TRUE NØRTH GEMS

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2012

Management's discussion and analysis ("MD&A") provides a review of the performance of True North Gems Inc.'s ("True North" or the "Company") operations and has been prepared on the basis of available information up to April 24, 2013 and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2012 and the related notes thereto, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All dollar amounts referred to in this discussion and analysis are expressed in Canadian dollars except where indicated otherwise.

Caution on Forward-Looking Statements

The MD&A contains certain forward-looking statements concerning anticipated development in True North's operation in future periods. Forward-looking statements are frequently, but not always identified by words such as "expects", "anticipates", "believes", "intends", "estimates", "potential", "possible" and similar expressions, or statements that events, conditions or results "will", "may", "could" or "should" occur or be achieved. The forward-looking statements are set forth principally under the heading "Outlook" in the MD&A and may include statements regarding exploration results and budgets, mineral resource estimates, work programs, capital expenditures, timelines, strategic plans, market price of gemstones or other statements that are not statement of fact. Forward-looking statements are statements about the future and are inherently uncertain, and actual achievements of True North may differ materially from those reflected in forward-looking statements due to a variety of risks, uncertainties and other factors. True North's forward-looking statements are based on the beliefs, expectations and opinions of management on the date the statements are made, and True North does not assume any obligation to update forward-looking statements if circumstances or management's beliefs, expectations or opinions should change except as required by law. For the reasons set forth above, investors should not place undue reliance on forward-looking statements. Important factors that could cause actual results to differ materially from True North's expectations include uncertainties involved in disputes and litigation, fluctuations in commodity prices and currency exchange rates; uncertainties relating to interpretation of drill results and the geology, continuity and grade of deposits; uncertainty of estimates of capital and operating costs, recovery rates, production estimates and economic return; the need for cooperation of government agencies and native groups in the exploration and development of properties and the issuance of required permits; the need to obtain additional financing to develop properties and uncertainty as to the availability and terms of future financing; the possibility of delay in exploration or development programs or in construction projects and uncertainty in meeting anticipated program milestones; uncertainty as to timely availability of permits and other government approvals and other risks and uncertainties disclosed in other information released by True North from time to time and filed with the appropriate regulatory agencies.

HIGHLIGHTS AND OUTLOOK

During the year ended December 31, 2012, the Company completed an equity financing that raised $1,094,100. As at December 31, 2012, the Company had current assets of $136,733 and current liabilities of $1,105,118; resulting in a working capital deficit of $968,385. In the first quarter of fiscal 2013, the following events have occurred, which has resulted in a significant improvement in the Company's financial position as of April 24, 2013:

- Closed the initial tranche of a three tranche non-brokered private placement on April 5, 2013; whereby the Company raised $500,000;
- Through the second and third tranche of the non-brokered placement, it is anticipated a further $15,250,000 will be raised on or before August 1, 2013; and,
- Entered into a financial agreement with Greenland Venture A/S that has provided available funds of approximately $803,700 (DKK 4,500,000).

In addition, during 2012 the Company signed a Letter of Intent ("LOI") with Greenland Mining Services A/S ("GMS") whereby GMS will have the right to earn a 20% shareholding in the Company's wholly-owned subsidiary, True North Gems Greenland A/S ("TNGG"), marked a significant milestone. The substantial capital investment by GMS to earn the interest in TNGG provides the funding to complete mine support infrastructure. The Company is responsible for designing and funding the capital costs for the ore processing circuit and building, rough gem sorting and grading facility and gem marketing and sales. The completion of the 2013 financing will provide the available funds.

The appointments of Ronald Hall, as Vice President of Engineering and W. Graham Nicholls, as Executive Vice-President in the fall of 2012 greatly enhances the strength of the management team as True North completes the permitting of the Aappaluttoq and move forward towards production and sales.

Outlook for 2013

The Company is projecting and planning around final approvals of both EIA and SIA and initiation of the public hearings in Greenland by Q2-2013. Exploration on both Qaqqatsiaq and Fiskenaeest licences will be minimal, as all efforts will be placed on completing the various engineering studies, gaining the required technical permits and commencing construction on the Aappaluttoq Ruby Mine.

