Audited Consolidated Financial Statements of

TRUE NORTH GEMS INC.

As at and for the years ended December 31, 2009 and 2008

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 statements and related financial reporting matters prior to submitting the consolidated financial statements to the Board for approval.

(signed) Nicholas Houghton Chief Executive Officer (signed) Jacqueline M. Tucker Chief Financial Officer

Vancouver, British Columbia
April 23, 2010

PRICEWATERHOUSECOOPERS

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Auditors' Report

To the Shareholders of
True North Gems Inc.

We have audited the consolidated balance sheets of True North Gems Inc. (the "Company") as at December 31, 2009 and 2008 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, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

signed PricewaterhouseCoopers LLP

Chartered Accountants
Vancouver, B.C.
April 23, 2010

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

		2009		**2008**
Expressed in Canadian dollars				
ASSETS				
Current				
Cash	$	244,029	$	4,206
Investments (note 3)		27,602		55,632
Advances and accounts receivable		41,176		56,984
Yukon Mining Exploration Tax Credit receivable		-		15,454
Deposits and prepaid expenses		12,690		81,963
		325,497		214,239
Capital assets (note 4)		64,632		95,465
Mineral properties (note 5)		19,909,692		19,396,688
	$	**20,299,821**	**$**	**19,706,392**
LIABILITIES				
Current				
Accounts payable and accrued liabilities	$	654,979	$	1,294,956
Loans payable (note 6)		110,000		40,000
		764,979		1,334,956
Asset retirement obligations (note 7)		505,055		505,055
		1,270,034		1,840,011
SHAREHOLDERS' EQUITY				
Capital stock (note 8)		33,307,080		31,056,761
Warrants (note 8(d))		1,229,757		855,471
Contributed surplus (note 9)		3,091,453		2,200,235
Deficit		(18,598,503)		(16,246,086)
		19,029,787		17,866,381
	$	**20,299,821**	**$**	**19,706,392**

Going concern (note 1)
Subsequent events (note 5 & 8(e))
Commitment (note 11)

Approved on behalf of the Board:

(signed) Bill Anderson Director (signed) John Ryder Director

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

TRUE NORTH GEMS INC.
Consolidated Statements of Operations and Deficit
As at December 31,

	2009	2008
Expressed in Canadian dollars		
Expenses		
Amortization	$ 32,455	$ 41,989
Audit fees	20,461	33,141
Consulting and corporate development fees	322,520	303,734
Corporate financial services fees	20,000	-
Corporate secretarial and accounting fees	81,721	130,694
Directors fees	44,000	36,000
General and administrative	127,210	181,880
Investor/shareholder relations	95,604	313,064
Legal fees	10,389	19,571
Rent and occupancy costs	57,881	66,121
Salaries and employee benefits	77,545	90,514
Stock-based compensation	302,226	194,647
Transfer agent and filing fees	32,879	27,503
Travel	52,372	124,356
	1,277,263	1,563,214
Loss before under noted items	(1,277,263)	(1,563,214)
Foreign exchange gain (loss)	32,675	(74,233)
Gain (loss) on sale of available-for-sale-investments	8,919	(11,113)
Impairment of available-for-sale investments	-	(111,865)
Interest income	2,448	75,411
Loss on sale of equipment	(148)	-
Write off of mineral properties (note 5)	(1,119,048)	(1,419,484)
Loss before recovery of future income tax	(2,352,417)	(3,104,498)
Recovery of future income tax	-	98,312
Net loss for year	(2,352,417)	(3,006,186)
Deficit, beginning of year	(16,246,086)	(13,239,900)
Deficit, end of year	**$ (18,598,503)**	**$ (16,246,086)**
Loss per share – basic and fully diluted	**$ (0.03)**	**$ (0.04)**
Weighted average number of common shares used in the calculation of loss per share – basic and fully diluted	**92,940,416**	**69,232,208**

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

TRUE NORTH GEMS INC.
Consolidated Statements of Comprehensive Loss
For the years ended December 31,

		2009		2008
Expressed in Canadian dollars				
Net loss for year before other comprehensive income (loss)	$	(2,352,417)	$	(3,006,186)
Unrealized gains (losses) on available-for-sale investments (note 10)		1,730		(112,190)
Realized losses (gains) on available-for- sale investments (note 10)		(1,730)		10,187
Impairment of available-for-sale investments		-		111,865
Comprehensive loss for year	**$**	**(2,352,417)**	**$**	**(2,996,324)**

