Interim Consolidated Financial Statements of

TRUE NORTH GEMS INC.

As at and for the nine month period ended September 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)

	September 30, 2009	December 31, 2008
ASSETS		
Current		
Cash	$ 297,424	$ 4,206
Investments (note 3)	27,465	55,632
Advances and accounts receivable	30,768	56,984
Yukon Mining Exploration Tax Credit receivable	-	15,454
Deposits and prepaid expenses	23,769	81,963
	379,426	214,239
Capital assets (note 4)	69,949	95,465
Mineral properties (note 5)	20,547,693	19,396,688
	$ 20,997,068	**$ 19,706,392**
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 456,929	$ 1,294,956
Loans payable (note 6)	110,000	40,000
	566,929	1,334,956
Asset retirement obligations	505,055	505,055
	1,071,984	1,840,011
SHAREHOLDERS' EQUITY		
Capital stock (note 7)	32,984,882	31,056,761
Warrants (note 7(c))	1,280,458	855,471
Contributed surplus (note 8)	2,981,219	2,200,235
Deficit	(17,321,475)	(16,246,086)
	19,925,084	17,866,381
	$ 20,997,068	**$ 19,706,392**

Going concern (note 1)

Approved on behalf of the Board:

(signed) William Anderson Director (signed) John Ryder 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, 2009	Three month period ended September 30, 2008	Cumulative nine month period ended September 30, 2009	Cumulative nine month period ended September 30, 2008
Expenses				
Amortization	$ 8,950	$ 10,849	$ 27,138	$ 31,037
Audit and related services	2,625	400	(1,839)	2,141
Consulting and corporate development fees	85,890	152,840	250,070	332,331
Corporate financial services fees	-	-	20,000	-
Corporate secretarial and accounting fees	25,225	24,144	62,071	71,819
Directors fees	11,000	9,000	33,000	27,000
General and administrative	44,643	40,349	101,283	115,902
Investor/shareholder relations	29,138	47,183	79,196	282,582
Legal fees	2,135	1,093	7,385	14,009
Rent and occupancy costs	14,845	18,618	42,720	45,227
Salaries and employee benefits	17,471	21,658	53,318	71,145
Stock-based compensation	360,935	-	360,935	194,647
Transfer agent and filing fees	11,255	4,626	30,272	25,304
Travel	22,801	19,093	45,133	89,870
	636,913	349,853	1,107,682	1,303,014
Loss before under noted items	(636,913)	(349,853)	(1,107,682)	(1,303,014)
Foreign exchange gain (loss)	1,565	(25,502)	20,776	(48,015)
Gain (loss) on sale of available-for-sale-investments	-	(12,288)	8,919	(12,288)
Interest income	137	2,077	2,746	75,658
Loss on sale of equipment	-	-	(148)	-
Net loss for period	(635,211)	(385,566)	(1,075,389)	(1,287,659)
Deficit, beginning of period	(16,686,264)	(14,141,993)	(16,246,086)	(13,239,900)
Deficit, end of period	**$ (17,321,475)**	**$ (14,527,559)**	**$ (17,321,475)**	**$ (14,527,559)**
Loss per share – basic and fully diluted	**$ (0.01)**	**$ (0.01)**	**$ (0.01)**	**$ (0.02)**
Weighted average number of common shares used in the calculation of loss per share – basic and fully diluted	**101,955,329**	**68,349,963**	**87,393,903**	**66,966,384**

See notes to interim consolidated financial statements.

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

	Three month period ended September 30, 2009	Three month period ended September 30, 2008	Cumulative nine month period ended September 30, 2009	Cumulative nine month period ended September 30, 2008
Net loss for period before other comprehensive income (loss)	$ (635,211)	$ (385,566)	$ (1,075,389)	$ (1,287,659)
Unrealized gains (losses) on available-for-sale investments (note 9)	-	(55,429)	1,730	(68,370)
Realized losses (gains) on available-for- sale investments (note 9)	-	10,188	(1,730)	10,188
Comprehensive loss	**$ (635,211)**	**$ (430,807)**	**$ (1,075,389)**	**$ (1,345,841)**

See notes to interim consolidated financial statements.

