

*Interim Consolidated Financial Statements of*

**TRUE NORTH GEMS INC.**

*As at and for the six month period ended June 30, 2009*

*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, 2008 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)

	<b>June 30, 2009</b>	<b>December 31, 2008</b>
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 17,120	\$ 4,206
Investments (note 3)	27,328	55,632
Advances and accounts receivable	35,162	56,984
Yukon Mining Exploration Tax Credit receivable	-	15,454
Deposits and prepaid expenses	35,502	81,963
	115,112	214,239
<b>Capital assets</b> (note 4)	74,505	95,465
<b>Mineral properties</b> (note 5)	19,531,991	19,396,688
<b>Other</b> (note 14)	30,592	-
	<b>\$ 19,752,200</b>	<b>\$ 19,706,392</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 1,553,192	\$ 1,294,956
Loans payable (note 6)	110,000	40,000
	1,663,192	1,334,956
<b>Asset retirement obligations</b>	505,055	505,055
<b>Share subscriptions received</b> (note 14)	79,000	-
	2,247,247	1,840,011
<b>SHAREHOLDERS' EQUITY</b>		
<b>Capital stock</b> (note 7)	31,135,511	31,056,761
<b>Warrants</b> (note 7(c))	507,481	855,471
<b>Contributed surplus</b> (note 8)	2,548,225	2,200,235
<b>Deficit</b>	(16,686,264)	(16,246,086)
	17,504,953	17,866,381
	<b>\$ 19,752,200</b>	<b>\$ 19,706,392</b>

Going concern (note 1)  
Subsequent event (note 14)

Approved on behalf of the Board:

(signed) John Ryder Director

(signed) William Anderson Director

See notes to interim financial statements.

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

	Three month period ended		Cumulative six month period	
	2009	June 30, 2008	2009	ended June 30, 2008
<b>Expenses</b>				
Amortization	\$ 9,093	\$ 10,436	\$ 18,187	\$ 20,188
Audit and related services	(4,464)	1,741	(4,464)	1,741
Consulting and corporate development fees	86,930	121,047	164,180	179,491
Conventions and trade shows	2,712	14,138	11,698	101,502
Corporate financial services fees	20,000	-	20,000	-
Corporate secretarial and accounting fees	18,907	34,500	36,846	47,675
Directors fees	13,000	8,500	22,000	18,000
General and administrative	18,953	37,998	56,642	75,555
Investor/shareholder relations	18,079	43,905	35,360	133,897
Legal fees	3,606	6,803	5,250	12,915
Rent and occupancy costs	11,172	13,120	27,874	26,609
Salaries and employee benefits	16,542	20,732	35,847	49,486
Stock-based compensation	-	194,647	-	194,647
Transfer agent and filing fees	12,672	12,128	19,017	20,678
Travel	6,124	53,786	22,332	70,777
	233,326	573,481	470,769	953,161
Loss before under noted items	(233,326)	(573,481)	(470,769)	(953,161)
Foreign exchange gain (loss)	3,491	(24,405)	19,211	(22,513)
Gain on sale of available-for-sale-investments	4,928	-	8,919	-
Interest income	1,791	33,127	2,609	73,581
Loss on sale of equipment	-	-	(148)	-
Net loss for period	(223,116)	(564,759)	(440,178)	(902,093)
Deficit, beginning of period	(16,463,148)	(13,577,234)	(16,246,086)	(13,239,900)
<b>Deficit, end of period</b>	<b>\$ (16,686,264)</b>	<b>\$ (14,141,993)</b>	<b>\$ (16,686,264)</b>	<b>\$ (14,141,993)</b>
<b>Loss per share – basic and fully diluted</b>	<b>\$ (0.00)</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>
<b>Weighted average number of common shares used in the calculation of loss per share – basic and fully diluted</b>	<b>80,186,551</b>	<b>66,266,992</b>	<b>79,992,516</b>	<b>66,260,983</b>

See notes to interim financial statements.

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

	Three month period ended		Cumulative six month period	
	2009	June 30, 2008	2009	ended June 30, 2008
Net loss for period before other comprehensive income (loss)	\$ (223,116)	\$ (564,759)	\$ (440,178)	\$ (902,093)
Unrealized gains (losses) on available-for-sale investments (note 8)	-	13,475	1,730	(12,941)
Realized losses (gains) on available-for- sale investments (note 8)	(1,730)	-	(1,730)	-
<b>Comprehensive loss</b>	<b>\$ (224,846)</b>	<b>\$ (551,284)</b>	<b>\$ (440,178)</b>	<b>\$ (915,034)</b>

See notes to interim financial statements.

