

*Condensed Interim Consolidated Financial Statements of*

**TRUE NORTH GEMS INC.**

*As at and for the nine month period ended September 30, 2012*

*Expressed in Canadian dollars*

*(Unaudited – prepared by management)*

*Notice to Reader: As required by National Instrument 51-102 subsection 4.3(3)(a), readers are advised that an auditor has not performed a review of these interim financial statements.*

**TRUE NORTH GEMS INC.**  
**Condensed Interim Consolidated Statement of Financial Position**  
**(Unaudited)**

Expressed in Canadian dollars

	<b>September 30, 2012</b>	<b>December 31, 2011</b>
<b>Current assets</b>		
Cash and cash equivalents	\$ 70,927	\$ 677,663
Restricted cash	59,060	58,188
Investments	27,410	47,635
Accounts receivable	28,332	56,567
Deposits and prepaid expenses	26,459	22,037
	212,188	862,090
<b>Non-current assets</b>		
Property, plant and equipment (note 5)	621,857	735,239
Exploration and evaluation assets (note 6)	21,514,902	20,441,086
	22,136,759	21,176,325
<b>Total assets</b>	<b>\$ 22,348,947</b>	<b>\$ 22,038,415</b>
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 740,003	\$ 323,683
Current portion of provision for reclamation costs (note 7)	210,262	250,000
	950,265	573,683
<b>Non-current liabilities</b>		
Provision for reclamation costs (note 7)	763,395	763,395
<b>Total liabilities</b>	<b>1,713,660</b>	<b>1,337,078</b>
<b>Shareholders' equity</b>		
Capital stock (notes 8(a) & (b))	38,926,719	38,237,807
Reserves (note 8(c))	6,540,952	6,511,810
Deficit	(24,832,384)	(24,056,811)
Accumulated other comprehensive income	-	8,531
	20,635,287	20,701,337
<b>Total liabilities and shareholders' equity</b>	<b>\$ 22,348,947</b>	<b>\$ 22,038,415</b>

Nature of operations and going concern (note 1)

Subsequent events (note 13)

Approved on behalf of the Board:

(signed) David S. Parsons                      Director

(signed) William Anderson                      Director

**TRUE NORTH GEMS INC.**  
**Condensed Interim Consolidated Statements of Changes in Equity**  
**(Unaudited)**

Expressed in Canadian dollars

	Share capital		Reserves		Deficit	Accumulated other comprehensive income	Total equity
	Number of Shares	Amount	Warrants	Contributed surplus			
Balance - January 1, 2011	156,326,787	\$ 35,486,222	\$ 1,848,807	\$ 4,074,226	\$(22,192,787)	\$ 15,969	\$ 19,232,437
Exploration and evaluation expenditures	323,625	50,000	-	-	-	-	50,000
Non-brokered private placements	33,826,000	3,382,600	-	-	-	-	3,382,600
Reallocation of the fair value of warrants issued	-	(485,692)	485,692	-	-	-	-
Capital raising costs	-	(346,112)	(58,383)	-	-	-	(404,495)
Warrants issued	-	-	140,062	-	-	-	140,062
Warrants exercised	686,758	68,676	-	-	-	-	68,676
Reallocation of the fair value of warrants on conversion	-	43,157	(43,157)	-	-	-	-
Warrants expired	-	-	(827,342)	827,342	-	-	-
Share-based compensation	-	-	-	110,875	-	-	110,875
Net loss for period	-	-	-	-	(1,080,157)	-	(1,080,157)
Other comprehensive income for period	-	-	-	-	-	4,375	4,375
<b>Balance - September 30, 2011</b>	<b>191,163,170</b>	<b>\$ 38,198,851</b>	<b>\$ 1,545,679</b>	<b>\$ 5,012,443</b>	<b>\$(23,272,944)</b>	<b>\$ 20,344</b>	<b>\$ 21,504,373</b>
Balance - December 31, 2011	191,454,170	\$ 38,237,807	\$ 1,481,670	\$ 5,030,140	\$(24,056,811)	\$ 8,531	\$ 20,701,337
Exploration and evaluation expenditures	520,833	50,000	-	-	-	-	50,000
Non-brokered private placements	14,508,000	725,400	-	-	-	-	725,400
Reallocation of the fair value of warrants issued	-	(17,175)	17,175	-	-	-	-
Capital raising costs	-	(69,313)	-	-	-	-	(69,313)
Warrants issued	-	-	13,608	-	-	-	13,608
Net loss for period	-	-	-	-	(775,573)	-	(775,573)
Other comprehensive income for period	-	-	-	-	-	(8,531)	(8,531)
<b>Balance - September 30, 2012</b>	<b>206,483,003</b>	<b>\$ 38,926,719</b>	<b>\$ 1,512,453</b>	<b>\$ 5,030,140</b>	<b>\$(24,832,384)</b>	<b>\$ -</b>	<b>\$ 20,636,927</b>

