period	-	-	-	-	-	(102,500)	(102,500)	-	(102,500)
Equity investment	-	-	-	-	-	-	-	89,300	89,300
Balance - June 30, 2013	247,140,734	\$ 41,918,295	\$ 89,754	\$ 6,751,908	\$ (25,630,848)	\$ (102,500)	\$ 23,026,609	\$ 74,045	\$ 23,100,654

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,	
	2013	2012	2013	2012
Operating expenses				
Audit and related services	\$ 3,488	\$ (1,452)	\$ 3,488	\$ (1,452)
Consulting fees	45,000	55,000	90,000	100,000
Corporate financial services fees	30,000	-	30,000	22,500
Corporate secretarial and accounting	38,981	38,309	74,420	74,361
Depreciation	1,289	1,696	2,510	3,392
Directors fees	13,500	13,500	27,000	27,000
Exploration and evaluation expenditures	5,186	5,116	12,129	5,788
Farmout receipts	-	-	(52,500)	-
Foreign exchange loss (gain)	13,665	(667)	13,745	3,299
General and administrative	33,013	26,966	47,839	57,097
Investor relations	10,184	25,111	25,061	85,802
Legal fees	13,751	2,060	15,048	7,322
Loss on disposal of property, plant and equipment	-	-	-	20,292
Loss on sale of mineral property interest	-	-	47,790	-
Rent and occupancy costs	27,300	13,796	54,600	91,814
Transfer agent and filing fees	19,446	5,475	35,541	16,895
Travel	5,340	2,854	29,790	57,355
Operating loss	(260,143)	(187,764)	(456,461)	(571,465)
Other income (expenses)				
Gain on sale of available-for-sale-investments	-	-	-	18,670
Interest and other income	2,526	2,487	2,881	7,341
Interest on loans	(14,421)	-	(16,841)	-
Loss before income taxes	(272,038)	(185,277)	(470,421)	(545,454)
Income tax expense	-	-	-	(1,219)
Net loss for period	(272,038)	(185,277)	(470,421)	(546,673)
Realized losses (gains) on available-for-sale investments	-	-	-	(8,531)
Unrealized gains (losses) on available-for-sale investments	(58,750)	-	(102,500)	-
Comprehensive loss for period	\$ (330,788)	\$ (185,277)	\$ (572,921)	\$ (555,204)
Loss attributable to :				
Shareholders	\$ (269,046)	\$ (185,277)	\$ (455,166)	\$ (546,673)
Non-controlling interest	(2,992)	-	(15,255)	-
	\$ (272,038)	\$ (185,277)	\$ (470,421)	\$ (546,673)
Loss per share - basic and fully diluted	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.01)
Weighted average number of common shares - basic and fully diluted	224,832,386	191,975,003	219,670,988	193,009,741
Comprehensive loss attributable to:				
Shareholders	\$ (327,796)	\$ (185,277)	\$ (557,666)	\$ (555,204)
Non-controlling interest	(2,992)	-	(15,255)	-
	\$ (330,788)	\$ (185,277)	\$ (572,921)	\$ (555,204)

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,	
	2013	2012	2013	2012
Operating activities				
Net loss for period	\$ (272,038)	\$ (185,277)	\$ (470,421)	\$ (546,673)
Adjustments for:				
Depreciation	1,289	1,696	2,510	3,392
Farmout receipts	-	-	(37,500)	-
Gain on sale of available-for-sale investments	-	-	-	(18,670)
Income tax expense	-	-	-	1,219
Loss on disposal of property, plant and equipment	-	-	-	20,292
Loss on sale of mineral property interest	-	-	97,790	-
Unrealized foreign exchange loss - translation	26,350	-	26,350	-
	(244,399)	(183,581)	(381,271)	(540,440)
Changes in non-cash working capital items				
Restricted cash	(291)	(290)	(578)	(581)
Accounts receivable	1,484	(13,314)	1,061	(3,808)
Deposits and prepaid expenses	(19,457)	4,181	(11,005)	(10,375)
Accounts payable and accrued liabilities	(290,552)	113,698	(148,743)	217,351
Reclamation expenditures	(72,548)	-	(72,548)	-
Cash provided by (used in) operating activities	(625,763)	(79,306)	(613,084)	(337,853)
Investing activities				
Proceeds from sale of available-for-sale investments	-	-	-	29,420
Purchase of property, plant and equipment	(1,250)	-	(1,250)	(3,827)
Exploration and evaluation expenditures	(415,662)	(490,406)	(601,555)	(644,127)
Changes in working capital items relating to investing activities	(73,477)	280,346	(47,233)	258,210
Cash provided by (used in) investing activities	(490,389)	(210,060)	(650,038)	(360,324)
Financing activities				
Loan advances (repayments)	141,560	33,000	694,250	33,000
Private placement	2,941,964	-	2,941,964	-
Capital raising costs	(290,542)	-	(290,542)	-
Non-controlling interest - equity investment	-	-	89,300	-
Cash provided by (used in) financing activities	2,792,982	33,000	3,434,972	33,000
Increase (decrease) in cash and cash equivalents	1,676,830	(256,366)	2,171,850	(665,177)
Cash and cash equivalents - beginning of period	499,177	268,852	4,157	677,663
Cash and cash equivalents - end of period	\$ 2,176,007	\$ 12,486	\$ 2,176,007	\$ 12,486