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

	<b>Three month period ended</b>		<b>Cumulative six month period</b>	
	<b>June 30,</b>		<b>ended June 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Cash flows from operating activities</b>				
Net loss for period	\$ (223,116)	\$ (564,759)	\$ (440,178)	\$ (902,093)
Items not involving cash				
Amortization	9,093	10,436	18,187	20,188
Gain on sale of available-for-sale investments	(4,928)	-	(8,919)	-
Loss on sale of equipment			148	
Stock-based compensation	-	194,647	-	194,647
	(218,951)	(359,676)	(430,762)	(687,258)
Changes in operating assets and liabilities				
Investments	21,591	-	37,223	(17,720)
Accounts receivable	16,539	40,511	21,822	53,177
Deposits and prepaid expenses	(22,168)	(76,045)	46,460	(68,957)
Accounts payable and accrued liabilities	194,482	(6,005)	287,270	(103,860)
	(8,507)	(401,215)	(37,987)	(824,618)
<b>Cash flows from investing activities</b>				
Purchase of capital assets	-	(10,634)	-	(14,037)
Acquisition of mineral properties	(2,736)	(4,277)	(2,736)	(4,277)
Expenditures on mineral properties	(3,337)	(2,043,973)	(70,826)	(3,080,342)
Receipt of Yukon Mining Exploration Tax Credit	15,454	-	15,454	-
Change in operating assets and liabilities relating to investing activities	(98,177)	(582,960)	(29,334)	(176,863)
	(88,796)	(2,641,844)	(87,442)	(3,275,519)
<b>Cash flows from financing activities</b>				
Proceeds from loans	40,000	-	70,000	-
Share subscriptions received	79,000	-	79,000	-
Capital raising costs	(30,592)	(2,560)	(30,592)	(2,560)
Change in operating assets and liabilities relating to financing activities	19,935	2,710	19,935	(4,065)
	108,343	150	138,343	(6,625)
Increase (decrease) in cash and cash equivalents	11,040	(3,042,909)	12,914	(4,106,762)
Cash and cash equivalents, beginning of period	6,080	3,380,227	4,206	4,444,080
<b>Cash and cash equivalents, end of period</b>	<b>\$ 17,120</b>	<b>\$ 337,318</b>	<b>\$ 17,120</b>	<b>\$ 337,318</b>
<b>Supplemental disclosure of cash flow information</b>				
Interest received	\$ 1,524	\$ 33,127	\$ 2,342	\$ 73,581
<b>Supplemental disclosure of non-cash investing and financing activities</b>				
Debt settled through sale of equipment to vendor	\$ -	-	\$ 19,635	\$ -
Shares issued for acquisition of mineral properties	\$ 28,750	-	\$ 78,750	\$ 50,000

See notes to interim financial statements.

**TRUE NORTH GEMS INC.**  
**Notes to Interim Consolidated Financial Statements**  
**June 30, 2009 (unaudited)**

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**1. Going concern**

These interim 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 six month period ended June 30, 2009, the Company incurred a net loss and utilized funds in operations totaling \$440,178 and \$37,987 respectively. The accumulated deficit at June 30, 2009 is \$16,686,264. 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 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 financial statements for the year ended December 31, 2008 and have been consistently followed in the preparation of these financial statements except that the Company has adopted the following CICA standards effective for the Company's first quarter of fiscal 2009 commencing January 1, 2009.

i. Goodwill and intangible assets

The CICA issued the new Handbook Section 3064, "Goodwill and Intangible Assets", which will replace Section 3062, "Goodwill and Other Intangible Assets". The new standard establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of preproduction and start-up costs and requires that these costs be expensed as incurred. The new standard applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. The adoption of this standard has had no impact on the Company's financial statements.

b) New accounting pronouncements

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

In 2006, the Canadian Accounting Standards Board ("AcSB") published a strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian generally accepted accounting principles ("Canadian GAAP") with IFRS over an expected five year transitional period. The AcSB announced in February 2008 that 2011 will be the changeover date for publicly-listed companies to use IFRS, replacing Canadian GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ending December 31, 2010. The Company has begun an internal diagnostic review to understand, identify and assess the overall effort required to produce financial information under IFRS, however, at this time, the financial reporting impact of the transition to IFRS has not been determined.

