

Interim Consolidated Financial Statements of

TRUE NORTH GEMS INC.

As at and for the nine month period ended September 30, 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)

September 30,
2010 **December 31,**
2009

Expressed in Canadian dollars

ASSETS

Current

| | | |
|----------------------------------|-----------|------------|
| Cash | \$ 85,791 | \$ 244,029 |
| Investments (note 3) | 44,649 | 27,602 |
| Advances and accounts receivable | 26,936 | 41,176 |
| Deposits and prepaid expenses | 26,021 | 12,690 |

| | | |
|--|------------|------------|
| | 183,397 | 325,497 |
| Capital assets (note 4) | 52,728 | 64,632 |
| Mineral properties (note 5) | 20,329,480 | 19,909,692 |
| Deferred capital raising costs (note 13(i)) | 13,737 | - |

\$ 20,579,342 \$ 20,299,821

LIABILITIES

Current

| | | |
|--|------------|------------|
| Accounts payable and accrued liabilities | \$ 922,084 | \$ 654,979 |
| Loans payable | 110,000 | 110,000 |

| | | |
|---|-----------|---------|
| | 1,032,084 | 764,979 |
| Asset retirement obligations | 505,055 | 505,055 |
| Share subscriptions (note 13(i)) | 300,000 | - |

1,837,139 1,270,034

SHAREHOLDERS' EQUITY

| | | |
|----------------------------------|--------------|--------------|
| Capital stock (note 6) | 33,357,080 | 33,307,080 |
| Warrants (note 6(c)) | 1,103,022 | 1,229,757 |
| Contributed surplus (note 7) | 3,252,904 | 3,091,453 |
| Accumulated comprehensive income | 5,916 | - |
| Deficit | (18,976,709) | (18,598,503) |

18,742,213 19,029,787

\$ 20,579,342 \$ 20,299,821

Going concern (note 1)
Subsequent events (notes 6(c) & 13)

Approved on behalf of the Board:

(signed) David S. Parsons

(signed) William Anderson

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

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

| | Three month period ended September 30, | | Cumulative nine month period ended September 30, | |
|---|---|------------------------|---|------------------------|
| | 2010 | 2009 | 2010 | 2009 |
| Expressed in Canadian dollars | | | | |
| Expenses | | | | |
| Amortization | \$ 3,983 | \$ 8,950 | \$ 11,904 | \$ 27,138 |
| Audit and related services | - | 2,625 | 2,028 | (1,839) |
| Consulting and corporate development fees | 77,280 | 85,890 | 182,280 | 250,070 |
| Corporate financial services | - | - | - | 20,000 |
| Corporate secretarial and accounting fees | 12,500 | 25,225 | 50,150 | 62,071 |
| Directors fees | 17,609 | 11,000 | 39,609 | 33,000 |
| General and administrative | 24,027 | 44,643 | 69,867 | 101,283 |
| Investor/shareholder relations | 46,757 | 29,138 | 103,890 | 76,196 |
| Legal fees | - | 2,135 | 4,355 | 7,385 |
| Rent and occupancy costs | 15,023 | 14,845 | 42,701 | 42,720 |
| Salaries and employee benefits | 17,363 | 17,471 | 54,974 | 53,318 |
| Stock-based compensation | - | 360,935 | 1,929 | 360,935 |
| Transfer agent and filing fees | 2,309 | 11,255 | 23,006 | 30,272 |
| Travel | 4,978 | 22,801 | 23,663 | 45,133 |
| | 221,829 | 636,913 | 610,356 | 1,107,682 |
| Loss before under noted items | (221,829) | (636,913) | (610,356) | (1,107,682) |
| Farm-out receipts | - | - | 102,830 | - |
| Foreign exchange gain (loss) | (22,721) | 1,565 | 17,681 | 20,776 |
| Interest income (expense) | 27 | 137 | (379) | 2,746 |
| Loss on sale of equipment | - | - | - | (148) |
| Realized gains on available-for-sale investments | 14,794 | - | 14,794 | 8,919 |
| Loss for period before future income tax recovery | (229,729) | (635,211) | (475,430) | (1,075,389) |
| Future income tax recovery | 97,224 | - | 97,224 | - |
| Net loss for period | (132,505) | (635,211) | (378,206) | (1,075,389) |
| Deficit, beginning of period | (18,844,204) | (16,686,264) | (18,598,503) | (16,246,086) |
| Deficit, end of period | \$ (18,976,709) | \$ (17,321,475) | \$ (18,976,709) | \$ (17,321,475) |
| Loss per share – basic and fully diluted | \$ (0.00) | \$ (0.01) | \$ (0.00) | \$ (0.01) |
| Weighted average number of common shares used in the calculation of loss per share – basic and fully diluted | 114,537,562 | 101,955,329 | 114,525,003 | 87,393,903 |

