

Interim Consolidated Financial Statements of

TRUE NORTH GEMS INC.

As at and for the three month period ended March 31, 2010

Responsibility for financial statements

The accompanying financial statements for True North Gems Inc. (the "Company") have been prepared by management in accordance with Canadian generally accepted accounting principles consistently applied. These financial statements are unaudited and have not been reviewed by the auditors. The most significant of these accounting principles have been set out in the December 31, 2009 audited consolidated financial statements. There have been no changes in accounting policies from the latest completed financial year-end. These statements are presented on the accrual basis of accounting. Accordingly, a precise determination of many assets and liabilities is dependent upon future events. Therefore, estimates and approximations have been made using careful judgement. Recognizing that the Company is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these financial statements have been fairly presented

TRUE NORTH GEMS INC.
Interim Consolidated Balance Sheet
(Unaudited)

| | March 31, 2010 | December 31, 2009 |
|--|---------------------------|------------------------------|
| Expressed in Canadian dollars | | |
| ASSETS | | |
| Current | | |
| Cash | \$ 33,065 | \$ 244,029 |
| Investments (note 3) | 27,095 | 27,602 |
| Advances and accounts receivable | 28,653 | 41,176 |
| Deposits and prepaid expenses | 32,601 | 12,690 |
| | 121,414 | 325,497 |
| Capital assets (note 4) | 60,693 | 64,632 |
| Mineral properties (note 5) | 20,228,274 | 19,909,692 |
| | \$ 20,410,381 | \$ 20,299,821 |
| LIABILITIES | | |
| Current | | |
| Accounts payable and accrued liabilities | \$ 835,326 | \$ 654,979 |
| Loans payable | 110,000 | 110,000 |
| | 945,326 | 764,979 |
| Asset retirement obligations | 505,055 | 505,055 |
| | 1,450,381 | 1,270,034 |
| SHAREHOLDERS' EQUITY | | |
| Capital stock (note 6) | 33,357,080 | 33,307,080 |
| Warrants (note 6(c)) | 1,229,757 | 1,229,757 |
| Contributed surplus (note 7) | 3,126,169 | 3,091,453 |
| Deficit | (18,753,006) | (18,598,503) |
| | 18,960,000 | 19,029,787 |
| | \$ 20,410,381 | \$ 20,299,821 |

Going concern (note 1)

Approved on behalf of the Board:

(signed) William Anderson Director

(signed) John Ryder Director

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

TRUE NORTH GEMS INC.
Interim Consolidated Statements of Operations and Deficit
(Unaudited)

| For the three month period ended March 31, | 2010 | 2009 |
|---|------------------------|------------------------|
| Expressed in Canadian dollars | | |
| Expenses | | |
| Amortization | \$ 3,939 | \$ 9,094 |
| Consulting and corporate development fees | 52,500 | 77,250 |
| Corporate secretarial and accounting fees | 18,900 | 17,939 |
| Directors fees | 11,000 | 9,000 |
| General and administrative | 26,134 | 37,689 |
| Investor/shareholder relations | 27,360 | 26,267 |
| Legal fees | - | 1,644 |
| Rent and occupancy costs | 13,582 | 16,702 |
| Salaries and employee benefits | 19,652 | 19,305 |
| Stockbased compensation | 1,929 | - |
| Transfer agent and filing fees | 8,126 | 6,345 |
| Travel | 5,127 | 16,208 |
| | 188,249 | 237,443 |
| Loss before under noted items | (188,249) | (237,443) |
| Foreign exchange gain | 34,133 | 15,720 |
| Gain on sale of available-for-sale-investments | - | 3,991 |
| Interest income | (387) | 818 |
| Loss on sale of equipment | - | (148) |
| Net loss for period | (154,503) | (217,062) |
| Deficit, beginning of period | (18,598,503) | (16,246,086) |
| Deficit, end of period | \$ (18,753,006) | \$ (16,463,148) |
| Loss per share – basic and fully diluted | \$ (0.00) | \$ (0.00) |
| Weighted average number of common shares used in the calculation of loss per share – basic and fully diluted | 114,505,816 | 79,796,325 |

