Audited Consolidated Financial Statements of

TRUE NORTH GEMS INC.

As at and for the years ended December 31, 2008 and 2007

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements for True North Gems Inc. (the "Company") have been prepared by management in accordance with Canadian generally accepted accounting principles and contain estimates based on management's judgment. A system of internal control is maintained to provide reasonable assurance that financial information is accurate and reliable.

The Company's independent auditors, PricewaterhouseCoopers LLP, are appointed by its shareholders to conduct an audit in accordance with Canadian generally accepted auditing standards to allow them to express an opinion on the consolidated financial statements.

The Audit Committee of the Board of Directors, which is composed of a majority of independent directors, has met with the Company's independent auditors to review the scope and results of the annual audit, and to review the consolidated financial statement and related financial reporting matters prior to submitting the consolidated financial statements to the Board for approval.

(signed) Andrew Lee Smith

Andrew Lee Smith, Chief Executive Officer

(signed) Nicholas Houghton

Nicholas Houghton, Director

Vancouver, British Columbia
April 30, 2009

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
Chartered Accountants
PricewaterhouseCoopers Place
250 Howe Street, Suite 700
Vancouver, British Columbia
Canada V6C 3S7
Telephone +1 604 806 7000
Facsimile +1 604 806 7806

Auditors' Report

To the Shareholders of True North Gems Inc.

We have audited the consolidated balance sheets of True North Gems Inc. as at December 31, 2008 and 2007 and the consolidated statements of operations and deficit, comprehensive loss and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Vancouver, Canada
April 30, 2009

TRUE NORTH GEMS INC.
Consolidated Balance Sheets
As at December 31, 2008 and 2007

	2008	2007
ASSETS		
Current		
Cash and cash equivalents (note 3)	$ 4,206	$ 4,444,081
Investments (note 4)	55,632	156,087
Advances and accounts receivable	56,984	111,449
Yukon Mining Exploration Tax Credit receivable	15,454	15,454
Deposits and prepaid expenses	81,963	91,378
	214,239	4,818,449
Capital assets (note 5)	95,465	119,959
Mineral properties (note 6)	19,396,688	15,033,476
	$ 19,706,392	**$ 19,971,884**
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 1,334,956	$ 634,009
Asset retirement obligations (note 7)	505,055	500,055
	1,840,011	1,134,064
SHAREHOLDERS' EQUITY		
Capital stock (note 8)	31,056,761	29,627,760
Warrants (note 8(d))	855,471	891,595
Contributed surplus (note 9)	2,200,235	1,568,227
Deficit	(16,246,086)	(13,239,900)
Accumulated other comprehensive loss (note 10)	-	(9,862)
	17,866,381	18,837,820
	$ 19,706,392	**$ 19,971,884**

Going concern (note 1)
Commitment (note 11)

Approved on behalf of the Board:

(signed) William Anderson Director (signed) John Ryder Director

William Anderson John Ryder

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

TRUE NORTH GEMS INC.
Consolidated Statements of Operations and Deficit
For the years ended December 31, 2008 and 2007

	2008	**2007**
Expenses		
Amortization	$ 41,989	$ 40,504
Audit fees	33,141	33,586
Consulting and corporate development fees	303,734	178,207
Conventions and trade shows	121,210	71,116
Corporate financial services fees	-	71,995
Corporate secretarial and accounting fees	130,694	138,894
Directors fees	36,000	115,500
General and administrative	181,880	162,667
Investor/shareholder relations	191,854	359,129
Legal fees	19,571	23,685
Rent and occupancy costs	66,121	38,982
Salaries and employee benefits	90,514	90,917
Stock-based compensation	194,647	137,988
Transfer agent and filing fees	27,503	24,871
Travel	124,356	60,870
	1,563,214	1,548,911
Loss before under noted items	(1,563,214)	(1,548,911)
Foreign exchange loss	(74,233)	(2,282)
Gain (loss) on sale of available-for-sale-investments	(11,113)	55,591
Impairment of available-for-sale investments	(111,865)	-
Interest income	75,411	97,902
Write off of capital assets	-	(3,870)
Write off of mineral properties	(1,419,484)	(2,205,830)
Loss before recovery of future income tax	(3,104,498)	(3,607,400)
Recovery of future income tax (note 12)	98,312	-
	(3,006,186)	(3,607,400)
Deficit, beginning of year	(13,239,900)	(9,632,500)
Deficit, end of year	**$ (16,246,086)**	**$ (13,239,900)**
Loss per share – basic and diluted	**$ (0.04)**	**$ (0.06)**
Weighted average number of common shares used in the calculation of loss per share – basic and diluted	**69,232,208**	**56,563,699**

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

TRUE NORTH GEMS INC.
Consolidated Statements of Comprehensive Loss
For the year ended December 31, 2008 and 2007