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

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

	2009	2008
Expressed in Canadian dollars		
Cash flows from operating activities		
Net loss for year	$ (2,352,417)	$ (3,006,186)
Items not involving cash		
Amortization	32,455	41,989
Impairment of available-for-sale investments	-	111,865
Loss (gain) on sale of available-for-sale investments	(8,919)	11,113
Loss on sale of equipment	148	-
Recovery of future income tax	-	(98,312)
Stock-based compensation	302,226	194,647
Write off of mineral properties	1,119,048	1,419,484
	(907,459)	(1,325,400)
Changes in operating assets and liabilities		
Investments	36,949	(12,661)
Advances and accounts receivable	15,808	54,465
Deposits and prepaid expenses	69,272	9,415
Accounts payable and accrued liabilities	(517,030)	578,351
	(1,302,460)	(695,830)
Cash flows from investing activities		
Purchase of capital assets	(4,395)	(17,495)
Acquisition of mineral properties	(116,335)	(658)
Expenditures on mineral properties	(1,393,639)	(5,652,618)
METC refund received	15,454	-
Change in operating assets and liabilities relating to investing activities	(88,186)	72,514
	(1,587,101)	(5,598,257)
Cash flows from financing activities		
Proceeds from loans	70,000	40,000
Shares and warrants issued for cash	3,361,200	1,964,170
Capital raising costs	(286,691)	(160,039)
Change in operating assets and liabilities relating to financing activities	(15,125)	10,081
	3,129,384	1,854,212
Increase (decrease) in cash and cash equivalents	239,823	(4,439,875)
Cash and cash equivalents, beginning of year	4,206	4,444,081
Cash and cash equivalents, end of year	**$ 244,029**	**$ 4,206**
Supplemental disclosure of non-cash investing and financing activities		
Debt settled through sale of equipment to vendor	$ 19,635	$ -
Shares issued for acquisition of mineral properties	$ 78,750	$ 50,000
Shares and warrants issued to agents	$ 30,211	$ 115,445
Stock options granted to project management	$ 60,338	$ -

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

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 fiscal year ended December 31, 2009, the Company incurred a net loss and utilized funds in operations totalling $2,352,417 and $1,302,460 respectively. The accumulated deficit at December 31, 2009 is $18,598,503. 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.

Expressed in Canadian dollars

2. Accounting policies – continued

On a periodic basis, 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.

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 awards made to employees and non-employees are measured and recognized using the Black Scholes fair valuation method. For employees, the fair value of the options at the date of the grant is accrued and charged to operations or capitalized to a mineral property, with the offsetting credit to contributed surplus, on a straight-line basis over the vesting period. If and when stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is complete or the date the performance commitment is reached or the date which the equity instrument is vested and non-forfeitable.

Expressed in Canadian dollars

2. Accounting policies – continued

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, 2009 and 2008 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.

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

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, stock-based compensation 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.

Expressed in Canadian dollars

2. Accounting policies – continued

m) Financial Instruments – Recognition and Measurement
Section 3855 requires that all financial assets, except those classified as held to maturity and 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, accrued charges and loans payable are classified as other liabilities.

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.

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

p) Changes in accounting policies
Effective January 1, 2009, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA").

i. Goodwill and intangible assets
The CICA issued the new Handbook Section 3064, "Goodwill and Intangible Assets", which will replace Section 3062, "Goodwill and Other Intangible Assets". The new standard establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of preproduction and start-up costs and requires that these costs be expensed as incurred. The new standard applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. Adoption of this new standard had no impact on the Company's financial statements.