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

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

| For the three month period ended March 31, | 2010 | 2009 |
|---|---------------------|------------------|
| Expressed in Canadian dollars | | |
| Net loss for period before other comprehensive income | \$ (154,503) | \$ (217,062) |
| Unrealized gains on available-for-sale investments | - | 1,730 |
| Comprehensive loss for period | \$ (154,503) | (215,332) |

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

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

| For the three month period ended March 31, | 2010 | 2009 |
|---|------------------|-----------------|
| Expressed in Canadian dollars | | |
| Cash flows from operating activities | | |
| Net loss for period | \$ (154,503) | \$ (217,062) |
| Items not involving cash | | |
| Amortization | 3,939 | 9,094 |
| Loss (gain) on sale of available-for-sale investments | - | (3,991) |
| Loss on sale of equipment | - | 148 |
| Stockbased compensation | 1,929 | - |
| | (148,635) | (211,811) |
| Changes in operating assets and liabilities | | |
| Investments | 507 | 15,632 |
| Advances and accounts receivable | 12,523 | 5,284 |
| Deposits and prepaid expenses | (19,911) | 68,628 |
| Accounts payable and accrued liabilities | (44,913) | 92,786 |
| | (200,429) | (29,481) |
| Cash flows from investing activities | | |
| Purchase of capital assets | - | 2,625 |
| Expenditures on mineral properties | (235,795) | (67,489) |
| Change in operating assets and liabilities relating to investing activities | 242,116 | 66,219 |
| | 6,321 | 1,355 |
| Cash flows from financing activities | | |
| Proceeds from loans | - | 30,000 |
| Change in operating assets and liabilities relating to financing activities | (16,856) | - |
| | (16,856) | 30,000 |
| Increase (decrease) in cash | (210,964) | 1,874 |
| Cash, beginning of period | 244,029 | 4,206 |
| Cash, end of period | \$ 33,065 | \$ 6,080 |
| Supplement disclosure of cash flow information | | |
| Interest received | \$ - | \$ 818 |
| Supplemental disclosure of non-cash investing and financing activities | | |
| Debt settled through sale of equipment to vendor | \$ - | \$ 19,635 |
| Shares issued for acquisition of mineral properties | \$ 50,000 | \$ 50,000 |
| Stock options granted to project | \$ 32,787 | - |

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

TRUE NORTH GEMS INC.
Notes to Interim Consolidated Financial Statements
March 31, 2010 (unaudited)

Expressed in Canadian dollars

1. Going concern

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. Several adverse conditions cast significant doubt on the validity of that assumption. During the fiscal year ended March 31, 2010, the Company incurred a net loss and utilized funds in operations totalling \$154,503 and \$200,429 respectively. The accumulated deficit at March 31, 2010 is \$18,753,006. The Company has limited financial resources, no source of operating cash flow and no assurances that sufficient funding will be available to conduct further exploration and development of its mineral property projects.

The ability of the Company to continue as a going concern will depend upon the following:

- The ability to raise further funds through the issue of equity financing or through joint ventures;
- Continued financial support from creditors; and,
- The sale of non-core assets in the ordinary course of business.

Although the Company has been successful in obtaining the necessary financing to continue operations in the past, there can be no assurance that it will be able to continue to do so in the future.

If the going concern assumption were not appropriate for these financial statements, then adjustments would be necessary in the carrying values of assets, liabilities, the reported income and expenses and the balance sheet classifications used. Such adjustments could be material.

2. Accounting policies

a) Basis of presentation

The consolidated financial statements have been prepared using accounting principles generally accepted in Canada ("Canadian GAAP") for interim reporting.