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

Expressed in Canadian dollars

	For the three month period ended September 30,		For the nine month period ended September 30,	
	2012	2011	2012	2011
Operating expenses				
Audit and related services	\$ -	\$ 1,050	\$ (1,452)	\$ 6,634
Consulting fees	45,000	52,500	145,000	157,500
Corporate financial services fees	-	32,500	22,500	152,500
Corporate secretarial and accounting	31,322	26,000	105,683	74,750
Depreciation	1,622	3,564	5,014	10,169
Directors fees	13,500	13,500	40,500	40,500
Exploration and evaluation expenditures	24,626	54,318	30,414	64,532
Foreign exchange loss (gain)	(454)	2,642	168	20,178
General and administrative	29,700	22,050	85,043	71,667
Investor relations	27,003	112,882	112,805	191,697
Legal fees	15,646	-	22,968	1,673
Loss on disposal of property, plant and equipment	-	-	20,292	-
Rent and occupancy costs	27,300	31,247	119,114	71,165
Salaries and employee benefits	622	7,072	2,375	37,555
Stock-based compensation	-	80,410	-	80,410
Transfer agent and filing fees	7,806	14,444	24,701	32,163
Travel	8,252	39,017	65,607	74,268
Operating loss	(231,945)	(493,196)	(800,732)	(1,087,361)
Other income				
Gain on sale of available-for-sale-investments	-	-	18,670	-
Interest income	367	3,848	7,708	6,579
Loss before income taxes	(231,578)	(489,348)	(774,354)	(1,080,782)
Deferred income tax recovery (expense)	-	(125)	(1,219)	625
Net loss for period	(231,578)	(489,473)	(775,573)	(1,080,157)
Realized losses (gains) on available-for-sale investments	-	-	(8,531)	-
Unrealized gains (losses) on available-for-sale investments	-	(875)	-	4,375
Comprehensive loss for period	\$ (231,578)	\$ (490,348)	\$ (784,104)	\$ (1,075,782)
Loss per share - basic and fully diluted	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)
Weighted average number of common shares - basic and fully diluted	200,175,177	191,105,561	195,424,466	176,250,742

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

Expressed in Canadian dollars

	For the three month period ended September 30,		For the nine month period ended September 30,	
	2012	2011	2012	2011
<b>Operating activities</b>				
Net loss for period	\$ (231,578)	\$ (489,473)	\$ (775,573)	\$ (1,080,157)
Adjustments for:				
Deferred income tax expense (recovery)	-	125	1,219	(625)
Depreciation	1,622	3,564	5,014	10,169
Gain on sale of available-for-sale investments	-	-	(18,670)	-
Loss on disposal of property, plant and equipment	-	-	20,292	-
Stock-based compensation	-	80,410	-	80,410
	(229,956)	(405,374)	(767,718)	(990,203)
Changes in non-cash working capital items				
Restricted cash	(291)	64,091	(872)	280,000
Accounts receivable	32,043	2,792	28,235	(30,372)
Deposits and prepaid expenses	5,849	13,256	(4,422)	(23,501)
Accounts payable and accrued liabilities	19,153	(53,002)	233,723	(28,901)
Reclamation expenditures	(39,738)	(80,201)	(39,738)	(80,201)
<b>Cash provided by (used in) operating activities</b>	<b>(212,940)</b>	<b>(458,438)</b>	<b>(550,792)</b>	<b>(873,178)</b>
<b>Investing activities</b>				
Proceeds from sale of available-for-sale investments	-	-	29,420	-
Purchase of property, plant and equipment	(389)	(3,580)	(4,216)	(7,467)
Exploration and evaluation expenditures	(287,397)	(547,931)	(931,524)	(2,132,824)
Changes in working capital items relating to investing activities	(75,889)	(160,490)	182,322	(19,135)
<b>Cash provided by (used in) investing activities</b>	<b>(363,675)</b>	<b>(712,001)</b>	<b>(723,998)</b>	<b>(2,159,426)</b>
<b>Financing activities</b>				
Loan advances	(33,000)	-	-	-
Private placement	725,400	-	725,400	3,282,600
Warrants exercised	-	10,000	-	68,676
Capital raising costs	(57,346)	(701)	(57,346)	(264,433)
<b>Cash provided by (used in) financing activities</b>	<b>635,054</b>	<b>9,299</b>	<b>668,054</b>	<b>3,086,843</b>
Increase (decrease) in cash and cash equivalents	58,439	(1,161,140)	(606,736)	54,239
Cash and cash equivalents - beginning of period	12,488	2,410,872	677,663	1,195,493
<b>Cash and cash equivalents - end of period</b>	<b>\$ 70,927</b>	<b>\$ 1,249,732</b>	<b>\$ 70,927</b>	<b>\$ 1,249,732</b>
<b>Supplemental disclosure of non-cash investing and financing activities</b>				
Shares issued for acquisition of mineral properties	\$ -	\$ -	\$ 50,000	\$ 50,000
Warrants issued to agents	\$ 13,608	\$ -	\$ 13,608	\$ 140,062