	2008	2007
Net loss for year before other comprehensive income (loss)	$ (3,006,186)	$ (3,607,400)
Unrealized gains (losses) on available-for-sale investments (note 10)	(112,190)	39,354
Realized losses (gains) on available-for- sale investments (note 10)	10,187	(55,591)
Impairment of available-for-sale investments	111,865	-
Comprehensive loss	$ **(2,996,324)**	**$ (3,623,637)**

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

TRUE NORTH GEMS INC.
Consolidated Statements of Cash Flows
For the years ended December 31, 2008 and 2007

	2008	2007
Cash flows from operating activities		
Net loss for year	$ (3,006,186)	$ (3,607,400)
Items not involving cash		
Amortization	41,989	40,504
Impairment of available-for-sale investments	111,865	-
Loss (gain) on sale of available-for-sale investments	11,113	(55,591)
Recovery of future income tax	(98,312)	-
Stock-based compensation	194,647	137,988
Write off of capital assets	-	3,870
Write off of mineral properties	1,419,484	2,205,830
	(1,325,400)	(1,274,799)
Changes in operating assets and liabilities		
Investments	(12,661)	(24,223)
Advances and accounts receivable	54,465	(27,465)
Deposits and prepaid expenses	9,415	(15,357)
Accounts payable and accrued liabilities	618,351	131,109
	(655,830)	(1,210,735)
Cash flows from investing activities		
Purchase of capital assets	(17,495)	(31,787)
Acquisition of mineral properties	(658)	(78,000)
Expenditures on mineral properties	(5,652,618)	(5,410,534)
Receipt of Yukon Mining Exploration Tax Credit	-	161,229
Change in operating assets and liabilities relating to investing activities	72,514	36,388
	(5,598,257)	(5,322,704)
Cash flows from financing activities		
Shares and warrants issued for cash	1,964,170	10,240,870
Capital raising costs	(160,039)	(553,778)
Change in operating assets and liabilities relating to financing activities	10,081	(4,416)
	1,814,212	9,682,676
Increase (decrease) in cash and cash equivalents	(4,439,875)	3,149,237
Cash and cash equivalents, beginning of year	4,444,081	1,294,844
Cash and cash equivalents, end of year	**$ 4,206**	**$ 4,444,081**
Supplemental disclosure of non-cash investing and financing activities		
Shares issued for acquisition of mineral properties	$ 50,000	$ 32,500
Shares and warrants issued to agent for commission	$ 115,445	$ 63,488

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

1. Going concern

These consolidated financial statements are prepared on a going concern basis, which contemplates that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. Several adverse conditions cast significant doubt on the validity of that assumption. During the fiscal year ended December 31, 2008, the Company incurred a net loss and utilized funds in operations totalling $3,006,186 and $655,830 respectively. The accumulated deficit at December 31, 2008 is $16,246,086. 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 consolidation
These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Kitaa Ruby A/S, from the respective date of formation (September 2, 2008). All inter-entity balances and transactions have been eliminated.

b) Cash and cash equivalents
Cash and cash equivalents include deposits at call and term deposits with an original maturity of 90 days or less.

c) Amortization

Computer equipment and software	30% declining balance
Laboratory and gem processing equipment	20% declining balance
Leasehold improvements	5 years straight line
Office furniture and equipment	20% declining balance

d) Mineral properties
The Company follows the method of accounting for its mineral properties whereby all costs related to acquisition, exploration and development are capitalized by area of interest. These expenditures are carried forward where rights to tenure of the areas of interest are current and it is expected the expenditure will be recovered through successful development and exploitation of the area of interest or alternatively by its sale. Expenditures are also carried forward where activities are continuing in the area of interest but have not yet reached a stage of development, which permits reasonable assessments of the existence or otherwise of economically recoverable reserves. Expenditures that are determined to be impaired are written off.

When events and circumstances indicate possible impairment, management reviews the carrying value of each of the Company's mineral properties. Where information is available and conditions suggest impairment, estimated future net cash flows are calculated using estimated future prices, proven and probable reserves, resources and operating and capital costs on an undiscounted basis. An impairment charge is recorded if the undiscounted future net cash flows are less than the carrying amount. Reductions in the carrying value, with a corresponding charge to operations, are recorded to the extent that the estimated future net cash flows on a discounted basis are less than the property interest carrying value.

2. Accounting policies – continued

Where estimates of future net cash flows are not available and where other conditions suggest impairment, management assesses whether the carrying value can be recovered. If an impairment is identified, the carrying value of the property interest is written down to its estimated fair value.

From time to time, the Company acquires and disposes of properties pursuant to the terms of option agreements. Options are exercisable entirely at the discretion of the optionee, and accordingly, are recorded as mineral property costs (recoveries) when payments are made or received.