The accounting policies followed by the Company are set out in note 2 to the audited consolidated financial statements for the year ended December 31, 2009 and have been consistently followed in the preparation of these financial statements.

b) New accounting pronouncements

i. Convergence with International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board ("AcSB") recently confirmed that International Financial Reporting Standards ("IFRS") will replace Canadian standards and interpretations on January 1, 2011. The process of changing from current Canadian GAAP to IFRS will be a significant undertaking that may materially affect reported financial position and results of operations and also affect certain business functions.

TRUE NORTH GEMS INC.
Notes to Interim Consolidated Financial Statements
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2. Accounting policies

- ii. Business combinations/consolidated financial statements/non-controlling interest
 In January 2009, the Canadian Institute of Chartered Accountants (“CICA”) adopted Handbook sections 1582, “Business Combinations”, 1601, “Consolidated Financial Statements” and 1602, Non-Controlling Interest”, which superseded current sections 1581, “Business Combinations” and 1600, “Consolidated Financial Statements”. These sections will be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier adoption is permitted. If an entity applies these sections before January 1, 2011, it is required to disclose that fact and apply each of the new sections concurrently. These new sections are the Canadian equivalent to IFRS.

3. Investments

| | March 31, 2010 | December 31, 2009 |
|---|---------------------------|------------------------------|
| 0.4% Term deposit maturing March 28, 2011 (December 31, 2009 - 0.2% Term deposit maturing March 28, 2010) | \$ 27,094 | \$ 27,190 |
| Accrued interest | 1 | 412 |
| | \$ 27,095 | \$ 27,602 |

The fair value of the term deposit at March 31, 2010 is \$27,095 (December 31, 2009 - \$27,602).

4. Capital assets

| | March 31, 2010 | | December 31, 2009 | |
|---|-----------------------|-------------------------------------|--------------------------|-------------------------------------|
| | Cost | Accumulated amortization | Cost | Accumulated amortization |
| Computer equipment | \$ 54,073 | \$ 36,885 | \$ 54,073 | \$ 35,512 |
| Computer software | 35,374 | 24,345 | 35,374 | 23,464 |
| Laboratory and gem processing equipment | 6,061 | 3,728 | 6,060 | 3,606 |
| Leasehold improvements | 82,118 | 82,118 | 82,118 | 82,118 |
| Office furniture and equipment | 92,069 | 61,926 | 92,069 | 60,362 |
| Less accumulated amortization | 269,695 (209,002) | <u>\$ 209,002</u> | 269,694 (205,062) | <u>\$ 205,062</u> |
| Net book value | \$ 60,693 | | \$ 64,632 | |

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Notes to Interim Consolidated Financial Statements
March 31, 2010

Expressed in Canadian dollars

5. Mineral properties

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

| Areas of interest | Acquisition | Exploration expenditure | Carrying value |
|---------------------------------|-------------------|-------------------------|----------------------|
| Greenland Property | \$ 547,836 | \$ 15,981,503 | \$ 16,529,339 |
| Baffin Island Property | 212,346 | 3,100,029 | 3,312,375 |
| Other Yukon Properties | 49,101 | 337,459 | 386,560 |
| Balance – March 31, 2010 | \$ 809,283 | \$ 19,418,991 | \$ 20,228,274 |

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, 2009 | \$ 16,234,397 | \$ 3,287,074 | \$ 388,221 | \$ 19,909,692 |
| Total acquisition for period | 50,000 | - | - | 50,000 |
| Exploration expenditures | | | | |
| Aviation | 2,574 | - | - | 2,574 |
| Camp construction and operation | 165 | - | - | 165 |
| Equipment | - | 14,700 | - | 14,700 |
| Other | 97,022 | 333 | (2,347) | 95,008 |
| Stock-based compensation | 32,787 | - | - | 32,787 |
| Technical services | 96,902 | 10,107 | 686 | 107,695 |
| Travel | - | 161 | - | 161 |
| Total exploration for period | 229,450 | 25,301 | (1,661) | 253,090 |
| Total expenditures before the following Gemstone test marketing study | 16,513,847 | 3,312,375 | 386,560 | 20,212,782 |
| | 15,492 | - | - | 15,492 |
| Balance- March 31, 2010 | \$ 16,529,339 | \$ 3,312,375 | \$ 386,560 | \$ 20,228,274 |

True Blue Property

On March 4, 2010, the Company entered into a Letter of Intent (“LOI”) with Great Western Minerals Ltd. (“GWMG”) whereby GWMG has been 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.