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

	Three month period ended September 30, 2009	Three month period ended September 30, 2008	Cumulative nine month period ended September 30, 2009	Cumulative nine month period ended September 30, 2008
Cash flows from operating activities				
Net loss for period	$ (635,211)	$ (385,566)	$ (1,075,389)	$ (1,287,659)
Items not involving cash				
Amortization	8,950	10,849	27,138	31,037
Loss (gain) on sale of available-for-sale investments	-	12,288	(8,919)	12,288
Loss on sale of equipment	-	-	148	-
Stock-based compensation	360,935	-	360,935	194,647
	(265,326)	(362,429)	(696,087)	(1,049,687)
Changes in operating assets and liabilities				
Investments	(137)	5,190	37,086	(12,530)
Advances and accounts receivable	4,394	(26,318)	26,216	26,859
Deposits and prepaid expenses	11,733	24,533	58,193	(44,424)
Accounts payable and accrued liabilities	(1,064,680)	188,395	(777,410)	84,533
	(1,314,016)	(170,629)	(1,352,002)	(995,249)
Cash flows from investing activities				
Purchase of capital assets	(4,395)	(3,459)	(4,395)	(17,495)
Acquisition of mineral properties	(52,747)	(6,159)	(55,483)	(10,436)
Expenditures on mineral properties	(890,896)	(2,137,064)	(961,722)	(5,217,406)
Receipt of Yukon Mining Exploration Tax Credit	-	-	15,454	-
Change in operating assets and liabilities relating to investing activities	5,209	1,056,384	(24,125)	879,520
	(942,829)	(1,090,298)	(1,030,271)	(4,365,817)
Cash flows from financing activities				
Proceeds from loans	-	-	70,000	-
Shares and warrants issued for cash	2,782,000	1,002,900	2,861,000	1,002,900
Capital raising costs	(208,060)	(90,984)	(238,653)	(93,544)
Change in operating assets and liabilities relating to financing activities	(36,791)	30,778	(16,856)	26,714
	2,537,149	942,694	2,675,491	936,070
Increase (decrease) in cash and cash equivalents	280,304	(318,233)	293,218	(4,424,996)
Cash and cash equivalents, beginning of period	17,120	337,318	4,206	4,444,081
Cash and cash equivalents, end of period	**$ 297,424**	**$ 19,085**	**$ 297,424**	**$ 19,085**
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	$ -	$ -	$ 78,750	$ 54,677
Shares and warrants issued to agent for commission	$ 7,953	$ 84,980	$ 7,953	$ 84,980

See notes to interim consolidated financial statements.

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 nine month period ended September 30, 2009, the Company incurred a net loss and utilized funds in operations totaling $1,075,389 and $1,352,002 respectively. The accumulated deficit at September 30, 2009 is $17,321,475. 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.

2. Accounting policies - continued

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.

The Company has not yet completed a full evaluation of the adoption of IFRS and its impact on its financial position and results of operations. The full evaluation and an implementation plan will be completed before December 31, 2010. The progress of the evaluation and implementation plan will be addressed in the Company's quarterly and annual MD&As for the year ended December 31, 2010. The evaluation and implementation plan will address the impact of IFRS on:

- Accounting policies, including choices among policies permitted under IFRS and implementation decisions such as whether changes will be applied on a retrospective or prospective basis;
- Information technology and data systems;
- Internal control over financial reporting;
- Disclosure controls and procedures, including investor relations and external communications plans;
- Financial reporting expertise, training requirements and the need for assistance from outside expertise; and,
- Post implementation monitoring to access any future developments of IFRS.