FISKENAESSET RUBY PROJECT – GREENLAND

On June 6, 2011, the Company filed a draft exploitation (mining) permit application for the Company's Aappaluttoq Prospect in Greenland. The draft permit application was accompanied by a technical study, a draft socioeconomic impact assessment (SIA) and draft environmental impact assessment (EIA), all as required by the Mineral Resources Act of Greenland.

The final drafts of both the EIA and the SIA and formal translation into both Greenlandic and Danish have been completed. Once accepted by the Bureau of Minerals and Petroleum (BMP) both final versions of the SIA and EIA will be published on the Greenland Government's public website in preparation for public hearings on the permit application. The schedule for these hearings remains under discussion with the BMP.

2012 Work Program

The Company's efforts in 2012 were dedicated to completing the exploitation permit application on the Fiskanaesset ruby project. This includes completion of the EIA and SIA with the commensurate public hearings in Greenland. At the same time, basic engineering of the project is underway with final design of many of the project components including the processing plant. The processing flowsheet has been upgraded; as a result of the test work at SGS Lakefield, which demonstrated that the addition of a dense media separation circuit will improve the efficiency of the processing plant and optic sorting test work done in December 2011. The annual field program was initiated on July 31, 2012 with 5 geoscientists and up to 4 support staff on-site at the Aappaluttoq camp at various times. The program focussed on high priority targets and included the use of ground geophysical surveys to better delineate the dimension of the ruby bearing units on the main Ruby Island Trend; these targets are directly along strike from the main Aappaluttoq mine-site. Other regional exploration work was completed, including mapping and sampling on the Qaqqatsiaq exploration licence. Geochemical assay results from grab and soil samples are currently pending from the laboratory. Significant logistical preparatory work around the current exploration camp was also completed.

BELUGA SAPPHIRE PROJECT – BAFFIN ISLAND, CANADA

The Company continues to evaluate the results of work completed to date, including the results from the regional and detailed geological mapping and prospecting work completed in 2008, in order to assess the logical next step for future exploration. To that end during 2009, the Company completed a comprehensive compilation of all available technical information to facilitate the project evaluation process. In 2011, a legal survey of the claims was completed. This legal survey will allow the Company to convert the mineral claims to a mining lease. This conversion process was initiated in December 2011. A series of reports were updated and sent to the Department of Indian and Northern Affairs, these reports have been accepted and the leasing process for the Beluga claims is ongoing.

BANDITO PROJECT – YUKON, CANADA

This project is an early stage, polymetallic exploration project and has not yet advanced to a resource definition stage.

In January 2013, the Company entered into an agreement to sell its 100% interest in the Bandito project to Endurance subject to a 1% net smelter return ("NSR"). Consideration was a $50,000 cash payment (paid January 29, 2013) and issue of 5,000,000 shares. Shares are being released in three tranches, one million are subject to the standard four month hold period, two million will be released on July 1, 2013 and the final two million will be released December 31, 2013. Endurance has the right to acquire one half of the NSR at any time for a cash payment of $1,000,000. A further cash payment of $500,000 is payable to the Company in two tranches with the initial $150,000 payable upon completion and filing of a bankable feasibility study on the Bandito project and the balance to be paid after project financing is secured.

STRAW PROJECT – YUKON, CANADA

The property comprises 43 claims located in the Finlayson District, Yukon Territory. In 2011, minor QA/QC and due diligence work was performed on-site.

In January 2013, the Company entered into an Option Agreement with Pacific Ridge Exploration Ltd. ("Pacific") whereby Pacific has the right to acquire a 100% interest in the Straw by making an initial cash payment of $15,000 (paid February 4, 2013) and issue of 250,000 shares on closing and an additional cash payment of $10,000 and issue of 150,000 shares on or before January 31, 2014.

TSA DA GLISZA EMERALD PROJECT – YUKON, CANADA

Based on an internal review of the Tsa da Glisza Emerald property during the financial year ended December 31, 2009, management determined that it would not be conducting further exploration work on this project. As a result the project was written down to a nominal carrying value of $1. The Company's 2012 work program continued reclamation on the site and determined what further work will be necessary in subsequent years. This work included the dismantling of disused buildings across the site, the mechanical upkeep of equipment and the backfilling of low level trenches on Regal Ridge. Logistical preparatory work was completed in anticipation of the 2013 reclamation program.