Under the terms of the LOI, GWMG can earn a 51% interest as follows:

- i. On signing payment of \$50,000 (April 7, 2010) and additional cash payments of \$350,000 in staged allotments over the four year option term;
- ii. Incur \$1,000,000 in exploration expenditure on or before December 31, 2010 and cumulative exploration expenditure of \$5,000,000 on or before December 31, 2013; and,
- iii. Issued 300,000 shares from treasury on signing and an additional 900,000 shares in staged allotments over the four year option term.

TRUE NORTH GEMS INC.
Notes to Interim Consolidated Financial Statements
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6. Mineral properties - continued

Once GWMG earns a 51% working interest in the property, it may earn an additional 14% interest by completing all expenditures through to completion of a Bankable Feasibility Study. GWMG will also have the right to market the Company's share of REE ("Rare Earth Element") production with a renewal option to the Company every three years.

The LOI is 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; however, the cash and share consideration has been received. It is now anticipated that the option and joint venture agreement will be executed on or before June 30, 2010 and submitted for regulatory approval.

6. Capital stock

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

b) Common shares issued

| | Number of Shares | Amount |
|---------------------------------|-----------------------------|----------------------|
| Balance – December 31, 2009 | 113,966,133 | \$ 33,307,080 |
| Mineral properties | 571,429 | 50,000 |
| Balance – March 31, 2010 | 114,537,562 | \$ 33,357,080 |

c) Warrants

Share purchase warrant transactions for the three month period ended March 31, 2010 and the year ended December 31, 2009 and the number of share purchase warrants outstanding are summarized as follows:

| | March 31, 2010 | | December 31, 2009 | |
|------------------------|-------------------------------|---------------------|-------------------------------|---------------------|
| | Number of warrants | Amount | Number of warrants | Amount |
| Opening balance | 46,245,466 | \$ 1,229,757 | 20,111,988 | \$ 855,471 |
| Warrants issued | - | - | 34,087,123 | 902,940 |
| Warrants expired | - | - | (7,953,645) | (528,654) |
| Closing balance | 46,245,466 | \$ 1,229,757 | 46,245,466 | \$ 1,229,757 |

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Notes to Interim Consolidated Financial Statements
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Expressed in Canadian dollars

6. Capital stock - continued

At March 31, 2010, the following share purchase warrants are outstanding:

| Number of warrants outstanding | Exercise price | Expiry date |
|---------------------------------------|-----------------------|--------------------|
| 1,774,383 | \$0.40 | 7-Aug-2010 |
| 234,010 | \$0.30 | 7-Aug-2010 |
| 9,612,700 | \$0.20 | 29-Oct-2010 |
| 537,250 | \$0.10 | 29-Oct-2010 |
| 13,700,000 | \$0.20 | 03-Jul-2011 |
| 274,383 | \$0.10 | 03-Jul-2011 |
| 13,000,000 | \$0.20 | 10-Aug-2011 |
| 1,910,000 | \$0.20 | 21-Aug-2011 |
| 5,002,000 | \$0.20 | 24-Dec 2011 |
| 200,740 | \$0.10 | 24-Dec 2011 |
| 46,245,466 | | |

d) Stock options

On June 26, 2009, the shareholders approved the Stock Option Plan (the "Plan"), for which up to 10% of the issued share capital can be reserved for issuance to executive officers and directors, employees and consultants. The exercise price of the options is set at the Company's closing share price on the day before the grant date less the applicable discount permitted under the TSX Venture Exchange policies. The options have a maximum term of five years and vest at date of grant. At March 31, 2010, 1,878,756 options are available for future grant under the Plan.

