Interim Consolidated Financial Statements of

TRUE NORTH GEMS INC.

As at and for the nine month period ended September 30, 2008 (Unaudited – prepared by management)

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, 2007 audited 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

		September 30, 2008 (unaudited)		December 31, 2007
ASSETS				
Current				
Cash and cash equivalents (note 3)	$	19,085	$	4,444,081
Investments (note 4)		98,147		156,087
Advances and accounts receivable		168,033		111,449
Yukon Mining Exploration Tax Credit receivable		15,454		15,454
Deposits and prepaid expenses		135,802		91,378
		436,521		4,818,449
Capital assets (note 5)		106,418		119,959
Mineral properties (note 6)		20,390,416		15,033,476
	$	**20,933,355**	**$**	**19,971,884**
LIABILITIES				
Current				
Accounts payable and accrued liabilities	$	1,708,221	$	634,009
Provision for reclamation costs		500,055		500,055
		2,208,276		1,134,064
SHAREHOLDERS' EQUITY				
Capital stock (note 7)		30,464,274		29,627,760
Warrants (note 7(c))		672,344		891,595
Contributed surplus (note 8)		2,184,064		1,568,227
Deficit		(14,527,559)		(13,239,900)
Accumulated other comprehensive loss (note 9)		(68,044)		(9,862)
		18,725,079		18,837,820
	$	**20,933,355**	**$**	**19,971,884**

Going-concern (note 1)
Subsequent events (note 15)

Approved on behalf of the Board:

(signed) Andrew Lee Smith Director (signed) William Anderson Director

See notes to interim consolidated financial statements.

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

	Three month period ended September 30, 2008	Three month period ended September 30, 2007	Cumulative nine month period ended September 30, 2008	Cumulative nine month period ended September 30, 2007
Expenses				
Amortization	$ 10,849	$ 10,225	$ 31,037	$ 29,449
Audit and related services	400	-	2,141	8,867
Consulting and corporate development fees	152,840	30,025	332,331	139,020
Conventions and trade shows	9,488	6,950	110,990	63,168
Corporate financial services fees	-	-	-	71,995
Corporate secretarial and accounting fees	24,144	20,175	71,819	81,325
Directors fees	9,000	-	27,000	92,500
General and administrative	40,349	30,787	115,902	96,598
Investor/shareholder relations	37,695	100,351	171,592	232,543
Legal fees	1,093	5,957	14,009	15,703
Rent and occupancy costs	18,618	9,985	45,227	28,900
Salaries and employee benefits	21,658	20,472	71,145	70,972
Stock-based compensation	-	-	194,647	-
Transfer agent and filing fees	4,626	3,014	25,304	22,421
Travel	19,093	16,680	89,870	44,137
	349,853	254,621	1,303,014	997,598
Loss before under noted items	(349,853)	(254,621)	(1,303,014)	(997,598)
Foreign exchange gain (loss)	(25,502)	29,734	(48,015)	5,867
Gain (loss) on sale of available-for-sale-investments	(12,288)	(9,815)	(12,288)	26,785
Interest income	2,077	29,997	75,658	82,982
Net loss for period	(385,566)	(204,705)	(1,287,659)	(881,964)
Deficit, beginning of period	(14,141,993)	(10,309,759)	(13,239,900)	(9,632,500)
Deficit, end of period	**$ (14,527,559)**	**$ (10,514,464)**	**$ (14,527,559)**	**$ (10,514,464)**
Loss per share – basic and fully diluted	**$ (0.01)**	**$ (0.00)**	**$ (0.02)**	**$ (0.02)**
Weighted average number of common shares used in the calculation of loss per share – basic and fully diluted	**68,349,963**	**58,040,127**	**66,966,384**	**54,800,415**

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

	Three month period ended September 30, 2008	2007	Cumulative nine month period ended September 30, 2008	2007
Net loss for period before other comprehensive income (loss)	$ (385,566)	$ (204,705)	$ (1,287,659)	$ (881,964)
Unrealized gains (losses) on available-for-sale investments (note 9)	(55,429)	5,213	(68,370)	(2,592)
Realized losses (gains) on available-for- sale investments (note 9)	10,188	9,365	10,188	4,475
Comprehensive loss	**$ (430,807)**	**$ (190,127)**	**$ (1,345,841)**	**$ (880,081)**

See notes to interim consolidated financial statements.