Although the Company has taken steps to verify title to mineral properties in which it has an interest according to the usual industry standards, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

e) Asset retirement obligations
The Company recognizes a liability for its legal obligations associated with the retirement of long lived assets when the liability is incurred. A liability is recognized initially at fair value if a reasonable estimate of the fair value can be made and the resulting amount would be capitalized as part of the related long lived asset. In subsequent periods, the Company adjusts the carrying amounts of the asset and liability for changes in estimates of the amount or timing of the underlying future cash flows.

It is reasonably possible that the Company's estimates of its ultimate reclamation and site restoration liability could change as a result of changes in regulations or cost estimates. The effect of changes in estimated costs is recognized on a prospective basis.

f) Capital raising costs
Costs directly identifiable with the raising of capital are charged against the related share capital and warrants.

g) Stock-based compensation
The Company has a stock-based compensation plan, which is described in note 8(e). Under the plan, options are granted at an exercise price equal to market value. Any consideration paid by the directors and employees on the exercise of share purchase options is credited to share capital along with the associated contributed surplus, if any.

Stock-based compensation to employees and non-employees is accounted for using a fair value-based method of accounting. The fair value of option grants is established at the date of grant using the Black Scholes option pricing model and the compensation amount, equal to the option's fair value, is then recognized over the options vesting period.

h) Loss per share
Loss per share computations are based upon the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method, the dilutive effect on earnings per share is recognized on the use of the proceeds that could be obtained upon the exercise of options and warrants. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. Diluted loss per share for the years ended December 31, 2008 and 2007 is the same as basic loss per share, as the effect of conversion of outstanding options and warrants is anti-dilutive.

i) Income tax
Income taxes are accounted for under the asset and liability method. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statements carrying value and the tax basis of assets and liabilities.

2. Accounting policies - continued

Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply to taxable income in the periods in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period during which the change in rates is considered to be substantively enacted. Future income tax assets are evaluated and if realization is considered “more likely than not”, no valuation allowance is provided.

j) Flow-through shares
The Company has financed a portion of its exploration activities through the issue of flow-through shares. Under the terms of the flow-through share agreements, the tax attributes of the related expenditures are renounced to the subscribers. Share capital is reduced and the future income tax liability is increased by the estimated income tax effect of the renounced tax deductions at the time expenditures are renounced to shareholders.

k) Use of estimates and measurement uncertainty
The preparation of financial statements in conformity with generally accepted accounting policies requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of impairment of deferred mineral property costs, reclamation obligations and future tax balances. Financial results as determined by actual events could differ from those estimates.

l) Foreign exchange
Foreign currency transactions and balances are translated into Canadian dollars as follows:

i. Revenues and expenses at average exchange rates except for depreciation for each year;
ii. Monetary items at the rates of exchange prevailing at balance sheet dates;
iii. Non-monetary items at the historical exchange rates; and,
iv. Exchange gains and losses arising from translation are included in the determination of loss for each year.

m) Financial Instruments – Recognition and Measurement
Section 3855 requires that all financial assets, except those classified as held to maturity, loans and receivables must be measured at fair value. All financial liabilities must be measured at fair value when they are classified as held for trading; otherwise, they are initially recorded at fair value and subsequently measured at amortized cost. In addition, equity instruments with no active market are at cost. Investments classified as available-for-sale are reported at fair market value based on quoted market prices with unrealized gains or losses excluded from earnings and reported as other comprehensive income or loss.

In accordance with this standard, the Company has classified its cash and cash equivalents as held-for-trading and investments as available-for-sale. Amounts receivable are classified as loans and receivables. Accounts payable and accrued charges are classified as other liabilities. Derivatives embedded in other financial instruments must be separated and measured at fair value. The Company has not identified any embedded derivatives in any of its instruments.

n) Comprehensive income
Comprehensive income is the change in a Company’s net assets that results from transactions, events and circumstances from sources other than the Company’s shareholders and includes items that would not normally be included in net earnings such as unrealized gains or losses on available-for-sale investments. Other comprehensive income includes the holding gains and losses from available-for-sale securities, which are not included in net income (loss) until realized.

Investments classified as available-for-sale are reported at fair market value (or marked to market) based on quoted market prices with unrealized gains or losses excluded from earnings and reported as other comprehensive income or loss. If a decline in fair value is significant or prolonged it is deemed to be other-than-temporary and the loss is recognized in net earnings.

2. Accounting policies - continued

o) Comparative figures
Certain of the comparative figures presented have been restated to conform to the current year's presentation adopted.

o) Changes in accounting policies
Effective January 1, 2008, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"). As required by the transitional provisions of these new standards, these new standards have been adopted on a prospective basis with no restatement of prior period financial statements.

i. Capital disclosures - Section 1535
Section 1535 specifies the disclosure of (i) an entity's objective, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital reporting requirements; and, (iv) if it has not complied, the consequences of such non-compliance (note 14).

ii. Financial instruments – Disclosures, Section 3862 and Financial Instruments – Presentation, Section 3863
The new sections 3862 and 3863 replace Handbook Section 3861, "Financial Instruments – Disclosure and Presentation", revising and enhancing its disclosure requirements and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how a company manages those risks (note 15).

iii. General standards on financial statement presentation
CICA Section 1400, "General Standards on Financial Statement Presentation", has been amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The changes are effective for interim and annual financial statements beginning on or after January 1, 2008. The Company has disclosed the material uncertainties that cast significant doubt on its ability to continue as a going concern in note 1 of these financial statements.

p) New accounting pronouncements

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

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.