TRUE BLUE PROJECT– YUKON, CANADA

The property comprises 301 claims located 55 kilometres south of Ross River, Yukon. No work was performed on-site during 2012. A management review of this project will occur in 2013, and until then, the previous assessment credit is sufficient to maintain claims in good standing.

AURORA-BATEA PROJECT.

This project was dropped from the Company portfolio as management re-focus the company's exploration strategy.

SELECTED ANNUAL INFORMATION

(Information extracted from the Company's audited consolidated financial statements)

Selected Annual Consolidated Financial Information
(Expressed in Canadian Dollars)

	2012 $	2011 $	2010 $
Revenues	-	-	-
Net loss	(1,118,871)	(1,864,024)	(3,594,284)
Net loss per share - basic and diluted	(0.01)	(0.01)	(0.03)
Cash dividends	-	-	-
Total assets	22,611,176	22,038,415	20,162,776
Long term liabilities	573,205	763,395	734,661
Shareholders' equity	20,932,853	20,701,337	19,232,437
Share capital	39,310,384	38,237,808	35,486,222
Warrants	613,728	1,481,670	1,848,807
Contributed surplus	6,184,423	5,030,140	4,074,226
Deficit	(25,175,682)	(24,056,811)	(22,192,787)
Accumulated other comprehensive income	-	8,531	15,969

FINANCIAL POSITION

As at December 31, 2012, the Company had current assets of $136,733 and current liabilities of $1,105,118 compared to current assets of $862,090 and current liabilities of $573,683 as at December 31, 2011. At December 31, 2012, the Company had working capital deficit of $968,385 compared to working capital of $288,407 at December 31, 2011.

The Company had cash and cash equivalents of $4,157 at December 31, 2012 compared to $677,663 at December 31, 2011. During the year ended December 31, 2012, the Company recorded cash outflows from operations of $653,536 compared to cash outflows of $1,029,751 in the comparable period of 2011.

Cash used in investing activities during the year ended December 31, 2012 includes $1,092,266 being spent on the Company's projects; primarily on the Fiskenaesset Ruby Project Greenland. Also the net payable position with respect to exploration expenditures resulted in a cash inflow of $15,272. Additionally, the Company received proceeds of $29,420 from the sale of available-for-sale investments and purchased computer software and furniture totalling $4,216.

Capital (share capital and warrants) as at December 31, 2012 was $39,924,112 compared to $39,719,477 as at December 31, 2011. During the year ended December 31, 2012, True North raised additional capital of $1,094,100 from the issue of 21,882,000 shares and 10,941,000 warrants. Finder's fees of $65,530 were paid and 1,310,600 finder's warrants were issued. The capital raising costs for this placement amounted to $93,478 (shares - $91,001/warrants -$2,477). In addition, the Company issued 1,116,071 shares to satisfy its 2011 and 2012 obligation pursuant to the terms of the Option Agreement on the Greenland property. In the current year, the fair value of the 23,267,858 warrants that expired ($914,185) was credited to contributed surplus.

RESULTS OF OPERATIONS

(Information extracted from the Company's audited consolidated financial statements)

	Fiscal 2012	Fiscal 2011
Operating expenses		
Audit and related services	$ 40,104	$ 43,634
Consulting fees	190,000	248,000
Corporate financial services fees	22,500	175,000
Corporate secretarial and accounting	134,204	109,185
Depreciation	6,722	13,810
Directors fees	54,000	54,000
Exploration and evaluation expenditures	5,780	50,214
Foreign exchange loss	4,852	24,865
General and administrative	109,343	99,361
Investor relations	136,300	253,515
Legal fees	23,218	3,043
Loss on disposal of property, plant and equipment	20,292	-
Reclamation	860	463,482
Rent and occupancy costs	148,993	111,440
Salaries and employee benefits	1,327	38,165
Share-based compensation	136,352	53,513
Transfer agent and filing fees	24,917	45,115
Travel	84,632	87,940
Operating loss	(1,144,396)	(1,874,282)
Other income		
Gain on sale of available-for-sale-investments	18,670	-
Interest income	8,074	11,321
Loss before income tax expense	(1,117,652)	(1,862,961)
Income tax expense	(1,219)	(1,063)
Net loss for year	(1,118,871)	(1,864,024)
Realized losses (gains) on available-for-sale investments	(8,531)	-
Unrealized gains (losses) on available-for-sale investments	-	(7,438)
Comprehensive loss for year	$ (1,127,402)	$ (1,871,462)
Loss per share - basic and fully diluted	$ (0.01)	$ (0.01)
Weighted average number of common shares - basic and fully diluted	198,858,966	180,066,097