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

	Three month period ended September 30, 2008	2007	Cumulative nine month period ended September 30, 2008	2007
Cash flows from operating activities				
Net loss for period	$ (385,566)	$ (204,705)	$ (1,287,659)	$ (881,964)
Items not involving cash				
Amortization	10,849	10,225	31,037	29,449
Loss (gain) on sale of available-for-sale investments	12,288	9,815	12,288	(26,785)
Stock-based compensation	-	-	194,647	-
	(362,429)	(184,665)	(1,049,687)	(879,300)
Changes in operating assets and liabilities				
Investments	5,190	13,938	(12,530)	6,407
Advances and accounts receivable	(26,318)	(77,214)	26,859	(63,092)
Deposits and prepaid expenses	24,533	(33,843)	(44,424)	(42,197)
Accounts payable and accrued liabilities	188,395	(11,457)	84,533	(31,588)
	(170,629)	(293,241)	(995,249)	(1,009,770)
Cash flows from investing activities				
Purchase of capital assets	(3,459)	(7,271)	(17,495)	(18,356)
Acquisition of mineral properties	(6,159)	(1,012)	(10,436)	(32,073)
Expenditures on mineral properties	(2,137,064)	(2,672,117)	(5,217,406)	(4,738,460)
Receipt of Yukon Mining Exploration Tax Credit	-	161,229		161,229
Change in operating assets and liabilities relating to investing activities	1,056,384	708,558	879,520	923,744
	(1,090,298)	(1,810,613)	(4,365,817)	(3,703,916)
Cash flows from financing activities				
Shares and warrants issued for cash	1,002,900	124,850	1,002,900	5,948,200
Capital raising costs	(90,984)	(3,507)	(93,544)	(530,605)
Change in operating assets and liabilities relating to financing activities	30,778	2,369	26,714	(8,822)
	942,694	123,712	936,070	5,408,773
Increase (decrease) in cash and cash equivalents	(318,233)	(1,980,142)	(4,424,996)	695,087
Cash and cash equivalents, beginning of period	337,318	3,970,073	4,444,081	1,294,844
Cash and cash equivalents, end of period	**$ 19,085**	**$ 1,989,931**	**$ 19,085**	**$ 1,989,931**
Supplemental disclosure of cash flow information				
Interest received	$ 1,914	$ 31,372	$ 75,495	$ 57,561
Supplemental disclosure of non-cash investing and financing activities				
Shares issued for acquisition of mineral properties	$ -	$ -	$ 54,677	$ 32,500
Shares and warrants issued to agent for commission	$ 84,980	$ -	$ 84,980	$ 63,488

See notes to interim consolidated financial statements.

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 nine month period ended September 30, 2008, the Company incurred a net loss and utilized funds in operations totalling $1,287,659 and $995,249 respectively. The accumulated deficit at September 30, 2008 is $14,527,559. 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; and,
- The sale of 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, 2007 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 commencing January 1, 2008.

i. Capital disclosures and financial instruments – disclosures and presentation
On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535, “Capital Disclosures, Handbook Section 3862, “Financial Instruments – Disclosures” and Handbook Section 3863, “Financial Instruments – Presentation”. Section 1535 specifies the disclosure of (i) an entity’s objective, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital reporting requirements; and, (iv) if it has not complied, the consequences of such non-compliance. The new sections 3862 and 3863 replace Handbook Section 3861, “Financial Instruments – Disclosure and Presentation”, revising and enhancing its disclosure requirements and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how a company manages those risks.

ii. Inventories
In March 2007, the CICA issued the new Handbook Section 3031, “Inventories”, which will replace Section 3030, “Inventories”. The new Section states that inventories shall be measured at the lower of cost and net realizable value. It provides guidelines on determining cost, prohibiting going forward the use of the last in, first out method (LIFO) and requires the reversal of a previous write-down when the value of inventories increases. The new standard will apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The Company has evaluated the impact of Section 3031 and determined that no adjustments are currently required.