**TRUE NORTH GEMS INC.**  
**Notes to Interim Consolidated Financial Statements**  
**June 30, 2009 (unaudited)**

**2. Accounting policies - continued**

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**

	<b>June 30, 2009</b>		
	<b>Cost</b>	<b>Accumulated unrealized holding gains (losses)</b>	<b>Carrying value</b>
2% Term deposit maturing March 29, 2010 fair value-\$27,328	\$ 27,328	\$ -	\$ 27,328

	<b>December 31, 2008</b>		
	<b>Cost</b>	<b>Impairment</b>	<b>Carrying value</b>
1.95% Term deposit maturing March 28, 2009, fair value-\$27,061	\$ 27,061	\$ -	\$ 27,061
Marketable securities, fair value – \$28,571	140,436	(111,865)	28,571
	<b>\$ 167,497</b>	<b>\$ (111,865)</b>	<b>\$ 55,632</b>

Investments classified as available-for-sale are reported at fair market value (or marked to market) based on quoted prices with unrealized gains or losses excluded from earnings and reported as other comprehensive income or loss unless other than temporary. All of the above investments have been designated as available-for-sale.

**4. Capital assets**

	<b>June 30, 2009</b>		<b>December 31, 2008</b>	
	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Cost</b>	<b>Accumulated amortization</b>
Computer equipment	\$ 54,073	\$ 31,534	\$ 57,540	\$ 28,250
Computer software	30,979	21,186	30,979	19,458
Laboratory and gem processing equipment	6,060	3,300	6,060	2,993
Leasehold improvements	82,118	78,375	82,118	70,164
Office furniture and equipment	92,069	56,399	92,069	52,436
	265,299	\$ 190,794	268,766	\$ 173,301
Less accumulated amortization	(190,794)		(173,301)	
<b>Net book value</b>	<b>\$ 74,505</b>		<b>\$ 95,465</b>	

**TRUE NORTH GEMS INC.**  
**Notes to Interim Consolidated Financial Statements**  
**June 30, 2009 (unaudited)**

**5. Mineral properties**

The following table summarizes the Company's investment in mineral properties as at June 30, 2009:

Areas of interest	Acquisition	Exploration expenditure	Carrying value
Greenland Property	\$ 384,237	\$ 14,378,040	\$ 14,762,277
Baffin Island Property	212,346	3,065,420	3,277,766
Tsa da Glisza Property	534,565	588,432	1,122,997
Bandito Property	49,100	319,851	368,951
<b>Balance – June 30, 2009</b>	<b>\$ 1,180,248</b>	<b>\$ 18,351,743</b>	<b>\$ 19,531,991</b>

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

Areas of interest	Greenland Property	Baffin Island Property	Tsa da Glisza Property	Bandito Property	Total
Balance- December 31, 2008	\$ 14,644,838	\$ 3,261,043	\$ 1,125,472	\$ 365,335	\$ 19,396,688
Total acquisition for period	81,486	-	-	-	81,486
Exploration expenditures					
Camp construction and operation	30,346	6,922	(396)	-	36,872
Environmental assessment	(62,087)	-	-	-	(62,087)
Equipment rental	-	3,914	-	-	3,914
Gemstone processing	(32)	-	-	-	(32)
Other	14,496	768	123	3,467	18,854
Technical services	37,673	5,119	(2,202)	149	40,739
Travel	8,371	-	-	-	8,371
Total exploration for period	28,767	16,723	(2,475)	3,616	46,631
Total expenditures before the following	14,755,091	3,277,766	1,122,997	368,951	19,524,805
Gemstone test marketing study	24,196	-	-	-	24,196
Proceeds from sale of equipment and field supplies	(17,010)	-	-	-	(17,010)
<b>Balance- June 30, 2009</b>	<b>\$ 14,762,277</b>	<b>\$ 3,277,766</b>	<b>\$ 1,122,997</b>	<b>\$ 368,951</b>	<b>\$ 19,531,991</b>

The Fiskenaasset Licence was obtained by the Company satisfying all the terms of an option agreement with Brereton Engineering and Developments Ltd. ("Brereton"). Ongoing commits from the option agreement include cash payments of \$50,000 and issue of \$50,000 worth of shares from treasury annually for each year the Company maintains the exploration licence. Brereton agreed to defer the cash payment of \$50,000 (paid August 21, 2009) that was due January 1, 2009. As consideration, the Company issued Brereton an additional 250,000 shares from treasury. 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.