Stock option transactions for the three month period ended March 31, 2010 and the year ended December 31, 2009 and the number of stock options outstanding and exercisable are summarized for the respective financial period ends as follows:

| | March 31, 2010 | | December 31, 2009 | |
|-------------------|--------------------------|---|--------------------------|---|
| | Number of options | Weighted Average Exercise Price of Options Exercisable | Number of options | Weighted Average Exercise Price of Options Exercisable |
| Opening balance | 8,675,000 | \$0.25 | 5,275,000 | \$0.46 |
| Options granted | 900,000 | \$0.15 | 5,650,000 | \$0.15 |
| Options expired | - | - | (630,000) | \$0.64 |
| Options forfeited | - | - | (1,620,000) | \$0.43 |
| Closing balance | 9,575,000 | \$0.24 | 8,675,000 | \$0.25 |

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6. Capital stock - continued

The fair value of the 900,000 options granted during the three month period ended March 31, 2010 (year ended December 31, 2009 - 5,650,000) amounted to \$34,716 (December 31, 2009 - \$362,564) and has been determined using the Black-Scholes valuation model with the following assumptions:

| | March 31, 2010 | December 31, 2009 |
|--------------------------|---------------------------|------------------------------|
| Expected dividend yield | 0% | 0% |
| Stock price volatility | 104% | 100% |
| Risk free interest rate | 1.34% | 1.31% |
| Expected life of options | 2 years | 2 years |

At March 31, 2010, 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 |
|--|-------------------------------------|---|--|
| 900,000 | \$0.15 | \$0.15 | 4.87 years |
| 5,650,000 | \$0.15 | \$0.15 | 4.40 years |
| 2,145,000 | \$0.38-\$0.42 | \$0.39 | 1.89 years |
| 880,000 | \$0.56 | \$0.56 | 2.55 years |
| 9,575,000 | | | |

7. Contributed surplus

| | March 31, 2010 | December 31, 2009 |
|--|---------------------------|------------------------------|
| Opening balance | \$ 3,091,453 | \$ 2,200,235 |
| Reallocation of fair value of warrants on expiration | - | 528,654 |
| Stock-based compensation | 34,716 | 362,564 |
| Closing balance | \$ 3,126,169 | \$ 3,091,453 |

TRUE NORTH GEMS INC.
Notes to Interim Consolidated Financial Statements
March 31, 2010 (unaudited)

Expressed in Canadian dollars

8. Income tax

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:

| | March 31, 2010 | March 31, 2009 |
|---|---------------------------|---------------------------|
| Statutory rates | 29.8% | 30.0% |
| Income tax recovery computed at statutory rates | \$ 45,688 | \$ 65,021 |
| Other than temporary differences | | |
| Other | (881) | 2,273 |
| Stock-based compensation | (10,265) | - |
| | (11,146) | 2,273 |
| Book to tax differences | (5,337) | (175,828) |
| Change in valuation allowance | (29,205) | 108,534 |
| Recovery of income taxes | \$ - | \$ - |

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:

| | March 31, 2010 | December 31, 2010 |
|--------------------------------------|---------------------------|------------------------------|
| Future tax assets | | |
| Non-capital loss carry forwards | \$ 2,485,956 | \$ 2,438,885 |
| Other | 366,664 | 321,170 |
| Total gross future income tax assets | 2,852,620 | 2,760,055 |
| Less valuation allowance | (2,400,378) | (2,371,174) |
| Net future income tax assets | 452,242 | 388,881 |
| Less future tax liabilities | | |
| Resource properties | (452,242) | (388,881) |
| Net future income tax | \$ - | \$ - |

9. Related party transactions

(In addition to those disclosed elsewhere)

- a) At March 31, 2010, shareholders, officers, directors and management owed the Company \$9,026, which is included in advances and accounts receivable.