2. Accounting policies - continued

iii. General standards on financial statement presentation
CICA Section 1400, "General Standards on Financial Statement Presentation", has been amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The changes are effective for interim and annual financial statements beginning on or after January 1, 2008. The Company does not expect the adoption of this standard to have an impact on its financial statements.

iv. 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 Company does not expect the adoption of this standard to have an impact on its financial statements.

b) Basis of consolidation
These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Kitaa Ruby A/S, from the respective date of formation (September 2, 2008). All inter-entity balances and transactions have been eliminated.

b) Comparative figures
i. Restatement
The interim financial statements for the nine month period ended September 30, 2007 have been restated to reflect the adoption of Section 1530 - Comprehensive Income during the year ended December 31, 2007. As a result, net loss before other comprehensive income for the nine month period ended September 30, 2007 decreased (increased) by $9,435 (three month period ended September 30, 2007 - $6,530), other comprehensive gain for the nine month period ended September 30, 2007 increased by $1,883 (three month period ended September 30, 2007 -$14,578) and accumulated other comprehensive gain increased by $8,258 and investments increased by $17,693.
ii. Reclassification
Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.

3. Cash and cash equivalents

a) Cash and cash equivalents

Cash and cash equivalents are comprised of:

		September 30, 2008		December 31, 2007
Cash	$	19,085	$	248,581
Term deposits with original maturity of less than three months		-		4,195,500
Cash and cash equivalents	**$**	**19,085**	**$**	**4,444,081**

b) Cash – restricted
The Company entered into flow-through financing arrangements with investors during the financial year ended December 31, 2007 whereby it is committed to incur $393,250 in qualified exploration expenditures on or before December 31, 2008. At September 30, 2008, expenditures of $35,692 remain to be incurred.

4. Investments

			September 30, 2008
	Cost	**Accumulated unrealized holding gains (losses)**	**Carrying value**
1.95% Term deposit maturing March 28, 2009, fair value- $26,930	$ 26,930	$ -	$ 26,930
Marketable securities, fair value - $71,217	143,601	(72,384)	71,217
	$ 170,531	**$ (72,384)**	**$ 98,147**

			December 31, 2007
	Cost	**Accumulated unrealized holding gains (losses)**	**Carrying value**
2.5% Term deposit maturing March 29, 2008, fair value- $26,615	$ 26,615	$ -	$ 26,615
Marketable securities, fair value - $129,472	139,334	(9,862)	129,472
	$ 165,949	**$ (9,862)**	**$ 156,087**

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. All of the above investments have been designated as available-for-sale.

5. Capital assets

	September 30, 2008		December 31, 2007	
	Cost	**Accumulated amortization**	**Cost**	**Accumulated amortization**
Computer equipment	$ 57,540	$ 25,268	$ 43,731	$ 17,776
Computer software	30,979	18,263	27,329	15,040
Laboratory and gem processing equipment	6,061	2,801	6,024	2,228
Leasehold improvements	82,118	66,058	82,118	53,740
Office furniture and equipment	92,069	49,959	92,069	42,528
	268,767	$ 162,349	251,271	$ 131,312
Less accumulated amortization	(162,349)		(131,312)	
Net book value	**$ 106,418**		**$ 119,959**	

6. Mineral properties

The following table summaries the Company's investment in mineral properties as at September 30, 2008:

	Acquisition	**Expenditure**	**September 30, 2008 Carrying value**	**December 31, 2007 Carrying value**
Mineral properties				
Greenland Property	$ 317,207	$ 13,018,237	$ 13,335,444	$ 8,816,611
Baffin Island Property	212,346	3,014,648	3,226,994	2,860,251
Tsa da Glisza Property	534,565	1,981,469	2,516,034	2,495,385
Bandito Property	49,100	315,648	364,747	361,687
Total mineral properties – deferred expenditures (Table below)	1,113,218	18,330,002	19,443,219	14,533,934
Pre-operating – production costs	-	947,197	947,197	499,542
	$ 1,113,218	**$ 19,277,199**	**$ 20,390,416**	**$ 15,033,476**

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, 2007	$ 8,816,611	$ 2,860,251	$ 2,495,385	$ 361,687	$ 14,533,934
Total acquisition for period	64,456	658	-	-	65,114
Exploration expenditures					
Advances	10,152	-	(250)	-	9,902
Aviation	781,194	-	-	-	781,194
Camp construction and operation	662,847	82,164	13,287	-	758,298
Diamond drilling	446,323	759	-	-	447,082
Environmental assessment	198,732	-	-	-	198,732
Equipment	722,243	20,836	-	-	743,079
Equipment rental	13,127	32,306	-	-	45,433
Gemstone processing	315,779	21,809	-	-	337,588
Other	227,889	32,374	377	1,805	262,445
Plant operations	6,374	-	-	-	6,374
Project management	6,606	-	1,365	-	7,971
Stock-based compensation	58,309	8,056	-	-	66,365
Technical services	812,932	138,911	5,870	307	958,020
Travel	191,870	28,870	-	948	221,688
Total exploration for period	4,454,377	366,085	20,649	3,060	4,844,171
Balance – September 30, 2008	**$ 13,335,444**	**$ 3,226,994**	**$ 2,516,034**	**$ 364,747**	**$ 19,443,219**

7. Capital stock

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

b) Common shares issued

	Number of Shares		Amount
Balance – December 31, 2007	66,145,486	$	29,627,760
Mineral properties (i)	121,506		54,677
Private placement (ii)	3,343,000		1,002,900
Units issued to agents as commission (ii)	205,765		61,730
Reallocation of fair value of warrants issued			(125,276)
Capital raising costs	-		(157,517)
Balance – September 30, 2008	**69,815,757**	**$**	**30,464,274**

i. On January 10, 2008, the Company issued 121,506 common shares to satisfy its obligation under the terms of a property option agreement

ii. On August 8, 2008, the Company completed a brokered private placement of 3,343,000 units at $0.30 per unit. The gross proceeds of the unit placement totaled $1,002,900. Each unit comprised of one common share and one-half warrant, each whole such warrant entitling the holder to purchase one common share at a price of $0.40 for a two year period. If the trading price of the common shares of the Company closes above $0.75 per share at anytime following expiry of the hold period for 10 or more consecutive days, the Company will have the right to accelerate the expiry date of all unexercised warrants. The selling agent was paid a cash commission of $8,473, issued 205,765 agent's units (with the same terms as described above) and 234,010 agent's warrants. Each agent's warrant is exercisable into one common share for a two year period at a price of $0.30 per share. Directors and officers of the Company acquired 660,000 of the units issued.

c) Warrants

Share purchase warrant transactions for the nine month period ended September 30, 2008 and the year ended December 31, 2007 and the number of share purchase warrants outstanding are summarized as follows:

	September 30, 2008			**December 31, 2007**		
	Number of warrants		**Amount**	**Number of warrants**		**Amount**
Opening balance	12,087,749	$	891,595	15,908,664	$	553,505
Warrants issued	2,008,393		127,519	7,961,655		527,084
Warrants exercised	-		-	(3,209,142)		(15,121)
Warrants expired	(3,912,834)		(346,770)	(8,573,428)		(173,873)
Closing balance	**10,183,308**	**$**	**672,344**	**12,087,749**	**$**	**891,595**