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

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

TRUE NORTH GEMS INC.
Notes to Condensed Interim Consolidated Financial Statements - unaudited
June 30, 2013

Expressed in Canadian dollars

1. Nature of operations

True North Gems Inc. is the parent company of its consolidated group (“True North” or the “Company”). The Company was incorporated in the Yukon Territory under the Business Corporations Act on May 25, 2001 and is domiciled in Canada. The Company is engaged in exploration and development of coloured gemstone deposits in Greenland and Canada. The Company’s corporate office is located at Suite 3014, Bentall Four, 1055 Dunsmuir St., Vancouver, BC V7X 1L3.

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

Subsidiary	Jurisdiction of Incorporation & Domiciled	Ownership Interest	Voting Control	Functional Currency
True North Gems Greenland A/S	Greenland	50%	90.9%	CAD

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.

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, 2012. The policies applied in these condensed interim consolidated financial statements are based on IFRS issued as of May 27, 2013, 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, 2012.

3. Significant accounting policies

Basis of presentation

The condensed interim consolidated financial statements have been prepared on an accrual basis and are on a historical cost basis, except for certain financial instruments, which are measured at fair value. The preparation of the condensed interim consolidated financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant are disclosed in note 4.

Expressed in Canadian dollars

3. Significant accounting policies - continued

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

a) Accounting estimates

Valuation of share based payments and warrants

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

b) Accounting judgments

Exploration and evaluation assets – impairment assessment

The carrying values and assessment of impairment of exploration and evaluation assets is based on costs incurred and management's estimate of net recoverable value. Estimates may not necessarily reflect actual recoverable value as this will be dependent on the status of the exploration program, the nature of the mineral deposit, commodity prices, adequate funding and the ability of the Company to achieve commercial production. Management concluded there were no impairment indicators as at June 30, 2013.

Going concern

These consolidated financial statements have been prepared on the assumption that the Company is able to continue as a going concern.

Site restoration and environmental provisions

The Company has accounted for site restoration and environmental provisions that existed as of the period end based on facts and circumstances that existed as at June 30, 2013. The Company reviews facts and circumstances surrounding its exploration program, existing laws, contracts and other policies. A material reclamation obligation involves a number of estimates relating to timing, type of costs and associated contract negotiations and a review of potential methods and technical advancements.

TRUE NORTH GEMS INC.
Notes to Condensed Interim Consolidated Financial Statements - unaudited
June 30, 2013

Expressed in Canadian dollars

5. Investments

	June 30, 2013			December 31, 2012	
	Cost	Accumulated unrealized holding loss	Carrying value	Carrying value	
1% Term deposit maturing July 9, 2013	\$ 27,615	\$ -	\$ 27,615	\$ 27,479	
Endurance Gold Corporation (note 7)	175,000	(75,000)	100,000	-	
Pacific Ridge Explorations Ltd. (note 7)	37,500	(27,500)	10,000	-	
	\$ 240,115	\$ (102,500)	\$ 137,615	\$ 27,479	