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

TRUE NORTH GEMS INC.**Interim Consolidated Statements of Comprehensive Loss and Accumulated Other Comprehensive Income**

(Unaudited)

| | Three month period ended | | Cumulative nine month period | |
|--|--------------------------|---------------------|------------------------------|--------------------------|
| | 2010 | September 30, 2009 | ended September 30, 2010 | ended September 30, 2009 |
| Expressed in Canadian dollars | | | | |
| Net loss for period before other comprehensive income (loss) | \$ (132,505) | \$ (635,211) | \$ (378,206) | \$ (1,075,389) |
| Unrealized gains (losses) on available-for-sale investments | 8,906 | - | (9,094) | 1,730 |
| Realized losses (gains) on available-for-sale investments | 15,000 | (1,730) | 15,000 | (1,730) |
| Comprehensive loss for period | \$ (108,599) | \$ (636,941) | \$ (372,300) | \$ (1,075,389) |

| | September 30, 2010 | December 31, 2009 |
|---|--------------------|-------------------|
| Accumulated other comprehensive income, beginning of period | \$ - | \$ - |
| Unrealized gains on available-for-sale investments, net of future income tax expense of \$844 | 4,901 | - |
| Accumulated other comprehensive income, end of period | \$ 4,901 | \$ - |

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

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

| | Three month period ended | | Cumulative nine month period | |
|---|---------------------------------|-------------------|-------------------------------------|-------------------|
| | September 30, | | ended September 30, | |
| | 2010 | 2009 | 2010 | 2009 |
| Expressed in Canadian dollars | | | | |
| Cash flows from operating activities | | | | |
| Net loss for period | \$ (132,505) | \$ (635,211) | \$ (378,206) | \$ (1,075,389) |
| Items not involving cash | | | | |
| Amortization | 3,983 | 8,950 | 11,904 | 27,138 |
| Stock-based compensation | - | 360,935 | 1,929 | 360,935 |
| Shares received for farm out of mineral properties | - | - | (64,500) | - |
| Loss on sale of equipment | - | - | - | 148 |
| Realized gains on sale of available-for-sale investments | (14,794) | - | (14,794) | (8,919) |
| Recovery of future income tax | (97,224) | - | (97,224) | - |
| | (240,540) | (265,326) | (540,891) | (696,087) |
| Changes in operating assets and liabilities | | | | |
| Investments | 68,517 | (137) | 68,997 | 37,086 |
| Advances and accounts receivable | (16,044) | 4,394 | 14,240 | 26,216 |
| Deposits and prepaid expenses | (1,012) | 11,733 | (13,331) | 58,193 |
| Accounts payable and accrued liabilities | 126,181 | (1,064,680) | 215,780 | (777,410) |
| | (62,898) | (1,314,016) | (255,205) | (1,352,002) |
| Cash flows from investing activities | | | | |
| Acquisition of capital assets | - | (4,395) | - | (4,395) |
| Acquisition of mineral properties | (6,846) | (52,747) | (9,996) | (55,483) |
| Expenditures on mineral properties | (53,881) | (890,896) | (230,625) | (961,722) |
| Receipt of Yukon Mining Exploration Tax Credit | - | - | - | 15,454 |
| Change in operating assets and liabilities relating to investing activities | (91,540) | 5,209 | 68,181 | (24,125) |
| | (152,267) | (942,829) | (172,440) | (1,030,271) |
| Cash flows from financing activities | | | | |
| Proceeds from loans | - | - | - | 70,000 |
| Share subscription received | 300,000 | 2,782,000 | 300,000 | 2,861,000 |
| Capital raising costs | (13,737) | (208,060) | (13,737) | (238,653) |
| Change in operating assets and liabilities relating to financing activities | - | (36,791) | (16,856) | (16,856) |
| | 286,263 | 2,537,149 | 269,407 | 2,675,491 |
| Increase (decrease) in cash | 71,098 | 280,304 | (158,238) | 293,218 |
| Cash, beginning of period | 14,693 | 17,120 | 244,029 | 4,206 |
| Cash, end of period | \$ 85,791 | \$ 297,424 | \$ 85,791 | \$ 297,424 |
| 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 | \$ 78,750 |
| Shares and warrants issued to agent for commission | \$ - | \$ 7,953 | \$ - | \$ 7,953 |
| Stock options granted to project management | \$ 32,787 | \$ - | \$ 32,787 | \$ - |