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

			September 30, 2009
	Cost	**Accumulated unrealized holding gains (losses)**	**Carrying value**
2% Term deposit maturing March 29, 2010 fair value-$27,465	**$ 27,465**	**$ -**	**$ 27,465**

3. Investments - continued

		December 31, 2008	
	Cost	Impairment	Carrying value
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
	$ 167,497	**$ (111,865)**	**$ 55,632**

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

	September 30, 2009		December 31, 2008	
	Cost	Accumulated amortization	Cost	Accumulated amortization
Computer equipment	$ 54,073	$ 33,523	$ 57,540	$ 28,250
Computer software	35,374	22,270	30,979	19,458
Laboratory and gem processing equipment	6,060	3,453	6,060	2,993
Leasehold improvements	82,118	82,118	82,118	70,164
Office furniture and equipment	92,069	58,381	92,069	52,436
	269,694	$ 199,745	268,766	$ 173,301
Less accumulated amortization	(199,745)		(173,301)	
Net book value	$ **69,949**		$ **95,465**	

5. Mineral properties

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

Areas of interest	Acquisition	Exploration expenditure	Carrying value
Greenland Property	**$** 436,984	**$** 15,356,125	**$** 15,793,109
Baffin Island Property	212,346	3,050,919	3,263,265
Tsa da Glisza Property	534,565	587,151	1,121,716
Bandito Property	49,100	320,503	369,603
Balance – September 30, 2009	**$ 1,232,995**	**$ 19,314,698**	**$ 20,547,693**

5. Mineral properties - continued

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	134,233	-	-	-	134,233
Exploration expenditures					
Advances	35,000	-	-	-	35,000
Aviation	152,926	-	-	-	152,926
Camp construction and operation	192,036	7,164	(396)	-	198,804
Equipment rental	14,295	3,914	-	-	18,209
Other	69,828	(24,394)	757	3,770	49,961
Stock-based compensation	55,042	377	125	180	55,724
Technical services	360,235	14,643	(4,242)	318	370,954
Travel	87,161	518	-	-	87,679
Total exploration for period	966,523	2,222	(3,756)	4,268	969,257
Total expenditures before the following	15,745,594	3,263,265	1,121,716	369,603	20,500,178
Gemstone test marketing study	64,525	-	-	-	64,525
Proceeds from sale of equipment and field supplies	(17,010)	-	-	-	(17,010)
Balance- September 30, 2009	**$ 15,793,109**	**$ 3,263,265**	**$ 1,121,716**	**$ 369,603**	**$ 20,547,693**

The Fiskenaesset 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 nine month period ended September 30, 2009.

7. Capital stock

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

7. Capital stock - continued

b) Common shares issued

	Number of Shares		Amount
Balance – December 31, 2008	79,428,457	$	31,056,761
Mineral properties (note 6)	925,676		78,750
Private placement (i)	28,610,000		2,861,000
Reallocation of fair value of warrants issued			(827,342)
Capital raising costs			(184,287)
Balance – September 30, 2009	**108,964,133**	**$**	**32,984,882**

i. The Company completed a non-brokered private placement of 28,610,000 units at a price of $0.10 per unit. The gross proceeds of the unit placement totaled $2,861,000. 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 into one common share at a price of $0.10 for a two year. Directors and officers of the Company acquired 1,245,000 of the units issued.

c) Warrants

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

	September 30, 2009			**December 31, 2008**		
	Number of warrants		**Amount**	**Number of warrants**		**Amount**
Opening balance	20,111,988	$	855,471	12,087,749	$	891,595
Warrants issued	28,884,383		772,977	12,158,343		326,817
Warrants expired	(5,501,645)		(347,990)	(4,134,104)		(362,941)
Closing balance	**43,494,726**	**$**	**1,280,458**	**20,111,988**	**$**	**855,471**

The fair value of the warrants issued in connection with the unit private placement completed during the nine month period ended September 30, 2009 totaled $ 847,949 net of warrant issue costs amounting to $74,972 (net $772,977). The warrants were valued using the Black-Scholes valuation model, using the following assumptions:

Nine month period ended September 30, 2009

Warrant term	Volatility	Dividend yield	Risk-free interest rate	Warrants Issued		Fair value		Warrant issue costs		Net
2 years	97%	0%	1.16%	13,700,000	$	397,104	$	35,901	$	361,203
2 years	97%	0%	1.16%	274,283		20,606		-		20,606
2 years	100%	0%	1.41%	13,000,000		375,149		34,066		341,083
2 years	100%	0%	1.35%	1,910,000		55,090		5,005		50,085
				28,884,283	$	847,949	$	74,972	$	772,977

7. Capital stock - continued

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

Number of warrants outstanding	Exercise price	Expiry date
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
13,700,000	$0.20	03-Jul-2011
274,383	$0.10	03-Jul-2011
13,000,000	$0.20	19-Aug-2011
1,910,000	$0.20	21-Aug-2011
43,494,726		

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 September 30, 2009, 1,496,413 options are available for future grant under the Plan.