6. Property, plant and equipment

	Computer equipment and software	Laboratory and gem processing equipment	Office furniture and equipment	Plant and equipment - exploration	Total
Cost					
Balance - December 31, 2012	\$ 101,923	\$ 6,061	\$ 3,828	\$ 1,193,193	\$ 1,305,005
Acquisitions	1,250	-	-	-	1,250
Balance - June 30, 2013	\$ 103,173	\$ 6,061	\$ 3,828	\$ 1,193,193	\$ 1,306,255
Accumulated depreciation					
Balance - December 31, 2012	\$ 84,139	\$ 4,804	\$ 671	\$ 626,041	\$ 715,655
Depreciation	2,699	125	313	60,757	63,894
Balance - June 30, 2013	\$ 86,838	\$ 4,929	\$ 984	\$ 686,798	\$ 779,549
Carrying amount - December 31, 2012	\$ 17,784	\$ 1,257	\$ 3,157	\$ 567,152	\$ 589,350
Carrying amount - June 30, 2013	\$ 16,335	\$ 1,132	\$ 2,844	\$ 506,395	\$ 526,706

Expressed in Canadian dollars

7. Exploration and evaluation assets

Greenland Property

The property consists of two exploration licences registered with the Bureau of Minerals and Petroleum of the Government of Greenland (“BMP”); respectively, the Fiskenaasset property – Licence 2008/46 and Qaqqatsiaq - Licence 2008/01. Both Licences were subject to renewal on December 30, 2012. Applications have been made to the BMP for renewal of the Fiskenaasset property – Licence 2008/46 and Qaqqatsiaq - Licence 2008/01 for a further term of two years to December 31, 2014 and five years to December 31, 2017 respectively, which is pending ministerial approval. Although the Company has followed protocol in making applications for the renewal of the licences and believes the renewal will be granted, there can be no assurance ministerial approval will be received. If the licences are not renewed it could result in a material change in the financial position of the Company.

To maintain the licences in good standing, the Company is required to meet minimum expenditure levels, as prescribed by the BMP annually. For the year ending December 31, 2013, the Company’s exploration obligation with respect to Licence 2008/46 is in the process of being negotiated with the BMP. For the year ending December 31, 2013, the Company’s exploration obligation with respect to Licence 2008/01 is DKK 2,855,680 (CAD\$523,732). The Company has surplus exploration expenditures on Licence 2008/01 of DKK 1,571,009 (CAD\$288,123) that may be carried forward until December 31, 2015 and credited against the calculated exploration commitment.

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. Once an exploitation licence is obtained, the Company is required to make a one time cash payment of \$500,000 and issue \$500,000 worth of shares from treasury to Brereton. Licence 2008/01 is not subject to any agreements, royalties or encumbrances.

Additionally, the Company holds a non-exclusive prospecting licence, Licence 2011/07, for West Greenland that expires December 31, 2015, which has no minimum expenditure levels over the licence term to maintain in good standing. As at December 31, 2012, the Company has surplus exploration expenditures on Licence 2011/07 of DKK 229,649 (CAD\$42,118) that may be carried forward until December 31, 2015 and credited against the calculated exploration commitment on one or more exploration licences.

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.

TRUE NORTH GEMS INC.
Notes to Condensed Interim Consolidated Financial Statements - unaudited
June 30, 2013

Expressed in Canadian dollars

7. Exploration and evaluation assets - continued

Other Yukon Properties

a) Bandito Property

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

During the six month period ended June 30, 2013, the Company entered into an agreement to sell its 100% interest in the Bandito project to Endurance Gold Corporation (“Endurance”) subject to a 1% net smelter return (“NSR”). Consideration was a \$50,000 cash payment (January 29, 2013) and issue of 5,000,000 shares (fair value at date of issue \$175,000 (note 5)). Shares are being released in three tranches, one million were subject to the standard four month hold period, two million will be released on July 1, 2013 and the final two million will be released December 31, 2013. Endurance has the right to acquire one half of the NSR at any time for a cash payment of \$1,000,000. A further cash payment of \$500,000 is payable to the Company in two tranches with the initial \$150,000 payable upon completion and filing of a bankable feasibility study on the Bandito project and the balance to be paid after project financing is secured. This agreement replaces the previous option agreement between Endurance and the Company.

b) Straw Property

During the six month period ended June 30, 2013, the Company entered into an Option Agreement with Pacific Ridge Exploration Ltd. (“Pacific”) whereby Pacific has the right to acquire a 100% interest in 43 claims located in the Finlayson District, Yukon Territory by making an initial cash payment of \$15,000 (paid February 4, 2013) and issue of 250,000 shares on closing (fair value at date of issue \$37,500 (note 5)) and an additional cash payment of \$10,000 and issue of 150,000 shares on or before January 31, 2014.