Expressed in Canadian dollars

2. Accounting policies – continued

ii. Accounting by mining enterprises for exploration costs
In March 2009, the CICA issued EIC Abstract 174, Mining Exploration Costs ("EIC-174"), which supersedes EIC-126, Accounting by Mining Enterprises for Exploration Costs. The publication of EIC-174 covers all guidance in EIC-126 and provides additional guidance for mining exploration enterprises in circumstances where a test for impairment is required. EIC-174 is applicable for the Company's interim and annual financial statements issued after March 27, 2009. Adoption of this new standard had no impact on the Company's financial statements.

q) New accounting pronouncements

i. Convergence with International Financial Reporting Standards ("IFRS")
The Canadian Accounting Standards Board ("AcSB") recently confirmed that International Financial Reporting Standards ("IFRS") will replace Canadian standards and interpretations on January 1, 2011. The process of changing from current Canadian GAAP to IFRS will be a significant undertaking that may materially affect reported financial position and results of operations and also affect certain business functions.

ii. Business combinations/consolidated financial statements/non-controlling interest
In January 2009, the Canadian Institute of Chartered Accountants ("CICA") adopted Handbook sections 1582, "Business Combinations", 1601, "Consolidated Financial Statements" and 1602, Non-Controlling Interest", which superseded current sections 1581, "Business Combinations" and 1600, "Consolidated Financial Statements". These sections will be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier adoption is permitted. If an entity applies these sections before January 1, 2011, it is required to disclose that fact and apply each of the new sections concurrently. These new sections are the Canadian equivalent to IFRS.

3. Investments

			December 31, 2009
	Cost	**Accumulated unrealized holding gains (losses)**	**Carrying value**
2% Term deposit maturing March 29, 2010 fair value-$27,602	**$ 27,602**	**$ -**	**$ 27,602**

			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**

Expressed in Canadian dollars

4. Capital assets

				2009				**2008**
				Accumulated				**Accumulated**
		Cost		**amortization**		**Cost**		**amortization**
Computer equipment	$	54,073	$	35,512	$	57,540	$	28,250
Computer software		35,374		23,464		30,979		19,458
Laboratory and gem processing equipment		6,060		3,606		6,060		2,993
Leasehold improvements		82,118		82,118		82,118		70,164
Office furniture and equipment		92,069		60,362		92,069		52,436
		269,694	$	205,062		268,766	$	173,301
Less accumulated amortization		(205,062)				(173,301)		
Net book value	$	**64,632**			$	**95,465**		

5. 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. ("Brereton"). On going 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. Subsequent to December 31, 2009, the cash payment of $50,000 was made and $50,000 of shares from treasury were issued (571,429 shares) to discharge the 2009 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.

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 located in the Watson Lake Mining District, Yukon Territory.

Expressed in Canadian dollars

5. Mineral properties - continued

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.

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

True Blue Property
The property consists of 94 claims located 55 kilometres south of Ross River, Yukon.

Subsequent to December 31, 2009, 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.

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.

Expressed in Canadian dollars

5. Mineral properties - continued

Write off of mineral properties

As at December 31, 2009, management of the Company determined that impairment indicators existed and completed an impairment assessment for each of its mineral property interests. 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, 2009, it was determined that the Tsa da Glisza Property should be carried at a nominal value of $1 resulting in expenditures amounting to $1,119,048 being written off in the current year. Management does not intend to conduct further exploration on the project and is uncertain as to the amount, if any, that may be recovered on eventual sale of this project.

As a result of management's impairment assessment at December 31, 2008, exploration expenditures amounting to $1,419,484 on the Tsa da Glisza Property were written off.

The following table summarizes the Company's investment in mineral properties as at December 31, 2009:

Areas of interest	**Acquisition**	**Exploration expenditure**	**Carrying value**
Greenland Property	$ 497,836	$ 15,736,561	$ 16,234,397
Baffin Island Property	212,346	3,074,728	3,287,074
Tsa da Glisza Property	1	-	1
Other Yukon Properties	49,100	339,120	388,220
Balance - December 31, 2009	**$ 759,283**	**$ 19,150,409**	**$ 19,909,692**

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	Tsa da Glisza Property	Other Yukon Properties	Total
Balance- December 31, 2008	$ 14,644,838	$ 3,261,043	$ 1,125,472	$ 365,335	$ 19,396,688
Total acquisition for year	195,085	-	-	-	195,085
Exploration expenditures					
Advances	6,859	-	-	-	6,859
Aviation	152,926	-	-	-	152,926
Camp construction and operation	258,161	7,224	(393)	1,560	266,552
Equipment	-	-	(1,497)	-	(1,497)
Equipment rental	15,303	6,664	-	-	21,967
Other	91,429	(22,990)	(395)	19,817	87,861
Stock-based compensation	46,089	316	104	151	46,660
Technical services	707,044	33,649	(4,242)	1,357	737,808
Travel	59,717	1,168	-	-	60,885
Total exploration for year	1,337,528	26,031	(6,423)	22,885	1,380,021
Total expenditures before the following	16,177,451	3,287,074	1,119,049	388,220	20,971,794
Gemstone test marketing study	73,956	-	-	-	73,956
Proceeds from sale of equipment and field supplies	(17,010)	-	-	-	(17,010)
Write-off of mineral properties	-	-	(1,119,048)		(1,119,048)
Balance- December 31, 2009	**$ 16,234,397**	**$ 3,287,074**	**$ 1**	**$ 388,220**	**$ 19,909,692**