NET LOSS

The net loss for the year ended December 31, 2012 amounted to $1,118,871 compared to a net loss for year ended December 31, 2011 of $1,864,024 representing a decrease in net loss of $745,153. Included in the current year's results are a gain on sale of available-for-sale investments of $18,670 (2011 - $Nil) and interest income of $8,074 (2011 - $11,321).

Operating expenses

For the year ended December 31, 2012, total operating expenses were $1,144,396 compared to $1,874,282 recorded during the same period in 2011 representing a decrease of $729,886 or 39%. Included in operating expenses is a charge of $136,352 (2011 - $53,513) for share-based compensation. After adjustment for share-based compensation, operating expenses totalled $1,008,044 for the year ended December 31, 2012 compared to $1,820,769 for the year ended December 31, 2011 representing a decrease of $812,725.

Significant factors that contributed to the variances are discussed below.

Consulting fees

For the year ended December 31, 2012, expenses charged to consulting fees were $190,000 compared to consulting fees for the year ended December 31, 2011 of $248,000. The decrease is a result of discontinuing monthly payments in fiscal 2012 to the Company's former President, who continued to perform certain executive duties in 2011 after his resignation.

Corporate financial services

In the current financial year, the Company paid fees of $22,500 (2011-$175,000). Fees charged to this account represent amounts paid to third parties to source leads on behalf of the Company to procure financing for projects and variances depend on timing of equity financings.

Corporate secretarial and accounting

A total of $134,204 has been paid in fees for the year ended December 31, 2012 compared to $109,185 for the prior comparative period. The increase in the current year relates to the additional time spent on financial reporting for the year ended December 31, 2011 upon conversion to International Financial Reporting Standards effective January 1, 2011 and retroactive restatement to apply such standards to prior reporting periods. Billings for these services were rendered in the first half of 2012.

Directors' fees

Independent directors are paid fees on a quarterly basis to compensate them for their time invested in fulfilling their duties. Fees in each of the reporting periods are consistent.

General and administration

General and administration charges were $109,343 for the year ended December 31, 2012 compared to $99,361 for the comparative period. Included in this category are bank fees, communications lines (telephone, facsimile and internet), delivery, interest, office supplies and printing.

Investor/shareholder relations

Investor relations charges were $136,300 for the year ended December 31, 2012 compared to $253,515 for the comparative period representing a decrease of $117,215. An active investor relation program was launched in the later part of fiscal 2011 resulting in increased communications with shareholders on project developments and in anticipation of further financing being required in the first half of fiscal 2012 to fund working capital requirements and planned project programs.

Reclamation

The amounts charged in 2012 of $860 (2011-$463,482) represent the change to the reclamation provision for Baffin

Island Property and Tsa da Glizsa.

Rent and occupancy

Rent and occupancy increased to $148,993 for the year ended December 31, 2012 from $111,440 for the year ended December 31, 2011. Increase is a result of new premises being rented at a rate of $8,500 per month commencing January 2012 and payment of approximately $31,000 in January 2012 to surrender previous premise lease to landlord. In the office space leased in fiscal 2011, part of the monthly rent and occupancy costs were defrayed by subletting of space.

Share –based compensation

Share-based compensation expense for the year ended December 31, 2012 totalled 136,352 decreased from $53,513 for the year ended December 31, 2011. There was an increase in number of options granted (2012-4,050,000/2011-1,100,000) but there was no significant changes in assumptions used in valuing the options using the Black-Scholes valuation model.