c) Tsa da Glisza Property

Pursuant to an agreement dated June 7, 2002 with Expatriate Resources Ltd., the Company acquired 100% of the Tsa da Glisza Property. The property consists of 93 claims located in the Watson Lake Mining District, Yukon Territory. There has been no recent exploration activity on this property. Currently, the Company is incurring costs with respect to reclamation of the property.

d) True Blue Property

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

The following table summarizes the Company’s investment in mineral properties as at June 30, 2013:

Areas of Interest	Greenland Property	Baffin Island Property	Other Yukon Properties	Total
Acquisition	\$ 986,369	\$ 212,346	\$ 1	\$ 1,198,716
Exploration expenditure	20,385,247	691,279	-	21,076,526
Carrying value	\$ 21,371,616	\$ 903,625	\$ 1	\$ 22,275,242

TRUE NORTH GEMS INC.
Notes to Condensed Interim Consolidated Financial Statements - unaudited
June 30, 2013

Expressed in Canadian dollars

7. 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, 2012	\$ 20,658,687	\$ 903,625	\$ 322,781	\$ 21,885,093
Total acquisition costs for period	113,608	-	-	113,608
Exploration expenditure				
Advances	74,465	-	-	74,465
Aviation	30,112	-	-	30,112
Camp construction and operation	32,120	-	-	32,120
Gemstone processing	2,400	-	-	2,400
Licence and application fees	10,982	-	-	10,982
Other	61,278	-	10	61,288
Permitting	106,165	-	-	106,165
Plant and equipment - depreciation	61,384	-	-	61,384
Technical services	158,302	-	-	158,302
Travel	27,944	-	-	27,944
Total exploration for period	565,152	-	10	565,162
Total expenditures before the following	21,337,447	903,625	322,791	22,563,863
Farmout receipts	-	-	(50,000)	(50,000)
Gemstone test marketing study	34,169	-	-	34,169
Sale of mineral property interest	-	-	(272,790)	(272,790)
Balance - June 30, 2013	\$ 21,371,616	\$ 903,625	\$ 1	\$ 22,275,242

TRUE NORTH GEMS INC.
Notes to Condensed Interim Consolidated Financial Statements - unaudited
June 30, 2013

Expressed in Canadian dollars

8. Loans payable

	June 30, 2013	December 30, 2012
Term loan (i) (note 11)	\$ 733,600	\$ -
Loan payable to key management personnel (ii) (note 13)	-	3,000
Loan payable (ii)	-	10,000
	733,600	13,000
Current portion of loans payable	-	(13,000)
	733,600	-
Long-term portion of loans payable	\$ 733,600	\$ -

- i. The term loan bears interest at the rate of 10% per annum payable annually in arrears. The principal balance and any accrued interest thereon are repayable on the fifth anniversary date of the funding of the final draw (June 14, 2013) on the credit facility (the "Maturity Date") with repayment guaranteed by True North Gems Greenland S/A's ("TNGG") parent company, True North Gems Inc. TNGG is entitled to repay the loan in full or in part including accrued payable interest thereon as at the date of repayment and including an early payout premium of 5% of the outstanding loan at any time before the Maturity Date.
- ii. These loans were unsecured and without interest or stated terms of repayment.

9. Provision for reclamation

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

	June 30, 2013	December 30, 2012
Current	\$ 327,452	\$ 400,000
Non-current	573,205	573,205
	\$ 900,657	\$ 973,205

Changes to the provision are as follows:

	Greenland Property	Baffin Island Property	Tsa da Glizsa	Total
Balance - December 31, 2012	\$ 186,100	\$ 28,060	\$ 759,045	\$ 973,205
Expenditures	-	-	(72,548)	(72,548)
Balance - June 30, 2013	\$ 186,100	\$ 28,060	\$ 686,497	\$ 900,657

TRUE NORTH GEMS INC.
Notes to Condensed Interim Consolidated Financial Statements - unaudited
June 30, 2013

Expressed in Canadian dollars

10. Equity

- a) Authorized – Unlimited number of common shares without par value
- b) Placements
The Company completed a brokered private placement; whereby the Company raised \$2,941,964 through the sale of 32,688,493 common shares at a price of \$0.09 per share. Cash commissions of \$147,098 were paid and 980,656 broker warrants issued, convertible into one common share at a price of \$0.09 for a three 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, 2013		December 31, 2012	
	Number of warrants	Amount	Number of warrants	Amount
Opening balance	31,654,900	\$ 613,728	42,671,158	\$ 1,481,670
Warrants issued	980,656	43,511	12,251,600	46,243
Warrants expired	(19,403,300)	(567,485)	(23,267,858)	(914,185)
Closing balance	13,232,256	\$ 89,754	31,654,900	\$ 613,728