## **TRUE NORTH GEMS INC.**

### **Notes to Condensed Interim Consolidated Financial Statements - unaudited September 30, 2012**

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Expressed in Canadian dollars

#### **1. Nature of operations and going concern**

True North Gems Inc. (the “Company”) was incorporated in the Yukon Territory under the Business Corporations Act on May 25, 2001. The Company’s corporate office is located at Suite 3114, Bentall Four, 1055 Dunsmuir St., Vancouver, BC V7X 1L3. The Company and its subsidiary (collectively referred to, as the “Company”) are engaged in exploration and development of coloured gemstone deposits in Greenland and Canada.

The Company is in the process of exploring its mineral properties and has not yet determined whether its mineral properties contain reserves that are economically recoverable. 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.

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. During the nine month period ended September 30, 2012, the Company had incurred a net loss totalling \$775,573. The accumulated deficit at September 30, 2012 is \$24,832,384.

Based on the financial position at September 30, 2012 together with the additional funds raised from the equity financing that closed on November 2, 2012 (note 13(a)), available funds are not considered adequate to meet requirements for fiscal 2012 based on budgeted expenditures for operations and project exploration and investigation. To meet working capital requirements, the Company will have to access financial resources through equity placements. There can be no assurances that such funds will be available and/or on terms acceptable by the Company. These conditions cast significant doubt on the Company to continue as a going concern.

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

#### **2. Statement of compliance**

These condensed interim consolidated financial statements are prepared in accordance with International Financial Standard 34 Interim Financial Reporting of the International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS”) and interpretations of the International Financial Reporting Committee (“IFRIC”). Accordingly, these condensed interim consolidated financial statements do not include all of the information and footnotes required by IFRS for complete financial statements for year-end reporting process.

These condensed interim consolidated financial statements follow the same accounting policies and methods of application as the Company’s audited financial statements for the year ended December 31, 2011. The policies applied in these condensed interim consolidated financial statements are based on IFRS issued as of November 27, 2012, the date the Board of Directors approved the financial statements. These condensed interim consolidated financial statements should be read in conjunction with the Company’s annual consolidated financial statements for the year ended December 31, 2011.

Expressed in Canadian dollars

**3. Significant accounting policies**

Basis of presentation

The consolidated financial statements have been prepared on an accrual basis and are on a historical cost basis, except for certain financial instruments, which are measured at fair value. The preparation of consolidated financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant are disclosed in note 4.

These condensed interim consolidated financial statements are prepared in Canadian dollars. The functional currency of the Company is Canadian dollars.

**4. Significant accounting estimates and judgments**

The preparation of the condensed interim consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.

The Company has identified the evaluation of impairment of exploration and evaluation assets as an area where significant judgments, estimates and assumptions are made.

The carrying values and assessment of impairment of exploration and evaluation assets is based on costs incurred and management's estimate of net recoverable value. Estimates may not necessarily reflect actual recoverable value as this will be dependent on the status of the exploration program, the nature of the mineral deposit, commodity prices, adequate funding and the ability of the Company to achieve commercial production.