2. Accounting policies - continued

iii. Goodwill and intangible assets

The CICA issued the new Handbook Section 3064, "Goodwill and Intangible Assets", which will replace Section 3062, "Goodwill and Other Intangible Assets". The new standard establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of preproduction and start-up costs and requires that these costs be expensed as incurred. The new standard applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. The Company does not expect the adoption of this standard to have an impact on its financial statements.

3. Cash and cash equivalents

a) Cash and cash equivalents

Cash and cash equivalents are comprised of:

		2008		2007
Cash	$	4,206	$	248,581
Term deposits with original maturity of less than three months		-		4,195,500
Cash and cash equivalents	**$**	**4,206**	**$**	**4,444,081**

b) Cash – restricted

The Company entered into flow-through financing arrangements with investors during the financial year ended December 31, 2007 whereby it was committed to incur $393,250 in qualified exploration expenditures on or before December 31, 2008. These expenditures were incurred during the financial year ended December 31, 2008.

4. Investments

						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**

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

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

5. Capital assets

	2008 Cost	2008 Accumulated amortization	2007 Cost	2007 Accumulated amortization
Computer equipment	$ 57,540	$ 28,250	$ 43,731	$ 17,776
Computer software	30,979	19,458	27,329	15,040
Laboratory and gem processing equipment	6,060	2,993	6,024	2,228
Leasehold improvements	82,118	70,164	82,118	53,740
Office furniture and equipment	92,069	52,436	92,069	42,528
	268,766	$ 173,301	251,271	$ 131,312
Less accumulated amortization	(173,301)		(131,312)	
Net book value	$ **95,465**		$ **119,959**	

6. Mineral properties

Greenland Property
The property consists of two prospecting licences registered with the Bureau of Minerals and Petroleum of the Government of Greenland (Fiskenaesset property – Licence 2008/46 and Qaqqatsiaq - Licence 2008/01). Both licences expire December 31, 2012.

In addition, the Company holds a Prospector's Licence (No. 2006/01) for coloured gemstones along the southwestern coast of Greenland, which grants the Company the non-exclusive right to explore for mineral resources outside of an exploration licence area.

Licence 2008/46 was obtained by the Company satisfying all the terms of an option agreement with Brereton Engineering and Developments Ltd. Ongoing commitments 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. 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. Licence 2008/01 is not subject to any agreements, royalties or encumbrances.

Baffin Island Property
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.

Tsa da Glisza Property
Pursuant to an agreement (the "Acquisition Agreement") dated March 7, 2002 with Expatriate Resources Ltd. ("Expatriate"), the Company acquired 100% of the Tsa da Glisza Property. The property consists of 93 claims in the Watson Lake Mining District, Yukon Territory.

Bandito Property
The Bandito Property consists of a 100% interest in and to the BANDITO, AMIGO and MGM claims located in southeastern Yukon and is composed of 81 contiguous, unpatented claims registered with the Watson Lake Mining Recorder. The MGM 8 claim was acquired, with its accompanying data package, for cash of $25,000 in May 2006. The BANDITO and AMIGO claims were staked by the Company.

6. Mineral properties - continued

Write off of mineral property interests

As at December 31, 2008, management of the Company determined that impairment indicators existed and completed an impairment assessment for each of its mineral property interests. The current economic environment and the decline in the Company's stock price were considered as impairment indicators. These assessments included a determination of fair value for each mineral property using various valuation techniques including commodity price changes and recent expenditures analysis.

As a result of management's impairment assessment at December 31, 2008, it was determined that exploration expenditures amounting to $1,419,484 (2007-$2,198,330) on the Tsa da Glisza Property should be written off in the current year. This project has not reached a stage of development, which permits reasonable assessment of an economically recoverable reserve; however, only those recent expenditures that management have assessed as having value in terms of evaluation of this deposit have been continued to be carried forward and the other expenditures representing primarily costs incurred in the earlier years of this project have been written off. During the year ended December 31, 2007, the Company issued 12,500 shares ($7,500) to Glacier Gems Inc. to satisfy its obligation upon termination of the option agreement in 2006, which was charged directly to write off of mineral properties.