**6. Loans payable**

The loans payable are due upon demand, secured by promissory notes and bear interest at the rate of 8% per annum. Included in the loan balance is \$80,000 advanced by directors of which \$40,000 was advanced during the year ended December 31, 2008 and the additional \$40,000 during the six month period ended June 30, 2009.



**TRUE NORTH GEMS INC.**  
**Notes to Interim Consolidated Financial Statements**  
**June 30, 2009 (unaudited)**

**7. Capital stock - continued**

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

b) Common shares issued

	<b>Number of Shares</b>	<b>Amount</b>
Balance – December 31, 2008	79,428,457	\$ 31,056,761
Mineral properties	925,676	78,750
<b>Balance – June 30, 2009</b>	<b>80,354,133</b>	<b>\$ 31,135,511</b>

c) Warrants

Share purchase warrant transactions for the six month period ended June 30, 2009 and the year ended December 31, 2008 and the number of share purchase warrants outstanding are summarized as follows:

	<b>June 30, 2009</b>		<b>December 31, 2008</b>	
	<b>Number of warrants</b>	<b>Amount</b>	<b>Number of warrants</b>	<b>Amount</b>
Opening balance	20,111,988	\$ 855,471	12,087,749	\$ 891,595
Warrants issued	-	-	12,158,343	326,817
Warrants expired	(5,501,645)	(347,990)	(4,134,104)	(362,941)
<b>Closing balance</b>	<b>14,610,343</b>	<b>\$ 507,481</b>	<b>20,111,988</b>	<b>\$ 855,471</b>

At June 30, 2009, the following share purchase warrants are outstanding:

<b>Number of warrants outstanding</b>	<b>Exercise price</b>	<b>Expiry date</b>
2,452,000	\$1.00	29-Nov-2009
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
<b>14,610,343</b>		

d) Stock options

On June 27, 2008, 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, 2009, 4,285,413 options are available for future grant under the Plan.

**TRUE NORTH GEMS INC.**  
**Notes to Interim Consolidated Financial Statements**  
**June 30, 2009 (unaudited)**

**7. Capital stock - continued**

Stock option transactions for the six month period ended June 30, 2009 and year ended December 31, 2008 and the number of stock options outstanding and exercisable are summarized for the respective periods as follows:

	<b>June 30, 2009</b>		<b>December 31, 2008</b>	
	<b>Number of options</b>	<b>Weighted Average Exercise Price</b>	<b>Number of options</b>	<b>Weighted Average Exercise Price</b>
Opening balance	5,275,000	\$0.46	4,025,000	\$0.54
Options granted	-	-	1,670,000	\$0.38
Options expired	(630,000)	-	(420,000)	\$0.83
Options forfeited	(895,000)	\$0.45	-	-
<b>Closing balance</b>	<b>3,750,000</b>	<b>\$0.46</b>	<b>5,275,000</b>	<b>\$0.46</b>

At June 30, 2009, stock options outstanding are as follows:

<b>Number of Stock Options Outstanding</b>	<b>Exercise Price \$</b>	<b>Expiry Date</b>
895,000	\$0.40	30-Aug-2010
575,000	\$0.415	26-Jul-2011
980,000	\$0.56	16-Oct-2012
1,300,000	\$0.38	03-Apr-2013
<b>3,750,000</b>		

**8. Contributed surplus**

	<b>June 30, 2009</b>	<b>December 31, 2008</b>
Opening balance	\$ 2,200,235	\$ 1,568,227
Reallocation of fair value of warrants on expiration	347,990	362,941
Stock-based compensation	-	269,067
<b>Closing balance</b>	<b>\$ 2,548,225</b>	<b>\$ 2,200,235</b>

**9. Accumulated other comprehensive loss**

	<b>June 30, 2009</b>	<b>December 31, 2008</b>
Opening balance	\$ -	\$ (9,862)
Unrealized gains (losses) on available-for-sale investments	1,730	(112,190)
Realized losses (gains) on available-for-sale investments	(1,730)	10,187
Impairment of available-for-sale investments	-	111,865
<b>Closing balance</b>	<b>\$ -</b>	<b>\$ -</b>

**TRUE NORTH GEMS INC.**  
**Notes to Interim Consolidated Financial Statements**  
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**10. 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:

	<b>June 30, 2009</b>	<b>June 30, 2008</b>
Statutory rates	30.0%	27.0%
Income tax recovery computed at statutory rates	\$ 131,960	\$ 243,565
Other than temporary differences	1,188	(57,679)
Book to tax differences	79,687	(373,542)
Change in valuation allowance	(212,835)	187,656
<b>Recovery of income taxes</b>	<b>\$ -</b>	<b>\$ -</b>