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

TRUE NORTH GEMS INC.
Notes to Interim Consolidated Financial Statements
September 30, 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 nine month period ended September 30, 2010, the Company incurred a net loss and utilized funds in operations totalling \$378,206 and \$255,205 respectively. The accumulated deficit at September 30, 2010 is \$18,976,709. 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. Subsequent to September 30, 2010, the Company raised \$3,300,158 through the issuance of units pursuant to a private placement (note 13(i)).

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.

The amounts shown as mineral properties represent acquisition and exploration expenditures and do not necessarily represent present or future values. Recoverability of the amounts shown for mineral properties is dependent on the discovery of economically recoverable mineral reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to complete the exploration and development of its mineral properties and on future profitable production or proceeds from the disposition of the mineral properties.

2. 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 pronouncement - 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.

TRUE NORTH GEMS INC.
Notes to Interim Consolidated Financial Statements
September 30, 2010 (unaudited)

Expressed in Canadian dollars

3. Investments

| | | | September 30, 2010 | December 31, 2009 |
|---|------------------|--|-------------------------------|------------------------------|
| | Cost | Accumulated unrealized holding gains (losses) | Carrying value | Carrying value |
| 0.4% Term deposit maturing March 28, 2011 (December 31, 2009 - 0.2% Term deposit maturing March 28, 2010) | \$ 27,149 | \$ - | \$ 27,149 | \$ 27,602 |
| 50,000 Common shares - Great Western Minerals Ltd. (note 5) | 7,750 | 9,750 | 17,500 | - |
| | \$ 34,899 | \$ 9,750 | \$ 44,649 | \$ 27,602 |

The fair value of the investments at September 30, 2010 is \$44,649 (December 31, 2009 - \$27,602).

4. Capital assets

| | September 30, 2010 | | December 31, 2009 | |
|---|---------------------------|-------------------------------------|--------------------------|-------------------------------------|
| | Cost | Accumulated amortization | Cost | Accumulated amortization |
| Computer equipment | \$ 54,073 | \$ 39,661 | \$ 54,073 | \$ 35,512 |
| Computer software | 35,374 | 26,127 | 35,374 | 23,464 |
| Laboratory and gem processing equipment | 6,060 | 3,972 | 6,060 | 3,606 |
| Leasehold improvements | 82,118 | 82,118 | 82,118 | 82,118 |
| Office furniture and equipment | 92,069 | 65,088 | 92,069 | 60,362 |
| | 269,694 | 216,966 | 269,694 | 205,062 |
| Less accumulated amortization | (216,966) | | (205,062) | |
| Net book value | \$ 52,728 | | \$ 64,632 | |

5. Mineral properties

The following table summarizes the Company's investment in mineral properties as at September 30, 2010:

| Areas of interest | Acquisition | Exploration expenditure | Carrying value |
|-------------------------------------|--------------------|------------------------------------|-----------------------|
| Greenland Property | \$ 59,996 | \$ 16,621,691 | \$ 16,681,687 |
| Baffin Island Property | - | 3,299,956 | 3,299,956 |
| Other Yukon Properties | - | 347,837 | 347,837 |
| Balance – September 30, 2010 | \$ 59,996 | \$ 20,269,484 | \$ 20,329,480 |

TRUE NORTH GEMS INC.
Notes to Interim Consolidated Financial Statements
September 30, 2010 (unaudited)

Expressed in Canadian dollars

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 | Other Yukon Properties | Total |
|---|---------------------------|-------------------------------|-------------------------------|----------------------|
| Balance- December 31, 2009 | \$ 16,234,397 | \$ 3,287,074 | \$ 388,221 | \$ 19,909,692 |
| Total acquisition for period | 59,996 | - | - | 59,996 |
| Exploration expenditures | | | | |
| Advance | (2,067) | - | - | (2,067) |
| Aviation | (4,813) | - | - | (4,813) |
| Camp construction and operation | 13,591 | - | - | 13,591 |
| Equipment | 8,230 | 14,700 | - | 22,930 |
| Future income tax gross up | 80,535 | 8,600 | - | 89,135 |
| Other | 80,448 | (21,738) | (6,496) | 52,214 |
| Stock-based compensation | 32,787 | - | - | 32,787 |
| Technical services | 217,938 | 11,159 | 2,782 | 231,879 |
| Travel | 4,591 | 161 | - | 4,752 |
| Total exploration for period | 431,240 | 12,882 | (3,714) | 440,408 |
| Total expenditures before the following | 16,725,633 | 3,299,956 | 384,507 | 20,410,096 |
| Farm-out receipts | - | - | (36,670) | (36,670) |
| Gemstone test marketing study | 44,054 | - | - | 44,054 |
| Proceeds from sale of equipment | (88,000) | - | - | (88,000) |
| Balance- September 30, 2010 | \$ 16,681,687 | \$ 3,299,956 | \$ 347,837 | \$ 20,329,480 |