The following table summarizes the Company's investment in mineral properties as at December 31, 2008:

Areas of interest	**Acquisition**	**Exploration expenditure**	**Carrying value**
Greenland Property	$ 302,751	$ 14,342,087	$ 14,644,838
Baffin Island Property	212,346	3,048,697	3,261,043
Tsa da Glisza Property	534,565	590,907	1,125,472
Bandito Property	49,100	316,235	365,335
Balance - December 31, 2008	**$ 1,098,762**	**$ 18,297,926**	**$ 19,396,688**

6. 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, 2007	$ 9,309,459	$ 2,860,251	$ 2,502,079	$ 361,687	$ 15,033,476
Total acquisition for year	50,000	658	-	-	50,658
Exploration expenditures					
Advances	(2,304)	-	(250)	-	(2,554)
Aviation	783,320	-	-	-	783,320
Camp construction and operation	683,842	85,412	15,829	-	785,083
Diamond drilling	445,564	-	-	-	445,564
Environmental assessment	198,732	-	-	-	198,732
Equipment	722,671	20,836	-	-	743,507
Equipment rental	13,127	33,895	20,000	-	67,022
Gemstone processing	320,762	26,799	-	-	347,561
Other	320,163	36,443	466	2,270	359,342
Project management	21,668	-	-	-	21,668
Reclamation	5,000	-	-	-	5,000
Stock-based compensation	58,309	8,056	-	-	66,365
Technical services	981,163	156,377	6,832	431	1,144,803
Travel	207,854	32,316	1	947	241,117
Total exploration for year	4,759,871	400,134	42,877	3,648	5,206,530
Total expenditures before the following	14,119,330	3,261,043	2,544,956	365,335	20,290,664
Gemstone test marketing study	525,508	-	-	-	525,508
Write off of expenditures	-	-	(1,419,484)	-	(1,419,484)
Balance- December 31, 2008	$ **14,644,838**	$ **3,261,043**	$ **1,125,472**	$ **365,335**	$ **19,396,688**

The following table summarizes the Company’s investment in mineral properties as at December 31, 2007:

Areas of interest	**Acquisition**	**Exploration expenditure**	**Carrying value**
Greenland Property	**$** 252,751	**$** 9,056,708	**$** 9,309,459
Baffin Island Property	211,689	2,648,562	2,860,251
Tsa da Glisza Property	534,565	1,967,514	2,502,079
Bandito Property	49,100	312,587	361,687
Balance - December 31, 2007	**$ 1,048,105**	**$ 13,985,371**	**$ 15,033,476**

6. 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, 2006	$ 4,656,092	$ 2,120,817	$ 4,579,571	$ 238,252	$ 11,594,732
Total acquisition for year	100,000	3,000	-	-	103,000
Exploration expenditures					
Advances	76,285	-	(310)	-	75,975
Aviation	740,597	-	36,253	11,768	788,618
Camp construction and operation	436,413	84,200	7,733	2,043	530,389
Diamond drilling	891,721	3,040	-	-	894,761
Environmental assessment	75,000	-	-	-	75,000
Equipment	162,500	1,979	-	-	164,479
Equipment rental	55,249	2,054	765	-	58,068
Gemstone processing	20,094	258,333	826	-	279,253
Geology	-	92,735	2,279	1,506	96,520
Mobilization/demobilization	74,120	29,479	198	-	103,797
Other	167,464	63,730	8,888	92,401	332,483
Plant facility	341,984	-	-	-	341,984
Plant operations	138,680	-	-	-	138,680
Reclamation	25,000	-	-	-	25,000
Stock-based compensation	100,040	6,499	5,184	2,272	113,995
Technical services	838,284	178,803	83,654	15,189	1,115,930
Travel	117,649	15,582	5,636	424	139,291
Total exploration for year	4,261,080	736,434	151,106	125,603	5,274,223
Total expenditures before the following	9,017,172	2,860,251	4,730,677	363,855	16,771,394
Gemstone test marketing study	292,287				292,287
Proceeds from sale of equipment	-	-	(16,981)	-	(16,981)
Write off of expenditures	-	-	(2,198,330)	-	(2,198,330)
Yukon Mining Exploration Tax Credit	-	-	(13,287)	(2,168)	(15,455)
Balance- December 31, 2007	**$ 9,309,459**	**$ 2,860,251**	**$ 2,502,079**	**$ 361,687**	**$ 15,033,476**

7. Asset retirement obligations

The Company has an obligation under various agreements to reclaim and restore the lands disturbed by its exploration activities. Future reclamation costs have been reflected on the balance sheet as at December 31, 2008 at $505,055 to provide for the fair value estimate at that time to reclaim the Tsa da Glizsa ($425,055), Baffin ($25,000) and Greenland Properties ($55,000).