RESULTS OF OPERATIONS

	Q4-2012	Q4-2011
	(unaudited)	(unaudited)
Operating expenses		
Audit and related services	$ 41,556	$ 37,000
Consulting fees	45,000	90,500
Corporate financial services fees	-	22,500
Corporate secretarial and accounting	28,521	34,435
Depreciation	1,708	3,641
Directors fees	13,500	13,500
Exploration and evaluation expenditures	(24,634)	(14,318)
Foreign exchange loss	4,684	4,686
General and administrative	24,297	27,697
Investor relations	23,495	61,818
Legal fees	250	1,369
Reclamation	860	463,482
Rent and occupancy costs	29,879	40,275
Salaries and employee benefits	(1,048)	610
Share-based compensation	136,352	(26,897)
Transfer agent and filing fees	216	12,952
Travel	19,025	13,672
Operating loss	(343,661)	(786,922)
Other income		
Interest income	366	4,743
Loss before income tax expense	(343,295)	(782,180)
Income tax expense	-	(1,688)
Net loss for period	(343,295)	(783,868)
Realized losses (gains) on available-for-sale investments	-	(875)
Comprehensive loss for period	$ (343,295)	$ (784,743)
Loss per share - basic and fully diluted	$ (0.00)	$ (0.00)
Weighted average number of common shares - basic and fully diluted	219,412,155	191,387,746

The Company had a net loss of $343,295 for the three month period ended December 31, 2012. For the same period in the previous fiscal year, the Company had a net loss of $783,868. The fluctuations in line item amounts are due to the same factors discussed in the 2012 annual analysis.

CAPITAL EXPENDITURES
(Information extracted from the Company's audited consolidated financial statements)

During the twelve month period ended December 31, 2012, the Company spent $1,092,266 (2011-$2,615,838) on its capital spending program. Capital expenditures by project and category are as follows:

	Twelve month period ended December 31, 2012	2011
Acquisition, net of non-cash consideration of $100,000 (2011-$50,000)		
Greenland Property - Ruby	$ 11,604	$ 142,961
Exploration, net of non-cash items totalling $251,741 (2011-$141,737)		
Greenland Property - Ruby	1,048,363	2,383,020
Baffin Island Property - Sapphire	(724)	-
Other Yukon Property	11,752	14,336
	1,059,391	2,397,356
Less - Farm out receipts	(50,000)	-
Plus - gemstone test marketing study	71,271	75,521
	1,080,662	2,472,877
Total capital expenditures	$ 1,092,266	$ 2,615,838

SUMMARY OF QUARTERLY RESULTS - UNAUDITED

Quarter Ended	Net revenues	Net income (loss)*	Loss per share - basic	Loss per share - diluted
	$'s	$'s	$'s	$'s
31-Dec-12	-	(343,295)	(0.00)	(0.00)
30-Sep-12	-	(231,578)	(0.00)	(0.00)
30-Jun-12	-	(185,277)	(0.00)	(0.00)
31-Mar-12	-	(358,719)	(0.01)	(0.01)
31-Dec-11	-	(783,868)	(0.00)	(0.00)
30-Sep-11	-	(489,473)	(0.00)	(0.00)
30-Jun-11	-	(294,258)	(0.00)	(0.00)
31-Mar-11	-	(296,426)	(0.00)	(0.00)

* Values may not add to reported amount for the years then ended due to rounding

There are no meaningful trends evident from analysis of the summary of quarterly financial information over the last eight quarters. The Company carries out exploration activities in Greenland and Canada. The Company's exploration activities are seasonal in nature and programs tend to start late spring and end early fall.

Factors that can cause fluctuations in the Company's quarterly results are the timing of stock option grants, mineral property impairments and sales of available-for-sale investments. The Company's properties are not yet into production.

LIQUIDITY, CAPITAL RESOURCES AND GOING CONCERN

At December 31, 2012, the Company had cash and cash equivalents (collectively referred to as "cash") of $4,157 and a working capital deficit of $968,385.