Stock option transactions for the nine month period ended September 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:

	September 30, 2009		December 31, 2008	
	Number of options	Weighted Average Exercise Price of Options Exercisable	Number of options	Weighted Average Exercise Price of Options Exercisable
Opening balance	5,275,000	$0.46	4,025,000	$0.54
Options granted	5,650,000	$0.10	1,670,000	$0.38
Options expired	(630,000)	$0.64	(420,000)	$0.83
Options forfeited	(895,000)	$0.43	-	-
Closing balance	9,400,000	$0.23	5,275,000	$0.46

At September 30, 2009, 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
5,650,000	$0.10	$0.10	4.90 years
2,770,000	$0.38-$0.42	$0.39	1. 28 years
980,000	$0.56	$0.56	3.04 years
9,400,000			

8. Contributed surplus

	September 30, 2009	December 31, 2008
Opening balance	$ 2,200,235	$ 1,568,227
Reallocation of fair value of warrants on expiration	347,990	362,941
Stock-based compensation	432,994	269,067
Closing balance	**$ 2,981,219**	**$ 2,200,235**

9. Accumulated other comprehensive loss

	September 30, 2009	December 31, 2008
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
Closing balance	**$ -**	**$ -**

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, 2009	September 30, 2008
Income tax recovery computed at statutory rates	$ 318,515	$ 347,668
Other than temporary differences	(107,554)	(59,761)
Book to tax differences	(260,792)	(32,264)
Change in valuation allowance	49,831	(255,643)
Recovery of 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, 2009	December 31, 2008
Enacted rates	25%	25%
Future tax assets		
Non-capital loss carry forwards	$ 2,527,083	$ 2,187,339
Other	290,955	281,191
Total gross future income tax assets	2,818,038	2,468,530
Less valuation allowance	(2,076,878)	(1,765,069)
Net future income tax assets	741,160	703,461
Less future tax liabilities		
Resource properties	(741,160)	(703,461)
Net future income tax	**$ -**	**$ -**

11. Related party transactions
(In addition to those disclosed elsewhere)

a) As at September 30, 2009, shareholders, officers, directors and management owed the Company $5,876, which is included in advances and accounts receivable.

b) As at September 30, 2009, shareholders, officers, directors and management are owed $63,202, 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 nine month period ended September 30, 2009, officers charged $280,558 in fees for services rendered. 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.

12. Management of capital risk - continued

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 September 30, 2009.

	Financial assets held-for-trading	Financial assets available-for-sale	Loans and receivables	Other financial liabilities	Total carrying value
Cash and cash equivalents	$ 297,424	$ -	$ -	$ -	$ 297,424
Investments	-	27,465	-	-	27,465
Advances and accounts receivable	-	-	30,768	-	30,768
Accounts payable and accrued charges	-	-	-	(456,929)	(456,929)
Loans payable	-	-	-	(110,000)	(110,000)
	$ 297,424	$ 27,465	$ 30,768	$ (566,929)	$ (211,272)

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 September 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.

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 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.

13. Financial instruments - continued

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

	September 30, 2009		December 31, 2008	
	USD	**DKK**	**USD**	**DKK**
Cash (bank indebtedness)	(11,271)	15,519	(856)	3,899
Accounts payable and accrued liabilities	(300)	(1,004,417)	(4,683)	(2,798,795)
Net asset (liability) position	(11,571)	(988,898)	(5,539)	(2,794,896)

Based on the above net exposure as at September 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 $22,077 (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 September 30, 2009, the Company has a working capital deficiency of $187,503. 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).