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.

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.

TRUE NORTH GEMS INC.
Notes to Interim Consolidated Financial Statements
September 30, 2010 (unaudited)

Expressed in Canadian dollars

5. Mineral properties – continued

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.

Bandito Property

On August 30, 2010, the Company entered into a Letter Agreement (the “Agreement”) with Endurance Gold Corporation (“Endurance”) whereby Endurance was granted an option to acquire up to a 75% interest in the Company’s 100% owned Bandito Property, Yukon subject to TSX Venture Exchange approval.

Under the terms of the Agreement, Endurance can earn a 51% interest as follows:

- i. On receipt of regulatory approval an initial cash payment of \$25,000 (September 10, 2010) and additional cash payments of \$100,000 by December 31, 2012; and,
- ii. Incur \$1,000,000 in exploration expenditure on or before December 31, 2013.

Once Endurance earns a 51% working interest in the property, it may earn an additional 24% interest by issuing 200,000 shares from treasury and incurring an additional \$1,000,000 in exploration expenditures by December 31, 2015. Regulatory approval of the Agreement was obtained on September 7, 2010.

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 – September 30, 2010 | 114,537,562 | \$ 33,357,080 |

c) Warrants

Share purchase warrant transactions for the nine month period ended September 30, 2010 and the year ended December 31, 2009 and the number of share purchase warrants outstanding are summarized as follows:

| | September 30, 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 | (2,008,393) | (126,735) | (7,953,645) | (528,654) |
| Closing balance | 44,237,073 | \$ 1,103,022 | 46,245,466 | \$ 1,229,757 |

TRUE NORTH GEMS INC.
Notes to Interim Consolidated Financial Statements
September 30, 2010 (unaudited)

Expressed in Canadian dollars

6. Capital stock – continued

At September 30, 2010, the following share purchase warrants are outstanding:

| Number of warrants outstanding | Exercise price | Expiry date |
|---------------------------------------|-----------------------|--------------------|
| 9,612,700 | \$0.20 | 29-Oct-2010 |
| 537,250 (note 13(ii)) | \$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 |
| 44,237,073 | | |

Subsequent to September 30, 2010, 9,612,700 warrants expired unexercised.

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, 2010, 2,548,756 options are available for future grant under the Plan.

Stock option transactions for the nine month period ended September 30, 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:

| | September 30, 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 | \$0.22 | 5,275,000 | \$0.46 |
| Options granted | 900,000 | \$0.15 | 5,650,000 | \$0.15 |
| Options expired | (670,000) | \$0.40 | (630,000) | \$0.64 |
| Options forfeited | - | - | (1,620,000) | \$0.43 |
| Closing balance | 8,905,000 | \$0.23 | 8,675,000 | \$0.25 |

TRUE NORTH GEMS INC.
Notes to Interim Consolidated Financial Statements
September 30, 2010 (unaudited)

Expressed in Canadian dollars

6. Capital stock – continued

The fair value of the 900,000 options granted during the six month period ended June 30, 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:

| | September 30, 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 September 30, 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 |
|--|-------------------------------------|---|--|
| 6,550,000 | \$0.15 | \$0.15 | 3.96 years |
| 1,475,000 | \$0.38-\$0.42 | \$0.39 | 2.08 years |
| 880,000 | \$0.56 | \$0.56 | 2.05 years |
| 8,905,000 | | | |

7. Contributed surplus

| | September 30, 2010 | December 31, 2009 |
|--|-------------------------------|------------------------------|
| Opening balance | \$ 3,091,453 | \$ 2,200,235 |
| Reallocation of fair value of warrants on expiration | 126,735 | 528,654 |
| Stock-based compensation | 34,716 | 362,564 |
| Closing balance | \$ 3,252,904 | \$ 3,091,453 |