**TRUE NORTH GEMS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements - unaudited**  
**September 30, 2012**

Expressed in Canadian dollars

**5. Property, plant and equipment**

	Computer hardware and software	Equipment	Laboratory and gem processing equipment	Office furniture and fixtures	Total
<b>Cost</b>					
Balance - December 31, 2011	\$ 101,535	\$ 1,193,193	\$ 6,061	\$ 92,069	\$ 1,392,858
Additions	388	-	-	3,828	4,216
Disposals	-	-	-	(92,069)	(92,069)
Balance - September 30, 2012	\$ 101,923	\$ 1,193,193	\$ 6,061	\$ 3,828	\$ 1,305,005
<b>Accumulated depreciation</b>					
Balance - December 31, 2011	\$ 76,825	\$ 504,527	\$ 4,490	\$ 71,777	\$ 657,619
Depreciation	5,457	91,135	235	479	97,306
Disposals	-	-	-	(71,777)	(71,777)
Balance - September 30, 2012	\$ 82,282	\$ 595,662	\$ 4,725	\$ 479	\$ 683,148
<b>Carrying amount - December 31, 2011</b>	<b>\$ 24,710</b>	<b>\$ 688,666</b>	<b>\$ 1,571</b>	<b>\$ 20,292</b>	<b>\$ 735,239</b>
<b>Carrying amount - September 30, 2012</b>	<b>\$ 19,641</b>	<b>\$ 597,531</b>	<b>\$ 1,336</b>	<b>\$ 3,349</b>	<b>\$ 621,857</b>

**6. Exploration and evaluation assets**

Greenland Property

The property consists of two prospecting licences registered with the Bureau of Minerals and Petroleum of the Government of Greenland (“BMP”); respectively, the Fiskenaesset property – Licence 2008/46 and Qaqqatsiaq - Licence 2008/01 Licence 2011/07. Both licences are subject to renewal on December 31, 2012. To maintain the licences in good standing, the Company is required to meet minimum expenditure levels, as prescribed by the BMP annually. For the year ending December 31, 2012, the Company’s exploration obligation with respect to Licence 2008/46 is DKK 2,231,900 (CAD \$378,530). As at September 30, 2012, the Company has surplus exploration expenditures on Licence 2008/46 amounting to DKK 65,999,956 (CAD \$11,193,593) that may be carried forward and credited against the calculated exploration commitment in future years. For the year ending December 31, 2012, the Company’s exploration obligation with respect to Licence 2008/01 is DKK 2,782,460 (CAD\$471,905). As at September 30, 2012, the Company has surplus exploration expenditures on Licence 2008/01 of DKK 858,205 (CAD\$145,552) that may be carried forward and credited against the calculated exploration commitment in future years.

Licence 2008/46 was obtained by the Company satisfying all the terms of an option agreement with Brereton Engineering and Developments Ltd. (“Brereton”). Ongoing commitments from the option agreement include cash payments of \$50,000 and the issue of \$50,000 worth of shares from treasury annually for each year the Company maintains the exploration licence. The cash payment of \$50,000 was made on December 31, 2011 and \$50,000 worth of shares were issued from treasury on January 9, 2012 (520,833 shares) to discharge the 2011 obligation. 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 to Brereton. Licence 2008/01 is not subject to any agreements, royalties or encumbrances.



Expressed in Canadian dollars

**6. Exploration and evaluation assets - continued**

**Baffin Island Property**

The property is located on southeastern Baffin Island, Nunuvut, near the town of Kimmirut. The Company holds a 100% interest in 10 claims of which 2 claims are subject to a 2% Net Smelter Returns royalty and a 2% Gross Overriding royalty.

**Other Yukon Properties**

a) Bandito Property

The Bandito Property is located in southeastern Yukon. The property consisted of 81 contiguous, unpatented claims registered with the Watson Lake Mining Recorder when optioned to Endurance Gold Corporation (see below). Since then two phases of staking have increased the property to 253 claims.

Pursuant to the terms of the Option Agreement (the "Agreement") Endurance Gold Corporation ("Endurance") was granted the right to acquire up to a 75% interest in the Company's 100% owned Bandito Property, Yukon.