The fair value of the 980,656 warrants issued in connection with the private placement completed during the six month period ended June 30, 2013 totalled \$45,511. The warrants were valued using the Black-Scholes valuation model, using the following assumptions:

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

The fair value of the 12,251,600 warrants issued in connection with the unit private placement completed during the year ended December 31, 2012 totalled \$48,720 before warrant issue costs amounting to \$2,477 (net \$46,243). The warrants were valued using the Black-Scholes valuation model, using the following assumptions:

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

TRUE NORTH GEMS INC.
Notes to Condensed Interim Consolidated Financial Statements - unaudited
June 30, 2013

Expressed in Canadian dollars

10. Equity - continued

At June 30, 2013, the following share purchase warrants are outstanding:

Number of warrants outstanding	Exercise price	Expiry date
7,254,000	\$0.12	09-Aug-2013
1,014,400	\$0.05	09-Aug-2013
3,687,000	\$0.12	02-Nov-2013
296,200	\$0.05	02-Nov-2013
166,667	\$0.09	04-Apr-2016
813,989	\$0.09	13-Jun-2016
13,232,256		

Stock options

On June 28, 2012, the shareholders approved the Stock Option Plan (the "Plan"), for which up to 10% of the issued share capital can be reserved for issuance to executive officers and directors, employees and consultants. The exercise price of the options is set at the Company's closing share price on the day before the grant date less the applicable discount permitted under the TSX Venture Exchange policies. The options have a maximum term of five years and vest at date of grant. At June 30, 2013, 8,064,073 options are available for future grant under the Plan.

Stock option transactions for the six month period ended June 30, 2013 and the year ended December 30, 2012 and the number of stock options outstanding and exercisable are summarized for the respective financial period ends as follows:

	June 30, 2013		December 31, 2012	
	Number of options	Weighted Average Exercise Price of Options Exercisable	Number of options	Weighted Average Exercise Price of Options Exercisable
Opening balance	18,725,000	\$0.15	15,505,000	\$0.19
Options granted	-	-	4,050,000	\$0.10
Options expired	(950,000)	\$0.38	(830,000)	\$0.56
Options forfeited	(1,125,000)	\$0.16	-	-
Closing balance	16,650,000	\$0.14	18,725,000	\$0.15

TRUE NORTH GEMS INC.
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Expressed in Canadian dollars

10. Equity - continued

The fair value of the 4,050,000 options granted during the year ended December 30, 2012 resulted in a compensation expense of \$240,098 (\$136,352 was charged to operations and \$103,746 was charged to exploration and evaluation expenditures). The options were valued using the Black-Scholes valuation model with the following assumptions:

Expected life	Volatility	Dividend yield	Risk-free interest rate	Options Granted	Fair value
5 years	86.8%	0%	1.40%	4,050,000	\$ 240,098

At June 30, 2013, stock options outstanding are as follows:

Number of options outstanding and exercisable	Range of exercise prices	Weighted Average Exercise Price of Options Exercisable	Weighted Average Remaining Contractual Life
3,900,000	\$0.10	\$0.10	4.48
12,750,000	\$0.15	\$0.15	1.93
16,650,000			

11. Non-controlling interest

During the first quarter of fiscal 2013, a financial agreement was entered into with Greenland Venture A/S (“Greenland Venture”) whereby Greenland Venture invested DKK 4,500,000 (approximately CAD \$788,900) in the Company’s wholly owned subsidiary, True North Gems Greenland A/S (“TNGG”). The investment consists of a DKK 500,000 (CAD \$89,300) equity component and DKK 4,000,000 loan (approximately CAD \$733,600) (note 8).

Greenland Venture was issued 500 Class B shares with a par value of DKK 1,000 per share representing a 50% ownership stake in TNGG. The Class B shares entitle the holder to 9.1% of the votes and have preferential right to dividends of 10% per annum calculated on the basis of their nominal value, meaning that the B-shares shall receive its preferential dividends before any dividends are paid to the A-shares. The preferential right is cumulative and is transferred to later years if no dividends are declared.