TRUE NORTH GEMS INC.
Notes to Interim Consolidated Financial Statements
September 30, 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:

| | September 30, 2010 | September 30, 2009 |
|--|-------------------------------|-------------------------------|
| Income tax recovery computed at statutory rates | \$ 133,760 | \$ 318,515 |
| Permanent difference on stock-based compensation | (9,767) | (106,904) |
| Other permanent differences | (19,434) | (650) |
| Book to tax differences | 96,298 | (190,107) |
| Capital raising costs charged directly to equity | (3,865) | (70,686) |
| Change in valuation allowance | (99,768) | 49,832 |
| Recovery of (provision for) future income taxes | \$ 97,224 | \$ - |

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, 2010 | December 31, 2010 |
|---|-------------------------------|------------------------------|
| Future tax assets | | |
| Non-capital loss carry forwards | \$ 2,593,710 | \$ 2,438,885 |
| Other | 363,283 | 321,170 |
| Mineral properties | (481,343) | (388,881) |
| Unrealized gain on available-for-sale investments | (844) | - |
| Total gross future income tax assets | 2,474,806 | 2,371,174 |
| Less valuation allowance | (2,474,806) | (2,371,174) |
| Net future income tax | \$ - | \$ - |

9. Related party transactions

(In addition to those disclosed elsewhere)

- a) At September 30, 2010, shareholders, officers, directors and management owed the Company \$661, which is included in advances and accounts receivable.
- b) As at September 30, 2010, shareholders, officers, directors and management are owed \$240,967, 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 nine month period ended September 30, 2010, fees for services rendered by directors and officers totalling \$302,250 have been accrued and remain unpaid, of which \$218,250 was charged to operations and \$84,000 to mineral properties. These transactions were in the normal course of business recorded at their exchange amounts, which was established and agreed to by the related parties.

Expressed in Canadian dollars

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
September 30, 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 September 30, 2010.

| | Financial assets held- for-trading | Financial assets available- for-sale | Loans and receivables | Other financial liabilities | Total carrying value |
|--|---|---|----------------------------------|--|-------------------------------------|
| Cash and cash equivalents | \$ 85,791 | \$ - | \$ - | \$ - | \$ 85,791 |
| Investments | - | 44,649 | - | - | 44,649 |
| Advances and accounts receivable | - | - | 26,936 | - | 26,936 |
| Accounts payable and accrued liabilities | - | - | - | (922,084) | (922,084) |
| Loans payable | - | - | - | (110,000) | (110,000) |
| | \$ 85,791 | \$ 44,649 | \$ 26,936 | \$(1,032,084) | \$(874,708) |

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.

At September 30, 2010, the Company's financial instruments, which are measured at fair value on a recurring basis, are cash and cash equivalents and investments. Cash and cash equivalents are classified as Level 2 and the investment are classified as Level 1.

- b) Fair values

The carrying value of the Company's investments, advances and accounts receivable, accounts payable, accrued liabilities and loans payable approximate their fair value at September 30, 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 kroner 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 September 30, 2010, the Company is exposed to currency risk through the following assets and liabilities denominated in US dollars and Danish kroner:

| | September 30, 2010 | | December 31, 2009 | |
|--|--------------------|-------------|-------------------|-------------|
| | USD | DKK | USD | DKK |
| Cash and cash equivalent | (854) | 85,275 | (919) | 60,294 |
| Accounts payable and accrued liabilities | (23,719) | (2,044,545) | - | (1,642,500) |
| Net asset (liability) position | (24,573) | (1,959,270) | (919) | (1,582,206) |

Based on the above net exposure as at September 30, 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 kroner would result in an increase/decrease of \$39,345 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, 2010, the Company has a working capital deficiency of \$848,687. 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).

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13. Subsequent events

Subsequent to September 30, 2010, the Company

- i. completed a non-brokered private placement of 41,251,981 units at a price of \$0.08 per unit in two tranches that closed on October 1 and October 22, 2010 respectively. The gross proceeds of the unit placement totalled \$3,300,158. Each unit comprised of one common share and one-half share purchase warrant, each whole share purchase warrant entitling the holder to acquire one common share at a price of \$0.10 per share in year one and \$0.15 per share in year two. 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 \$271,620 were paid and 3,345,246 finder's warrants were issued, convertible into one common share at a price of \$0.10 for a two year period. Directors and officers of the Company acquired 2,807,500 of the units issued.
- ii. issued 537,250 common shares on the conversion of 537,250 warrants for proceeds of \$53,725.