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

- 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 (\$50,000 paid January 16, 2012); and,
- 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 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. The Agreement remains in good standing.

b) Batea Property

The property consists of 56 claims located 200 kilometres east of Whitehorse, Yukon.

c) Straw Property

The property consists of 43 claims located 130 kilometres south of Ross River, Yukon.

d) True Blue Property

The property consists of 335 claims located 55 kilometres south of Ross River, Yukon.

e) Tsa da Glisza Property

Pursuant to an agreement dated March 7, 2002 with Expatriate Resources Ltd., the Company acquired 100% of the Tsa da Glisza Property. The property consists of 93 claims located in the Watson Lake Mining District, Yukon Territory. There has been no recent exploration activity on this property. Currently, the Company is incurring costs with respect to reclamation of the property.

**TRUE NORTH GEMS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements - unaudited**  
**September 30, 2012**

Expressed in Canadian dollars

**6. Exploration and evaluation assets – continued**

The following table summarizes the Company's investment in mineral properties as at September 30, 2012:

<b>Areas of Interest</b>	<b>Greenland Property</b>	<b>Baffin Island Property</b>	<b>Other Yukon Properties</b>	<b>Total</b>
Acquisition	\$ 821,060	\$ 212,346	\$ 49,101	\$ 1,082,507
Exploration expenditure	19,472,564	691,279	268,552	20,432,395
<b>Carrying value</b>	<b>\$ 20,293,624</b>	<b>\$ 903,625</b>	<b>\$ 317,653</b>	<b>\$ 21,514,902</b>

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

<b>Areas of Interest</b>	<b>Greenland Property</b>	<b>Baffin Island Property</b>	<b>Other Yukon Properties</b>	<b>Total</b>
Balance - December 31, 2011	\$ 19,175,707	\$ 904,349	\$ 361,030	\$ 20,441,086
Total acquisition costs for period	59,903	-	-	59,903
Exploration expenditure				
Advances	17,502	-	-	17,502
Aviation	67,839	-	-	67,839
Camp construction and operation	94,993	-	-	94,993
Gemstone processing	223,060	-	-	223,060
Other	110,022	-	3,173	113,195
Permitting	43,018	-	-	43,018
Property, plant & equipment - depreciation	92,292	-	-	92,292
Technical services	311,815	(724)	3,450	314,541
Travel	40,715	-	-	40,715
Total exploration for period	1,001,255	(724)	6,623	1,007,154
Total expenditures before the following	20,236,865	903,625	367,653	21,508,143
Farmout receipts	-	-	(50,000)	(50,000)
Gemstone test marketing study	56,759	-	-	56,759
<b>Balance - September 30, 2012</b>	<b>\$ 20,293,624</b>	<b>\$ 903,625</b>	<b>\$ 317,653</b>	<b>\$ 21,514,902</b>

**TRUE NORTH GEMS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements - unaudited**  
**September 30, 2012**

Expressed in Canadian dollars

**7. Provision for reclamation**

The Company has an obligation under various agreements to reclaim and restore the lands disturbed by its exploration activities.

	<b>September 30, 2012</b>	<b>December 31, 2011</b>
Current	\$ 210,262	\$ 250,000
Non-current	763,695	763,695
	<b>\$ 973,957</b>	<b>\$ 1,013,695</b>

Changes to the provision are as follows:

	<b>Greenland Property</b>	<b>Baffin Island Property</b>	<b>Tsa da Gliza</b>	<b>Total</b>
Balance - December 31, 2011	\$ 161,195	\$ 27,500	\$ 825,000	\$ 1,013,695
Expenditures	-	-	(39,738)	(39,738)
Balance - September 30, 2012	\$ 161,195	\$ 27,500	\$ 785,262	\$ 973,957

**8. Equity**

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

b) Private placements

The Company completed a non-brokered private placement of 33,826,000 units at a price of \$0.10 per unit in two tranches that closed on April 26 and April 29, 2011 respectively. The gross proceeds of the unit placement totalled \$3,382,600. 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 \$0.15 per share in year one and \$0.20 per share in year two. Finder's fees of \$245,030 were paid and 2,490,300 finder's warrants were issued, convertible into one common share at a price of \$0.12 for a two year period.

The Company completed the first tranche of a non-brokered private placement of 14,508,000 units at a price of \$0.05 per unit. The gross proceeds of the unit placement totalled \$725,400. 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 for a period of one year at a price of \$0.12 per share. Finder's fees of \$50,720 were paid and 1,014,400 finder's warrants were issued, convertible into one common share at a price of \$0.05 for a one year period. Directors and officers of the Company acquired 964,000 of the units issued.