8. Capital stock

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

b) Common shares issued

	Number of Shares		Amount
Balance – December 31, 2006	47,088,874	$	20,394,734
Brokered private placements – shares and warrants issued for cash ((i), (ii),(v))	14,860,090		8,173,049
Non-brokered private placement – flow through ((iv),(v))	715,000		393,250
Units issued to agents as commission (iii)	16,020		10,413
Mineral properties	56,360		32,500
Options exercised for cash	200,000		70,000
Warrants exercised for cash	3,209,142		1,604,571
Reallocations of fair value of options on conversion to shares			25,397
Reallocation of fair value of warrants on conversion to shares			15,121
Reallocation of fair value of warrants issued			(603,542)
Capital raising costs			(487,733)
Balance – December 31, 2007	66,145,486		29,627,760
Mineral properties	121,506		50,000
Non-brokered private placements ((vi)(vii))	12,955,700		1,964,170
Units issued to agents as commission (vi)	205,765		61,729
Reallocation of fair value of warrants issued			(312,478)
Future income tax liability –flow-through			(98,312)
Capital raising costs			(236,108)
Balance – December 31, 2008	**79,428,457**	**$**	**31,056,761**

i. On March 15, 2007, the Company completed a brokered private placement of 6,545,000 units at a price of $0.55 per unit. The gross proceeds of the unit placement totaled $3,599,750. Each unit comprised of one common share and one-half warrant, each whole such warrant entitling the holder to purchase one common share at a price of $0.70 for a one year period and $1.00 in the second year. If the trading price of the common shares of the Company closes above $1.10 per share in the first year or $1.65 in the second year for a period of 20 consecutive days at any time after July 17, 2007, the Company will have the right to accelerate the expiry date of all unexercised warrants. The selling agent was paid a cash commission of $287,980 and was issued 523,600 agent's warrants (with the same terms as described above). The warrants were valued using the Black-Scholes valuation model, using the following assumptions: warrant term of two years; volatility of 56%; dividend yield of 0%; and risk-free interest rate of 3.93%.

ii. On April 4, 2007, the Company completed a non-brokered private placement of 3,411,090 units at a price of $0.55 per unit. The gross proceeds of the unit placement totaled $1,876,099. Each unit comprised of one common share and one-half warrant, each whole such warrant entitling the holder to purchase one common share at a price of $0.70 for a one year period and $1.00 in the second year. If the trading price of the common shares of the Company closes above $1.10 per share in the first year or $1.65 in the second year for a period of 20 consecutive days at any time after July 17, 2007, the Company will have the right to accelerate the expiry date of all unexercised warrants. Finder's fees of $146,960 were paid in connection with this financing. The warrants were valued using the Black-Scholes valuation model, using the following assumptions: warrant term of two years; volatility of 56%; dividend yield of 0%; and risk-free interest rate of 4.02%.

8. Capital stock - continued

iii. On May 14, 2007, the Company issued 16,020 units to selling agents of its private placement that completed December 21, 2006. Each unit is comprised of one common share and one-half warrant, each whole such warrant entitling the holder to purchase one common share at a price of $0.85 per share until December 18, 2008.

iv. On July 25, 2007, the Company completed a non-brokered private placement of 227,000 flow-through common shares at a price of $0.55 per share for proceeds of $124,850. Directors and/or officers of the Company acquired 152,000 of the flow-through common shares issued.

v. On November 30, 2007, the Company completed a non-brokered private placement of 4,904,000 units at a price of $0.55 per unit and 488,000 flow-through common shares at a price of $0.55 per share. The gross proceeds of the unit placement totaled $2,965,600. Each unit comprised of one common share and one-half warrant, each whole such warrant entitling the holder to purchase one common share at a price of $0.70 for one year period and $1.00 in the second year. The warrants were valued using the Black-Scholes valuation model, using the following assumptions: warrant term of two years; volatility of 66%; dividend yield of 0%; and risk-free interest rate of 3.65%.

vi. On August 8, 2008, the Company completed a brokered private placement of 3,343,000 units at $0.30 per unit. The gross proceeds of the unit placement totaled $1,002,900. Each unit comprised of one common share and one-half warrant, each whole such warrant entitling the holder to purchase one common share at a price of $0.40 for a two year period. If the trading price of the common shares of the Company closes above $0.75 per share at anytime following expiry of the hold period for 10 or more consecutive days, the Company will have the right to accelerate the expiry date of all unexercised warrants. The selling agent was paid a cash commission of $8,473, issued 205,765 agent's units (with the same terms as described above) and 234,010 agent's warrants. Each agent's warrant is exercisable into one common share for a two year period at a price of $0.30 per share. Directors and officers of the Company acquired 660,000 of the units issued. The warrants were valued using the Black-Scholes valuation model, using the following assumptions: warrant term of two years; volatility of 66%; dividend yield of 0%; and risk-free interest rate of 2.71%.