Based on the financial position at December 31, 2012, available funds are not considered adequate to meet requirements for fiscal 2013 based on budgeted expenditures for operations and project exploration. To meet working capital requirements, the Company will have to access financial resources through equity placements. Subsequent to year end, True North entered into a financial agreement with Greenland Venture whereby Greenland Venture will invest DKK 4,500,000 (approximately CAD $803,700) in the Company's wholly owned subsidiary, TNGG. The investment consists of a DKK 500,000 (approximately CAD $89,300) equity component and DKK 4,000,000 loan (approximately CAD $714,400) bearing interest at the rate of 10% per annum. The loan term is five years with repayment guaranteed by TNGG's parent company, True North Gems Inc. To date, the equity component has been funded and DKK 3,100,000 (approximately CAD $553,660) has been drawn on loan facility. Additionally, in early 2013 the Company closed the initial tranche of a non-brokered private placement that raised $500,000. The second tranche and third tranche are anticipated to raise $4,293,175 and $10,956,828 respectively and are expected to close on or before May 5, 2013 and July 15, 2013. The closing of the second and third tranche of this placement are important to the Company being able to meet 2013 budgeted expenditures.

Capital Resources

The Company has been successful in meeting its exploration capital requirements through the completion of equity placements. True North may be impacted by any potential downward trend in market conditions. Trends effecting True North's liquidity are dictated by the demands on financial resources created by the advancing nature of the Company's current exploration assets and the Company's ability to access the financial resources required to meet these demands. As the exploration properties advance through exploration, they typically require more capital-intensive programs that apply pressure to the Company's financial resources. Additional planned exploration programs on the non-producing leaseholds will result in a steady drain to the Company's liquidity.

In acquiring the required capital to pursue the Company's business plan, capital will be generated from a combination of accessing equity markets, procuring industry partners for its primary exploration assets or sale of exploration assets for equity positions or cash.

Trends that affect the market generally, and the perception of True North within the marketplace, can affect the Company's ability to access capital in both a positive and negative way. Trends in this general market are defined by fluctuations in the global economy and the demand for metals and commodity prices. Trends in the perception of True North in the resource marketplace will be affected by general trends in the resource equity markets, the Company's performance in creating shareholder value and in demonstrating the ability to manage the Company's affairs and achieve mandated objectives.

Uncertainty is a prevalent element in exploration and therefore can, on occasion, impede the Company's ability to meet its financial requirements and result in an inability to advance exploration assets and meet objectives in a timely manner.

As of December 31, 2012, the Company has no long-term debt.

As of December 31, 2012, the Company had no significant contractual obligations.

The Fiskenaesset Licence was obtained by the Company satisfying all the terms of an option agreement with Brereton Engineering and Developments Ltd. ("Brereton"). Ongoing commitments from the option agreement include cash payments of $50,000 and issue of $50,000 worth of shares from treasury annually for each year the Company maintains the exploration licence (Anniversary Date - December 31). Once an exploitation (mining) permit 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.

As of December 31, 2012, the Company has no long-term contractual agreements to acquire mineral properties. To maintain the Greenland licences in good standing, the Company is required to meet minimum expenditure levels, as prescribed by the BMP annually. However, the fulfillment of these obligations is optional, at the discretion of True North. For the year ending December 31, 2013, the Company's exploration obligation with respect to Licence 2008/46 is in the process of being negotiated with the BMP. As at December 31, 2012, the Company has surplus exploration expenditures on Licence 2008/46 amounting to DKK 27,506,753 (CAD $4,835,687) that may be carried forward and credited against the calculated exploration commitment in future years. For the year ending December 31, 2012, the Company's exploration obligation with respect to Licence 2008/01 is DKK DKK 2,855.680 (CAD$502,029). As at December 31, 2012, the Company has surplus exploration expenditures on Licence 2008/01 of DKK 1,571,009 (CAD$276,183) that may be carried forward and credited against the calculated exploration commitment in future years.

TRANSACTIONS WITH RELATED PARTIES

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

During the year ended December 31, 2012, the Company was loaned $36,000 from key management personnel of which $33,000 was repaid during the year and the balance of $3,000 remains outstanding at December 31, 2012.

During the year ended December 31, 2012, key management personnel charged $423,653 in fees for services rendered, of which $292,000 was charged to operations and $131,653 to mineral properties. These transactions were in the normal course of business recorded at their exchange amounts, which was established and agreed to by the related parties.