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
Other Yukon Properties	49,100	316,235	365,335
Balance - December 31, 2008	**$ 1,098,762**	**$ 18,297,926**	**$ 19,396,688**

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**	**Tsa da Glisza Property**	**Other Yukon Properties**	**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	-	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 mineral properties	-	-	(1,419,484)	-	(1,419,484)
Balance- December 31, 2008	**$ 14,644,838**	**$ 3,261,043**	**$ 1,125,472**	**$ 365,335**	**$ 19,396,688**

6. Loans payable

The loans payable are due upon demand, secured by promissory notes and bear interest at the rate of 8% per annum. Included in the loan balance is $80,000 advanced by directors of which $40,000 was advanced during the year ended December 31, 2008 and the additional $40,000 during the year ended December 31, 2009 (note 13(b)).

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, 2009 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).

Expressed in Canadian dollars

8. Capital stock

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

b) Common shares issued

	Number of Shares		Amount
Balance – December 31, 2007	66,145,486	$	29,627,760
Mineral properties	121,506		50,000
Non-brokered private placements ((i)(ii))	12,955,700		1,964,170
Units issued to agents as commission (i)	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
Mineral properties	925,676		78,750
Non-brokered private placements ((iii)(iv))	33,612,000		3,361,200
Reallocation of fair value of warrants issued	-		(963,378)
Capital raising costs	-		(226,253)
Balance – December 31, 2009	**113,966,133**	**$**	**33,307,080**

i. 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.

ii. 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.

Expressed in Canadian dollars

8. Capital stock - continued

iii. The Company completed a non-brokered private placement of 28,610,000 units at a price of $0.10 per unit in three tranches that closed on July 3, August 10 and August 21, 2009 respectively. The gross proceeds of the unit placement totaled $2,861,000. Each unit comprised of one common share and one warrant entitling the holder to purchase one common share at a price of $0.20 for a two year period. If the trading price of the common shares of the Company closes above $0.30 for a period of 10 consecutive days at any time after the four month hold period has lapsed, the Company will have the right to accelerate the expiry date of all unexercised warrants. Finder's fees of $179,318 were paid and 274,383 broker warrants were issued, convertible into one common share at a price of $0.10 for a two year period. Directors and officers of the Company acquired 1,245,000 of the units issued.

iv. On December 24, 2009, the Company completed a non-brokered private placement of 5,002,000 units at a price of $0.10 per unit. The gross proceeds of the unit placement totaled $500,200. Each unit comprised of one common share and one warrant entitling the holder to purchase one common share at a price of $0.20 for a two year period. If the trading price of the common shares of the Company closes above $0.30 for a period of 10 consecutive days at any time after the four month hold period has lapsed, the Company will have the right to accelerate the expiry date of all unexercised warrants. Finder's fees of $32,574 were paid and 200,740 broker 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 820,000 of the units issued.

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.

d) Warrants
Share purchase warrant transactions for the year ended December 31, 2009 and the year ended December 31, 2008 and the number of share purchase warrants outstanding are summarized as follows:

	2009			**2008**		
	Number of warrants		**Amount**	**Number of warrants**		**Amount**
Opening balance	20,111,988	$	855,471	12,087,749	$	891,595
Warrants issued	34,087,123		902,940	12,158,343		326,817
Warrants expired	(7,953,645)		(528,654)	(4,134,104)		(362,941)
Closing balance	**46,245,466**	**$**	**1,229,757**	**20,111,988**	**$**	**855,471**

The fair value of the 34,087,123 (2008-12,158,343) warrants issued in connection with unit private placements completed during the financial year ended December 31, 2009 (December 31, 2008) totaled $993,589 (2008 - $366,194) net of warrant issue costs amounting to $90,649 (2008 - $39,377) (net $902,940 (2008 - $326,817)).