The fair value of the 2,008,393 warrants issued in connection with unit private placements completed during the financial year ended June 30, 2008 totalled $148,526 net of warrant issue costs amounting to $21,007 (net $127,519). The warrants were valued using the Black-Scholes valuation model, using the following assumptions:

Warrant term	Volatility	Dividend yield	Risk-free interest rate	Warrants Issued		Fair value		Warrant issue costs		Net
2 years	66%	0%	2.71%	1,671,500	$	118,012	$	21,007	$	97,005
2 years	66%	0%	2.71%	102,883		7,264		-		7,264
2 years	66%	0%	2.71%	234,010		23,250		-		23,250
				2,008,393	$	148,526	$	21,007	$	127,519

7. Capital stock - continued

At September 30, 2008, the following share purchase warrants are outstanding:

Number of warrants outstanding	Exercise price	Expiry date
221,270	$0.85	18-Dec-2008
3,796,100	$1.00	14-Mar-2009
1,705,545	$1.00	3-Apr-2009
2,452,000	$0.70/$1.00	29-Nov-2008/2009
1,774,383	$0.40	7-Aug-2010
234,010	$0.30	7-Aug-2010
10,183,308		

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 September 30, 2008, 1,706,576 options are available for future grant under the Plan.

Stock option transactions for the nine month period ended September 30, 2008 and the year ended December 31, 2007 and the number of stock options outstanding and exercisable are summarized for the respective financial year ends as follows:

	September 30, 2008		December 31, 2007	
	Number of options	Weighted Average Exercise Price	Number of options	Weighted Average Exercise Price
Opening balance	4,025,000	$0.54	3,935,000	$0.51
Options granted	1,670,000	$0.38	1,160,000	$0.56
Options exercised	-	-	(200,000)	$0.35
Options expired	(420,000)	$0.83	(520,000)	$0.50
Options forfeited	-	-	(350,000)	$0.49
Closing balance	5,275,000	$0.46	4,025,000	$0.54

At September 30, 2008, stock options outstanding are as follows:

Number of Stock Options Outstanding	Exercise Price $	Expiry Date
650,000	$0.64	25-Jun-2009
1,070,000	$0.40	30-Aug-2010
725,000	$0.415	26-Jul-2011
1,160,000	$0.56	16-Oct-2012
1,670,000	$0.38	03-Apr-2013
5,275,000		

8. Contributed surplus

	September 30, 2008	December 31, 2007
Opening balance	$ 1,568,227	$ 1,167,768
Options exercised for cash	-	(25,397)
Reallocation of fair value of warrants on expiration	346,770	173,873
Stock-based compensation	269,067	251,983
Closing balance	**$ 2,184,064**	**$ 1,568,227**

9. Accumulated other comprehensive loss

	September 30, 2008	December 31, 2007
Opening balance	$ (9,862)	$ -
Transition adjustment to opening balance	-	6,375
Unrealized gains (losses) on available-for-sale investments	(68,370)	39,354
Realized gains on available-for-sale investments	10,188	(55,591)
Closing balance	**$ (68,044)**	**$ (9,862)**

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:

	September 30, 2008	September 30, 2007
Statutory rates	27%	31%
Income tax recovery computed at statutory rates	$ 347,668	$ 273,409
Permanent differences		
Other	(7,206)	(4,946)
Stock-based compensation	(52,555)	-
	(59,761)	(4,946)
Book to tax differences	(32,264)	(50,739)
Change in valuation allowance	(255,643)	(217,724)
Recovery of (provision for) income taxes	**$ -**	**$ -**

10. Income tax - continued

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

		September 30, 2008		**December 31, 2007**
Future tax assets				
Non-capital loss carry forwards	$	2,385,254	$	1,915,966
Other		197,103		237,609
Total gross future income tax assets		2,582,357		2,153,575
Less valuation allowance		(1,567,109)		(1,284,184)
Net future income tax assets		1,015,248		869,391
Less future tax liabilities				
Resource properties		(1,015,248)		(869,391)
Net future income tax	**$**	**-**	**$**	**-**