**TRUE NORTH GEMS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements - unaudited**  
**September 30, 2012**

Expressed in Canadian dollars

**8. Equity - continued**

c) Reserves

Reserves consist of share purchase warrants and the accumulated fair value of common share stock options recognized as share- based compensation.

Warrants

	September 30, 2012		December 31, 2011	
	Number of warrants	Amount	Number of warrants	Amount
Opening balance	42,671,158	\$ 1,481,670	58,058,356	\$ 1,848,807
Warrants issued	8,268,400	29,142	19,403,300	567,485
Warrants exercised	-	-	(977,758)	(52,288)
Warrants expired	-	-	(33,812,740)	(882,334)
<b>Closing balance</b>	<b>50,939,558</b>	<b>\$ 1,510,812</b>	<b>42,671,158</b>	<b>\$ 1,481,670</b>

The fair value of the 8,268,400 warrants issued in connection with the unit private placement completed during the nine month period ended September 30, 2012 totalled \$30,783 before warrant issue costs amounting to \$1,641 (net \$29,142). 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
1 year	67.44%	0%	1.16%	7,254,000	\$ 17,175	\$ 1,641	\$ 15,534
1 year	67.44%	0%	1.16%	1,014,400	13,608	-	13,608
				<b>8,268,400</b>	<b>\$ 30,783</b>	<b>\$ 1,641</b>	<b>\$ 29,142</b>

The fair value of the 19,403,300 warrants issued in connection with the unit private placement completed during the year ended December 31, 2011 totalled \$625,754 before warrant issue costs amounting to \$58,269 (net \$567,485). 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	87.67%	0%	1.74%	13,838,000	\$ 401,480	\$ 47,675	\$ 353,805
2 years	87.67%	0%	1.74%	2,275,300	129,409	-	129,409
2 years	87.67%	0%	1.70%	3,075,000	84,212	10,594	73,618
2 years	87.67%	0%	1.70%	215,000	10,653	-	10,653
				<b>19,403,300</b>	<b>\$ 625,754</b>	<b>\$ 58,269</b>	<b>\$ 567,485</b>

**TRUE NORTH GEMS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements - unaudited**  
**September 30, 2012**

Expressed in Canadian dollars

**8. Equity - continued**

At September 30, 2012, the following share purchase warrants are outstanding:

<b>Number of warrants outstanding</b>	<b>Exercise price</b>	<b>Expiry date</b>
8,588,300	\$0.15	01-Oct-2012
1,221,371	\$0.10	01-Oct-2012
11,446,687	\$0.15	22-Oct -2012
2,011,500	\$0.10	22-Oct-2012
13,838,000	\$0.20	26-Apr-2013
2,275,300	\$0.12	26-Apr-2013
3,075,000	\$0.20	29-Apr-2013
215,000	\$0.12	29-Apr-2013
7,254,000	\$0.12	09-Aug-2013
1,014,400	\$0.05	09-Aug-2013
50,939,558		

**Stock options**

Stock option transactions for the nine month period ended September 30, 2012 and the year ended December 31, 2011 and the number of stock options outstanding and exercisable are summarized for the respective financial period ends as follows:

	<b>September 30, 2012</b>		<b>December 31, 2011</b>	
	<b>Number of options</b>	<b>Weighted Average Exercise Price of Options Exercisable</b>	<b>Number of options</b>	<b>Weighted Average Exercise Price of Options Exercisable</b>
Opening balance	15,505,000	\$0.19	15,205,000	\$0.20
Options granted	-	-	1,100,000	\$0.15
Options expired	-	-	(350,000)	\$0.42
Options forfeited	-	-	(450,000)	\$0.25
Closing balance	15,505,000	\$0.19	15,505,000	\$0.19

The fair value of the 1,100,000 options granted during the year ended December 31, 2011 resulted in a compensation expense of \$73,580 (\$53,513 was charged to operations and \$20,067 was charged to exploration and evaluation expenditures). The options were valued using the Black-Scholes valuation model with the following assumptions:

<b>Expected life</b>	<b>Volatility</b>	<b>Dividend yield</b>	<b>Risk-free interest rate</b>	<b>Options Granted</b>	<b>Fair value</b>
5 years	83.7%	0%	1.45%	1,100,000	\$ 73,580

**TRUE NORTH GEMS INC.**  
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**September 30, 2012**

Expressed in Canadian dollars

**8. Equity - continued**

At September 30, 2012, stock options outstanding are as follows:

<b>Number of options outstanding and exercisable</b>	<b>Range of exercise prices</b>	<b>Weighted Average Exercise Price of Options Exercisable</b>	<b>Weighted Average Remaining Contractual Life</b>
13,650,000	\$0.15	\$0.15	2.69
1,025,000	\$0.38	\$0.38	0.51
830,000	\$0.56	\$0.56	0.04
15,505,000			

**9. Related party transactions**

Key management personnel are those persons that have the authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly. Key management personnel include the Company's directors and members of the senior management group.