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:

	<b>June 30, 2009</b>	<b>December 31, 2008</b>
Future tax assets		
Non-capital loss carry forwards	\$ 2,431,984	\$ 2,187,339
Other	260,922	281,191
Total gross future income tax assets	2,692,906	2,468,530
Less valuation allowance	(1,987,074)	(1,765,069)
Net future income tax assets	705,832	703,461
Less future tax liabilities		
Resource properties	(705,832)	(703,461)
<b>Net future income tax</b>	<b>\$ -</b>	<b>\$ -</b>

**11. Related party transactions**

(In addition to those disclosed elsewhere)

- a) As at June 30, 2009, shareholders, officers, directors and management owed the Company \$4,301, which is included in advances and accounts receivable.
- b) As at June 30, 2009, shareholders, officers, directors and management are owed \$356,611, which is included within accounts payable and accrued liabilities. The balance represents unpaid amounts relating to fees and expenses. In addition, directors are owed \$80,000 for funds advanced to the corporation (note 6).
- c) During the six month period ended June 30, 2009, officers charged \$238,680 in fees for services rendered. These transactions were entered into on a normal commercial basis.
- d) During the six month period ended June 30, 2009, Austring Fendrick Fairman & Parkkari, a firm in which Greg Fekete, an officer of the Company, is a partner charged fees of \$497 for legal services. These transactions were entered into on a normal commercial basis.

**TRUE NORTH GEMS INC.**  
**Notes to Interim Consolidated Financial Statements**  
**June 30, 2009 (unaudited)**

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**12. 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, as well the cash and cash equivalents, investments and investment tax credit receivable balances.

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 or adjust the amount of cash and cash equivalents and investments.

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 or alternatively a debt issue in the current year to sustain operations of the Company.

**13. Financial instruments**

a) Analysis of financial assets and financial liabilities

The table below sets out the Company's classification for each of its financial assets and liabilities at June 30, 2009.

	<b>Financial assets held-for-trading</b>	<b>Financial assets available-for-sale</b>	<b>Loans and receivables</b>	<b>Other financial liabilities</b>	<b>Total carrying value</b>
Cash and cash equivalents	\$ 17,120	\$ -	\$ -	\$ -	\$ 17,120
Investments	-	27,328	-	-	27,328
Advances and accounts receivable	-	-	35,162	-	35,162
Accounts payable and accrued charges	-	-	-	(1,553,192)	(1,553,192)
Loans payable	-	-	-	(110,000)	(110,000)
	<b>\$ 17,120</b>	<b>\$ 27,328</b>	<b>\$ 35,162</b>	<b>\$ (1,663,192)</b>	<b>\$ (1,583,582)</b>

b) Fair values

The carrying value of the Company's advances and accounts receivable and accounts payable and accrued charges approximate their fair value at June 30, 2009 due to their short term nature.

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.

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**13. Financial instruments - continued**

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.

As at June 30, 2009, the Company is exposed to currency risk through the following assets and liabilities denominated in US dollars and Danish kroner:

	June 30, 2009		December 31, 2008	
	USD	DKK	USD	DKK
Cash	(901)	6,443	(856)	3,899
Accounts payable and accrued liabilities	(10,423)	(2,563,406)	(4,683)	(2,798,795)

Based on the above net exposure as at June 30, 2009 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 \$57,570 (December 31, 2008 - \$64,650) 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 June 30, 2009, the Company has a working capital deficiency of \$1,548,080. 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).

**14. Subsequent event**

Subsequent to June 30, 2009, the Company completed a non-brokered private placement of 28,510,000 units at a price of \$0.10 per unit. The gross proceeds of the unit placement totaled \$2,851,000 of which \$79,000 was received prior to June 30, 2009. Each unit comprised of one common share and one warrant entitling the holder to purchase one common share at a price of \$0.20 for a two year period. If the trading price of the common shares of the Company closes above \$0.30 for a period of 10 consecutive days at any time after the four month hold period has lapsed, the Company will have the right to accelerate the expiry date of all unexercised warrants. Finder's fees of \$179,318 were paid and 274,383 broker warrants were issued, convertible on the same terms as the private placement in connection with this financing. Issuance costs totaling \$30,592 incurred prior to June 30, 2009 relating to the private placement have been deferred and are recorded as other assets. Directors and officers of the Company acquired 1,245,000 of the units issued.