11. Related party transactions

a) At September 30, 2008, shareholders, officers, directors and management owed the Company $1,151, which is included in advances and accounts receivable.

b) At September 30, 2008, the Company owed $107,131 to shareholders, officers, directors and management, which is included within accounts payable and accrued liabilities. The balance represents unpaid amounts relating to fees and expenses.

c) During the nine month period ended September 30, 2008, directors and officers charged $627,764 in fees for services rendered, of which $438,347 was charged to operations and $189,417 to mineral properties. These transactions were entered into on a normal commercial basis.

d) During the nine month period ended September 30, 2008, Austring Fendrick Fairman & Parkkari, a firm in which Greg Fekete, an officer of the Company, is a partner charged fees of $950 for legal services. These transactions were entered into on a normal commercial basis.

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 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.

The Company will be required to access financial resources through equity placements in the junior resource market in the current year to carry out its planned programs or curtail its exploration activities to the extent of available financial resources.

13. Management of financial risks

The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk, interest risk and price risk.

a) Currency risk
The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada and Greenland and a portion of its expenses are incurred in US dollars and Danish krones. A significant change in the currency exchange rates between the Canadian dollar relative to the US dollar and Danish krone could have an effect on the Company's results of operations. The Company has not hedged its exposure to currency fluctuations.

At September 30, 2008, the Company is exposed to currency risk through the following assets and liabilities denominated in US dollars and Danish krones:

	September 30, 2008		**December 31, 2007**	
	USD	**DKK**	**USD**	**DKK**
Cash and cash equivalent	(1,937)	70,767	5,605	69,250
Accounts payable and accrued liabilities	(12,209)	(3,831,607)	(16,732)	(323,438)

Based on the above net exposure as at September 30, 2008 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 $76,760 in the Company's net loss.

13. Management of financial risks - continued

b) 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 cash equivalents and term deposits included in short-term investments are held through large Canadian financial institutions. Cash equivalents and term deposits are composed of financial instruments issued by Canadian banks with high investment-grade ratings. The cash equivalents are convertible into cash on demand and the term deposit matures annually. The Company's marketable securities included in short-term investments consist of shares in publicly traded junior mining companies listed on the TSX Venture Exchange and are speculative in nature and market prices are volatile.

The Company's advances and accounts receivable consist of amounts due from the Federal Government of Canada for GST and corporate income tax refund and miscellaneous amounts due from third parties. Yukon Mining Exploration Tax credit is due from the Yukon Territory administered by the Federal Government of Canada.

c) 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 manages liquidity risk through the management of its capital structure and financial leverage as outlined in note 12 to the unaudited interim financial statements.

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

d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The risk that the Company will realize a loss as result of a decline in the fair value of short-term investments included in cash and cash equivalents and short-term investments is limited because these investments, although classified as available-for-sale, are generally held to maturity.

14. 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 6).

15. Subsequent events

a) On November 5, 2008, the Company completed a non-brokered private placement of 9,621,700 units at $0.10 per unit. The gross proceeds of the unit placement totaled $962,170. 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 per share at anytime following expiry of the hold period for 10 or more consecutive days, the Company will have the right to accelerate the expiry date of all unexercised warrants. The Company paid a finder's fee consisting of a cash payment of $53,725 and issued 537,250 warrants. Each warrant is exercisable into one common share for a two year period at a price of $0.10 per share, with the same acceleration provisions described above. Directors and officers of the Company acquired 865,000 of the units issued.

15. Subsequent events - continued

b) On October 1, 2008, the Company became party to an operating lease for premises expiring on September 30, 2013. The future minimum lease payments in each of the next five years and in aggregate are as follows:

2008	$	28,836
2009		115,344
2010		115,344
2011		115,344
2012		115,344
2013		86,508
	$	576,720