TRUE NORTH GEMS INC.
Notes to Interim Consolidated Financial Statements
March 31, 2010 (unaudited)

Expressed in Canadian dollars

9. Related party transactions- continued

(In addition to those disclosed elsewhere)

- b) As at March 31, 2010, shareholders, officers, directors and management are owed \$199,869, which is included within accounts payable and accrued liabilities. The balance represents unpaid amounts relating to fees and expenses. In addition, directors and officers are owed \$110,000 for funds advanced to the corporation.
- c) During the three month period ended March 31, 2010, directors and officers charged \$89,250 in fees for services rendered, of which \$71,250 was charged to operations and \$18,000 to mineral properties. These transactions were entered into on a normal commercial basis.

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.

In the management of capital, the Company includes the components of shareholders' equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

In order to maximize ongoing development efforts, the Company does not pay out dividends.

The Company's investment policy is generally to invest its cash in highly liquid short-term interest bearing investments with maturities 90 days or less from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations. Periodically, the Company will invest in interest bearing investments with maturities exceeding 90 days, if it is for a specific purpose.

The Company will be required to access financial resources through equity placements in the junior resource market in the current year to sustain operations of the Company. Further information related to management of capital risk and liquidity is set out in note 1.

TRUE NORTH GEMS INC.
Notes to Interim Consolidated Financial Statements
March 31, 2010 (unaudited)

Expressed in Canadian dollars

11. Financial instruments

- a) Analysis of financial assets and financial liabilities

The tables below sets out the Company's classification for each of its financial assets and liabilities at March 31, 2010

| | Fair value hierarchy level | Financial assets held-for-trading | Financial assets available-for-sale | Loans and receivables | Other financial liabilities | Total carrying value |
|--------------------------------------|-----------------------------------|--|--|------------------------------|------------------------------------|-----------------------------|
| Cash and cash equivalents | Level 1 | \$ 33,065 | \$ - | \$ - | \$ - | \$ 33,065 |
| Investments | Level 1 | - | 27,095 | - | - | 27,095 |
| Advances and accounts receivable | | - | - | 28,653 | - | 28,653 |
| Accounts payable and accrued charges | | - | - | - | (835,326) | (835,326) |
| Loans payable | | - | - | - | (110,000) | (110,000) |
| | | \$ 33,065 | \$ 27,095 | \$ 28,653 | \$ (945,326) | \$ (856,513) |

During 2009, CICA Handbook Section 3862 "Financial Instruments – Disclosures" was amended to require enhanced disclosure of financial instrument fair value measurements and liquidity risks. Financial instruments must be classified at one of three levels within a fair value hierarchy according to the relative reliability of the inputs used to estimate their values. The three of levels of the hierarchy are as follows :

- Level 1: Unadjusted quoted prices in active markets for identical assets and liabilities;
- Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and,
- Level 3: Inputs that are not based on observable market data.

- b) 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 March 31, 2010 and December 31, 2009.

- c) 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.

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11. Financial instruments - continued

At March 31, 2010, the Company is exposed to currency risk through the following assets and liabilities denominated in US dollars and Danish kroner:

| | March 31, 2010 | | December 31, 2009 | |
|--|----------------|-------------|-------------------|-------------|
| | USD | DKK | USD | DKK |
| Cash and cash equivalent | (864) | 28,315 | (919) | 60,294 |
| Accounts payable and accrued liabilities | (2,236) | (1,986,907) | - | (1,642,500) |
| Net asset (liability) position | (3,100) | (1,958,592) | (919) | (1,582,206) |

Based on the above net exposure as at March 31, 2010 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 \$36,451 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.

At March 31, 2010, the Company has a working capital deficiency of \$823,912. The Company intends to manage its obligations on a gradual settlement basis. The Company has initiated negotiations with its suppliers for the extension of credit terms, among others, as part of its debt management strategies.

Based upon the Company's current financial condition, delay in obtaining additional financing to sustain future operations and reliance upon continued financial support from creditors, the Company has a significant liquidity risk (note 1).

12. Segmented information

The Company's principal business segment is the acquisition, exploration and development of mineral properties. All of the Company's mineral properties are in the exploration and development stage and therefore exploration costs are deferred. The Company's current activities are focused in Canada and Greenland (note 5).