TNGG
Condensed Interim Statement of Financial Position – unaudited
June 30, 2013

Current assets	\$ 917,374
Less - current liabilities	(17,235)
Less - non-current liabilities	(733,600)
Net assets	\$ 166,539

TRUE NORTH GEMS INC.
Notes to Condensed Interim Consolidated Financial Statements - unaudited
June 30, 2013

Expressed in Canadian dollars

11. Non-controlling interest - continued

TNGG

Condensed Interim Statement of Loss and Comprehensive Loss– unaudited
For the six month period ended June 30, 2013

Foreign exchange loss	\$	(14,035)
Interest expense		(16,841)
Interest income		365
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Loss and comprehensive loss for period	\$	(30,511)

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

	June 30,	June 30,
	2013	2012
Shares issued for acquisition of mineral property interest	\$ -	\$ 50,000
Share consideration - sale of mineral property interest	\$ 175,000	\$ -
Share consideration – farm out of mineral property interest	\$ 37,500	\$ -
Warrants issued —brokered private placement	\$ 43,511	\$ -

13. Related party transactions

Key management personnel are those persons that have the authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly. Key management personnel include the Company's directors and members of the senior management group.

During the three month period ended March 31, 2013, the Company was loaned an additional \$9,000 from key management personnel. The outstanding balance at March 31, 2013 of \$12,000 was repaid in full in the current quarter ended June 30, 2013.

Details of key management personnel compensation are as follows:

	June 30, 2013	June 30,
		2012
Services provided:		
Consulting fees	\$ 236,861	\$ 213,250
Directors fees	27,000	27,000
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Key management personnel compensation	\$ 263,861	\$ 240,250
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Balances payable to key management personnel	\$ 82,663	\$ 208,708

Balances payable are included in accounts payable and accrued liabilities.

TRUE NORTH GEMS INC.
Notes to Condensed Interim Consolidated Financial Statements - unaudited
June 30, 2013

Expressed in Canadian dollars

14. Segmented information

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

	June 30, 2013			December 31, 2012		
	Canada	Greenland	Total	Canada	Greenland	Total
Property, plant and equipment	\$ 15,669	\$ 511,037	\$ 526,706	\$ 16,929	\$ 572,421	\$ 589,350
Exploration and evaluation expenditures	903,626	21,371,616	22,275,242	1,226,406	20,658,687	21,885,093
Total	\$ 919,295	\$ 21,882,653	\$ 22,801,948	\$ 1,243,335	\$ 21,231,108	\$ 22,474,443

15. Management of capital risk

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain flexible capital structure, which optimizes the costs of capital at an acceptable risk level. The Company has no operations that generate cash flow and depends on financings to fund its development of mineral properties and administrative expenses. The success of each financing depends on numerous factors including general market conditions defined by fluctuations in the global economy and the demand for metals and commodity prices, the Company's track record and experience of management.

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.

16. Financial instruments

a) Fair values

The carrying value of the Company's accounts receivable approximate their fair value at June 30, 2013 and December 31, 2012 due to their short term nature. The fair value of accounts payable, accrued liabilities and loans payable may be less than the carrying value as a result of the Company's credit and liquidity risk.

TRUE NORTH GEMS INC.
Notes to Condensed Interim Consolidated Financial Statements - unaudited
June 30, 2013

Expressed in Canadian dollars

16. Financial instruments - continued

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

	June 30, 2013		December 31, 2012	
	USD	DKK	USD	DKK
Cash	1,267	2,108,578	119	42,503
Accounts payable and accrued liabilities	(266)	(106,782)	(632)	(595,226)
Loans payable	-	(4,000,000)	-	-
Net asset (liability) position	1,001	(1,998,204)	(513)	(552,723)

Based on the above net exposure as at June 30, 2013 and assuming that all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the US dollar and the Danish krone would result in an increase/decrease of \$36,542 (December 31, 2012- \$9,768) in the Company's net loss.

ii. Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

The Company's term deposits included in short-term investments are held through large Canadian financial institutions. Term deposits are composed of financial instruments issued by Canadian banks with high investment-grade ratings. The term deposit matures annually.

iii. Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach is to ensure that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed circumstances. The Company manages liquidity risk through the management of its capital structure and financial leverage as outlined in note 15.

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

17. Subsequent event

From July 1, 2013 to August 13, 2013, warrants entitling the holder to acquire 8,268,400 common shares expired unexercised