vii. On November 5, 2008, the Company completed a non-brokered private placement of 9,612,700 units at $0.10 per unit. The gross proceeds of the unit placement totaled $961,270. Each unit comprised of one common share and one warrant entitling the holder to purchase one common share at a price of $0.20 for a two year period. If the trading price of the common shares of the Company closes above $0.30 per share at anytime following expiry of the hold period for 10 or more consecutive days, the Company will have the right to accelerate the expiry date of all unexercised warrants. The Company paid a finder's fee consisting of a cash payment of $53,725 and issued 537,250 warrants. Each warrant is exercisable into one common share for a two year period at a price of $0.10 per share, with the same acceleration provisions described above. Directors and officers of the Company acquired 865,000 of the units issued. The warrants were valued using the Black-Scholes valuation model, using the following assumptions: warrant term of two years; volatility of 68%; dividend yield of 0%; and risk-free interest rate of 2.07%.

c) Flow-through financings
$8,422,984 of qualified exploration expenditures have been renounced to investors under flow-through financing arrangements and accordingly, these costs are not available as a deduction for the Company against future income tax.

8. Capital stock - continued

d) Warrants

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

	2008			2007		
	Number of warrants		**Amount**	**Number of warrants**		**Amount**
Opening balance	12,087,749	$	891,595	15,908,664	$	553,505
Warrants issued	12,158,343		326,817	7,961,655		527,084
Warrants exercised	-		-	(3,209,142)		(15,121)
Warrants expired	(4,134,104)		(362,941)	(8,573,428)		(173,873)
Closing balance	**20,111,988**	**$**	**855,471**	**12,087,749**	**$**	**891,595**

The fair value of the 12,158,343 (2007 - 7,961,655) warrants issued in connection with unit private placements completed during the financial year ended December 31, 2008 (December 31, 2007) totaled $366,194 (2007 - $603,842) net of warrant issue costs amounting to $39,377 (2007 - $76,458) (net $326,817 (2007 - $527,084)). The warrants were valued using the Black-Scholes valuation model, using the following assumptions:

Year ended December 31, 2008

Warrant term	Volatility	Dividend yield	Risk-free interest rate	Warrants Issued		Fair value		Warrant issue costs		Net
2 years	66%	0%	2.71%	1,671,500	$	118,012	$	21,791	$	96,221
2 years	66%	0%	2.71%	102,883		7,264		-		7,264
2 years	66%	0%	2.71%	234,010		23,250		-		23,250
2 years	68%	0%	2.07%	9,612,700		187,202		17,586		169,616
2 years	68%	0%	2.07%	537,250		30,466		-		30,466
				12,158,343	$	366,194	$	39,377	$	326,817

Year ended December 31, 2007

Warrant term	Volatility	Dividend yield	Risk-free interest rate	Warrants Issued		Fair value		Warrant issue costs		Net
2 years	57%	0%	3.82%	8,010	$	-	$	1,570	$	(1,570)
2 years	56%	0%	3.93%	3,796,100		310,149		52,658		257,491
2 years	56%	0%	4.02%	1,705,545		109,160		18,661		90,499
2 years	66%	0%	3.65%	2,452,000		184,233		3,569		180,664
				7,961,655	$	603,542	$	76,458	$	527,084

8. Capital stock - continued

At December 31, 2008, the following share purchase warrants are outstanding:

Number of warrants outstanding	Exercise price	Expiry date
3,796,100	$1.00	14-Mar-2009
1,705,545	$1.00	3-Apr-2009
2,452,000	$0.70/$1.00	29-Nov-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
20,111,988		

The 3,796,100 warrants with an expiry date of March 14, 2009 and the 1,705,545 warrants with an expiry date of April 3, 2009 expired unexercised.

e) Stock options

On June 27, 2008, the shareholders approved the Stock Option Plan (the "Plan"), for which up to 10% of the issued share capital can be reserved for issuance to executive officers and directors, employees and consultants. The exercise price of the options is set at the Company's closing share price on the day before the grant date less the applicable discount permitted under the TSX Venture Exchange policies. The options have a maximum term of five years and vest at date of grant. At December 31, 2008, 2,667,846 options are available for future grant under the Plan.

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

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

At December 31, 2008, stock options outstanding are as follows:

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

8. Capital stock - continued

The fair value of the 1,670,000 options granted during the year ended December 31, 2008 (2007 - 1,160,000) amounted to $269,067 (2007 - $251,983) and has been determined using the Black-Scholes valuation model with the following assumptions:

	2008	2007
Expected dividend yield	0%	0%
Stock price volatility	68%	66%
Risk free interest rate	2.82%	4.31%
Expected life of options	2 years	2 years

9. Contributed surplus

		2008		2007
Opening balance	$	1,568,227	$	1,167,768
Options exercised for cash		-		(25,397)
Reallocation of fair value of warrants on expiration		362,941		173,873
Stock-based compensation		269,067		251,983
Closing balance	**$**	**2,200,235**	**$**	**1,568,227**

10. Accumulated other comprehensive loss

		2008		2007
Opening balance	$	(9,862)	$	-
Transition adjustment to opening balance		-		6,375
Unrealized gains (losses) on available-for-sale investments		(112,190)		39,354
Realized losses (gains) on available-for-sale investments		10,187		(55,591)
Impairment of available-for-sale investments		111,865		-
Closing balance	**$**	**-**	**$**	**(9,862)**