Expressed in Canadian dollars

8. Capital stock - continued

The warrants were valued using the Black-Scholes valuation model, using the following assumptions:

Year ended December 31, 2009

Warrant term	Volatility	Dividend yield	Risk-free interest rate	Warrants Issued		Fair value		Warrant issue costs		Net
2 years	97%	0%	1.16%	13,700,000	$	397,104	$	35,901	$	361,203
2 years	97%	0%	1.16%	274,383		20,606		-		20,606
2 years	100%	0%	1.41%	13,000,000		375,148		34,066		341,082
2 years	100%	0%	1.35%	1,910,000		55,090		5,005		50,085
2 years	107%	0%	1.39%	5,002,000		136,036		15,677		120,359
2 years	107%	0%	1.39%	200,740		9,605		-		9,605
				34,087,123	$	993,589	$	90,649	$	902,940

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

At December 31, 2009, the following share purchase warrants are outstanding:

Number of warrants outstanding	**Exercise price**	**Expiry date**
1,774,383	$0.40	7-Aug-2010
234,010	$0.30	7-Aug-2010
9,612,700	$0.20	29-Oct-2010
537,250	$0.10	29-Oct-2010
13,700,000	$0.20	03-Jul-2011
274,383	$0.10	03-Jul-2011
13,000,000	$0.20	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
46,245,466		

Expressed in Canadian dollars

8. Capital stock - continued

e) 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 December 31, 2009, 2,721,613 options are available for future grant under the Plan.

Stock option transactions for the years ended December 31, 2009 and 2008 and the number of stock options outstanding and exercisable are summarized for the respective financial year ends as follows:

	2009		2008	
	Number of options	Weighted Average Exercise Price of Options Exercisable	Number of options	Weighted Average Exercise Price of Options Exercisable
Opening balance	5,275,000	$0.46	4,025,000	$0.54
Options granted	5,650,000	$0.15	1,670,000	$0.38
Options expired	(630,000)	$0.64	(420,000)	$0.83
Options forfeited	(1,620,000)	$0.43	-	-
Closing balance	8,675,000	$0.25	5,275,000	$0.46

The fair value of the 5,650,000 options granted during the year ended December 31, 2009 (2008 - 1,670,000) amounted to $362,564 (2008 - $269,067) and has been determined using the Black-Scholes valuation model with the following assumptions:

	2009	2008
Expected dividend yield	0%	0%
Stock price volatility	100%	68%
Risk free interest rate	1.31%	2.82%
Expected life of options	2 years	2 years

At December 31, 2009, stock options outstanding are as follows:

Number of options outstanding and exercisable	Range of exercise prices	Weighted Average Exercise Price of Options Exercisable	Weighted Average Remaining Contractual Life
5,650,000	$0.15	$0.15	4.65 years
2,145,000	$0.38-$0.42	$0.39	2.13 years
880,000	$0.56	$0.56	2.79 years
8,675,000			

Subsequent to December 31, 2009, the Company granted 900,000 stock options to directors, officers, employees and consultants with an exercise price of $0.15 up to February 17, 2015.

Expressed in Canadian dollars

9. Contributed surplus

		2009		2008
Opening balance	$	2,200,235	$	1,568,227
Reallocation of fair value of warrants on expiration		528,654		362,941
Stock-based compensation		362,564		269,067
Closing balance	**$**	**3,091,453**	**$**	**2,200,235**

10. Accumulated other comprehensive loss

		2009		2008
Opening balance	$	-	$	(9,862)
Unrealized gains (losses) on available-for-sale investments		1,730		(112,190)
Realized losses (gains) on available-for-sale investments		(1,730)		10,187
Impairment of available-for-sale investments		-		111,865
Closing balance	**$**	**-**	**$**	**-**

11. Commitment

The Company is party to an operating lease for premises expiring on September 30, 2013. The future minimum lease payments in each of the next four years and in aggregate are as follows:

2010	$	115,344
2011		115,344
2012		115,344
2013		86,508
	$	432,540

Expressed in Canadian dollars

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:

	2009	2008
Statutory rates	29.5%	30.6%
Income tax recovery computed at statutory rates	$ 694,018	$ 949,365
Other than temporary differences		
Other	(1,067)	(12,246)
Stock-based compensation	(106,965)	(59,523)
	(108,032)	(71,769)
Book to tax differences	(129,959)	(248,504)
Capital raising costs charged directly to equity	(84,580)	(48,940)
Change in tax rate	-	(64,399)
Change in valuation allowance	(371,447)	(515,753)
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:

	2009	2008
Future tax assets		
Non-capital loss carry forwards	$ 2,438,885	$ 2,187,339
Other	321,170	281,191
Total gross future income tax assets	2,760,055	2,468,530
Less valuation allowance	(2,371,174)	(1,765,069)
Net future income tax assets	388,881	703,461
Less future tax liabilities		
Resource properties	(388,881)	(703,461)
Net future income tax	**$ -**	**$ -**

Expressed in Canadian dollars

12. Income tax - continued

At December 31, 2009, the Company has non-capital losses of approximately $9,755,539, 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:

2010	$	1,082,912
2014		1,086,387
2015		1,084,454
2026		1,371,187
2027		1,812,507
2028		2,104,451
2029		1,213,641
	$	9,755,539

13. Related party transactions

(In addition to those disclosed elsewhere)

a) At December 31, 2009, shareholders, officers, directors and management owed the Company $7,451 (2008 - $1,151), which is included in advances and accounts receivable.

b) During the year ended December 31, 2009, directors and officers loaned the Company $40,000 (2008-$40,000). At December 31, 2009, the loans totaling $80,000 (2008-$40,000) bear interest at the rate of 8% per annum and are without stated terms of repayment.

c) During the fiscal year ended December 31, 2009, directors and officers charged $379,908 (2008 - $708,964) in fees for services rendered, of which $367,758 (2008 - $492,596) was charged to operations and $12,150 (2008 - $216,368) to mineral properties. These transactions were entered into on a normal commercial basis.

d) At December 31, 2009, shareholders, officers, directors and management are owed $23,142 (2008 - $113,180), which is included in accounts payable and accrued charges.

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.

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.

Expressed in Canadian dollars

14. Management of capital risk - continued

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

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

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

The Company will be required to access financial resources through equity placements in the junior resource market 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.

15. 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 respective financial year ends:

At December 31, 2009

	Fair value hierarchy level	Financial assets held-for-trading	Financial assets available-for-sale	Loans and receivables	Other financial liabilities	Total carrying value
Cash and cash equivalents	Level 1	$ 244,029	$ -	$ -	$ -	$ 244,029
Investments	Level 1	-	27,602	-	-	27,602
Advances and accounts receivable		-	-	41,176	-	41,176
Accounts payable and accrued charges		-	-	-	(654,979)	(654,979)
Loans payable		-	-	-	(110,000)	(110,000)
		$ 244,029	$ 27,602	$ 41,176	$ (764,979)	$ (452,172)

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 :

Expressed in Canadian dollars

15. Financial instruments - continued

- 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 December 31, 2008

	Fair value hierarchy level	Financial assets held-for-trading	Financial assets available-for-sale	Loans and receivables	Other financial liabilities	Total carrying value
Cash and cash equivalents	Level 1	$ 4,206	$ -	$ -	$	$ 4,206
Investments	Level 1	-	55,632	-	-	55,632
Advances and accounts receivable		-	-	56,984	-	56,984
Accounts payable and accrued charges		-	-	-	(1,294 ,956)	(1,294 ,956)
Loans payable		-	-	-	(40,000)	(40,000)
		$ 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, accounts payable, accrued charges and loans payable approximate their fair value at December 31, 2009 and 2008 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.

Expressed in Canadian dollars

15. Financial instruments - continued

At December 31, 2009, the Company is exposed to currency risk through the following assets and liabilities denominated in US dollars and Danish krones:

	2009		2008	
	USD	**DKK**	**USD**	**DKK**
Cash and cash equivalent	(919)	60,294	(856)	3,899
Accounts payable and accrued liabilities	-	(1,642,500)	(4,683)	(2,798,795)
Net asset (liability) position	(919)	(1,582,206)	(5,539)	(2,794,896)

Based on the above net exposure as at December 31, 2009 and assuming that all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the US dollar and the Danish krone would result in an increase/decrease of $32,304 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 December 31, 2009, the Company has a working capital deficiency of $439,482. 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 5).