Two director related companies were repaid \$33,000 for the amounts loaned to the Company in the previous quarter of the current financial year.

Details of key management personnel compensation are as follows:

	<b>September 30, 2012</b>	<b>September 30, 2011</b>
Services provided:		
Consulting fees	\$ 288,450	\$ 293,250
Directors fees	40,500	40,500
Key management personnel compensation	\$ 328,950	\$ 333,750
Balances payable to key management personnel	\$ 105,443	\$ 29,603

**10. Segmented information**

The Company's operations comprise one reportable segment, which carries on business in Canada and Greenland. The carrying value of the Company's non-current assets on a geographical basis is as follows:

	September 30, 2012			December 31, 2011		
	Canada	Greenland	Total	Canada	Greenland	Total
Property, plant and equipment	\$ 14,806	\$ 607,051	\$ 621,857	\$ 38,556	\$ 696,683	\$ 735,239
Exploration and evaluation expenditures	1,221,278	20,293,624	21,514,902	1,265,380	19,175,707	20,441,086
<b>Total</b>	<b>\$ 1,236,085</b>	<b>\$ 20,900,675</b>	<b>\$ 22,136,759</b>	<b>\$ 1,303,936</b>	<b>\$ 19,872,390</b>	<b>\$ 21,176,325</b>

**TRUE NORTH GEMS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements - unaudited**  
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Expressed in Canadian dollars

**11. 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 level.

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.

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.

**12. Financial instruments**

a) Fair values

The carrying value of the Company's advances and accounts receivable, accounts payable, accrued liabilities and loans payable approximate their fair value at September 30, 2012 and December 31, 2011 due to their short term nature.

b) Management of financial risk

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

i. Currency risk

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

At September 30, 2012, the Company is exposed to currency risk through the following assets and liabilities denominated in US dollars and Danish kroner:

	September 30, 2012		December 31, 2011	
	USD	DKK	USD	DKK
Cash (bank indebtedness)	(43)	40,729	6,780	17,671
Accounts payable and accrued liabilities	(15,300)	(639,475)	-	(568,516)
<b>Net asset (liability) position</b>	<b>(15,343)</b>	<b>(598,746)</b>	<b>6,780</b>	<b>(550,845)</b>

**TRUE NORTH GEMS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements - unaudited**  
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Expressed in Canadian dollars

**12. Financial instruments - continued**

Based on the above net exposure as at September 30, 2012 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 \$11,664 (December 31, 2011- \$9,088) 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. The Company manages liquidity risk through the management of its capital structure and financial leverage as outlined in notes 1 and 11.

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

**13. Subsequent events**

From October 1, 2012 to November 23, 2012:

- a) The second tranche of a non-brokered private placement of 7,374,000 units at a price of \$0.05 per unit completed. The gross proceeds of the unit placement totalled \$368,700. 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 for a period of one year at a price of \$0.12 per share. Finder's fees of \$14,810 were paid and 296,200 finder's warrants were issued, convertible into one common share at a price of \$0.05 for a one year period.
- b) The Company entered into a Letter of Intent ("LOI") with Greenland Mining Services A/S ("GMS") whereby GMS will have the right to earn a 20% shareholding in the Company's wholly-owned subsidiary, True North Gems Greenland A/S ("TNGG"). To earn the equity interest in TNGG, GMS is required to fully engineer, build and fund the complete mine support infrastructure. The Company is responsible for designing and funding the capital costs for the ore processing circuit and building, rough gem sorting and grading facility and gem marketing and sales. Pursuant to the terms of the LOI, GMS will retain the right to operate the mine site on a cost plus basis and will be responsible for providing all necessary mine equipment required throughout the mine life. During mine operations, certain surface infrastructure components will be leased to TNGG by GMS, which may be purchased at anytime.
- c) Warrants entitling the holder to acquire 23,267,858 common shares expired unexercised.
- d) 830,000 options exercisable at \$0.56 expired, unexercised.