11. Commitment

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

2009	$	115,344
2010		115,344
2011		115,344
2012		115,344
2013		86,508
	$	547,884

12. 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:

	2008	2007
Statutory rates	30.6%	27.0%
Income tax recovery computed at statutory rates	$ 949,365	$ 971,973
Other than temporary differences		
Other	(12,246)	(5,063)
Stock-based compensation	(59,523)	(37,257)
	(71,769)	(42,320)
Book to tax differences	(234,000)	(115,621)
Capital raising costs charged directly to equity	(48,940)	(149,520)
Change in tax rate	(64,399)	(172,869)
Change in valuation allowance	(530,257)	(491,643)
Recovery of current income taxes	-	-
Recovery of future income taxes	98,312	-
Recovery of income taxes	**$ 98,312**	**$ -**

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:

	2008	2007
Future tax assets		
Non-capital loss carry forwards	$ 2,187,339	$ 1,915,966
Other	281,191	237,609
Total gross future income tax assets	2,468,530	2,153,575
Less valuation allowance	(1,765,069)	(1,284,184)
Net future income tax assets	703,461	869,391
Less future tax liabilities		
Resource properties	(703,461)	(869,391)
Net future income tax	**$ -**	**$ -**

At December 31, 2008, the Company has non-capital losses of approximately $9,142,607, which may be carried forward to apply against future year's income for Canadian income tax purposes, subject to final determination by taxation authorities, expiring as follows:

2009	$ 600,307
2010	1,082,912
2014	1,086,387
2015	1,084,454
2026	1,371,587
2027	1,812,507
2028	2,104,453
	$ 9,142,607

13. Related party transactions

a) At December 31, 2008, shareholders, officers, directors and management owed the Company $1,151 (2007 - $8,835), which is included in advances and accounts receivable.

b) During the year ended December 31, 2008, a director loaned the Company $40,000, which is included in accounts within accounts payable and accrued liabilities at year end. The loan is non-interest bearing and without stated terms of repayment.

c) During the fiscal year ended December 31, 2008, directors and officers charged $708,964 (2007 - $404,525) in fees for services rendered, of which $492,596 (2007 - $193,457) was charged to operations and $216,368 (2007 - $211,068) to mineral properties. These transactions were entered into on a normal commercial basis.

d) During the year ended December 31, 2008, Austring Fendrick Fairman & Parkkari, a firm in which Greg Fekete, an officer of the Company, is a partner charged fees of $2,479 (2007 - $5,450) for legal services. These transactions were entered into on a normal commercial basis.

14. Management of capital risk

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain flexible capital structure which optimizes the costs of capital at an acceptable risk.

In the management of capital, the Company includes the components of shareholders' equity, as well the cash and cash equivalents, investments and investment tax credit receivable balances.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents and investments.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

In order to maximize ongoing development efforts, the Company does not pay out dividends.

The Company's investment policy is generally to invest its cash in highly liquid short-term interest bearing investments with maturities 90 days or less from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations. Periodically, the Company will invest in interest bearing investments with maturities exceeding 90 days, if it is for a specific purpose.

The Company will be required to access financial resources through equity placements in the junior resource market or alternatively a debt issue in the current year to sustain operations of the Company.

15. 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 December 31, 2008.

	Financial assets held-for-trading	Financial assets available-for-sale	Loans and receivables	Other financial liabilities	Total carrying value
Cash and cash equivalents	$ 4,206	$ -	$ -	$	$ 4,206
Investments	-	55,632	-	-	55,632
Advances and accounts receivable	-	-	56,984	-	56,984
Accounts payable and accrued charges	-	-	-	(1,334,956)	(1,334,956)
	$ 4,206	$ 55,632	$ 56,984	$ (1,334,956)	(1,218,134)

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 December 31, 2008 and 2007 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.

At December 31, 2008, the Company is exposed to currency risk through the following assets and liabilities denominated in US dollars and Danish krones:

	December 31, 2008		December 31, 2007	
	USD	**DKK**	**USD**	**DKK**
Cash and cash equivalent	(856)	3,899	5,605	69,250
Accounts payable and accrued liabilities	(4,683)	(2,798, 795)	(16,732)	(323,438)

Based on the above net exposure as at December 31, 2008 and assuming that all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the US dollar and the Danish krone would result in an increase/decrease of $64,650 in the Company's net loss.

15. Financial instruments - continued

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 December 31, 2008, the Company has a working capital deficiency of $1,120,717. 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).

16. Segmented information

The Company's principal business segment is the acquisition, exploration and development of mineral properties. All of the Company's mineral properties are in the exploration and development stage and therefore exploration costs are deferred. The Company's current activities are focused in Canada and Greenland (note 6).