Robert Boyd, David Parsons, William Anderson and John Ryder are Independent Directors of True North. During the year ended December 31, 2012, $54,000 in aggregate has been recorded as paid/payable to these directors to compensate them for their time to fulfill their duties and obligations to the Company in this capacity.

Key management personnel were granted 3,250,000 stock options in fiscal 2012 with a fair value of $192,671.

At December 31, 2012, there is a balance due to key management personnel of $227,808 for compensation, which is included in accounts payable and accrued liabilities.

PROPOSED TRANSACTIONS

As of December 31, 2012, the Company has no proposed material transactions.

CRITICAL ACCOUNTING ESTIMATES

The significant accounting policies used by True North are disclosed in note 3 to the financial statements. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management reviews its estimates at each reporting date. The emergence of new information and changed circumstances may result in actual results or changes to estimated amounts that differ materially from current estimates. The following discussion helps to assess the critical accounting policies and practises of the Company and the likelihood of materially different results being reported.

EXPLORATION AND EVALUATION EXPENDITURES

Exploration and evaluation expenditures are capitalized once the legal right to explore a mineral property interest has been acquired. Exploration and evaluation expenditures are recorded at cost less accumulated impairment losses. Direct costs related to the acquisition, claim maintenance and exploration and evaluation of mineral property interests are capitalized and deferred until the commercial viability of the asset is established, sold, abandoned or impaired. To the extent that the expenditures are spent to establish ore reserves within the rights to explore, the Company will consider those costs as intangible assets in nature. Those costs are amortized on a units-of-production basis following commencement of commercial production based on proven and probable reserves. The depreciation of a property and equipment assets in connection with exploring or evaluating a mineral property interest of this nature will be included in the cost of the intangible asset.

The amount shown for mineral property interests does not necessarily represent present or future values. The recoverability of mineral property interest is dependent upon the determination of economically recoverable ore reserves, securing and maintaining title and beneficial interest in the properties, and the ability of the Company to obtain the necessary financing to complete the exploration and development of its mineral property interests and on future profitable production or proceeds from the disposition of mineral property interests.

From time to time, the Company acquires and disposes of mineral property interests 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 until the original cost is recovered and after which subsequent recoveries are charged to the statement of loss.

Mineral properties are tested annually for impairment if facts and circumstances indicate that the carrying amount may exceed its recoverable amount. Management concluded there were no impairment indicators as at December 31, 2012.

SITE RESTORATION

The amounts recorded for reclamation costs are estimates based on engineering studies and management's assessment of the work that is anticipated to remediate the Tsa da Glisza, Baffin Island and Greenland sites based on the current state of ground disturbance. The provision for site restoration is determined at each reporting date.

SHARE-BASED COMPENSATION AND WARRANTS

Compensation expense for options and warrants granted is determined based on estimated fair values of the options and warrants at the time of grant, the cost of which is recognized over the vesting period of the respective options and grants. The key parameters impacting the calculation of fair value of options and warrants are the share volatility and the expected life.

FINANCIAL INSTRUMENTS

Designation and fair value

Cash and accounts receivable are classified as loans and receivables. Accounts payable and accrued liabilities are classified as other financial liabilities. The carrying value of the Company’s accounts receivable approximate their fair value at December 31, 2012 and 2011 due to their short term nature. The fair value of accounts payable, accrued liabilities and loans payable may be less than the carrying value as a result of the Company’s credit and liquidity risk.

ACCOUNTING POLICIES

The Company has established IFRS, as disclosed in note 3 to the annual consolidated financial statements, and applicable to exploration stage enterprises in the resource sector, which are applied on a consistent basis.

INTERNAL CONTROL OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS AND PROCEDURES

Currently, the certification required by the Company’s certifying officers under National Instrument 52-109 Certificate of Disclosure in Issuers’ Annual and Interim Filings (NI 52-109F), the Venture Issuer Basic Certificate, does not include representations relating to the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as defined in NI 52-109. This includes:

i. Controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and,

ii. A process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

The Company's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they make in the certificate.

Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE

Refer to elsewhere in the MD&A or the Company's consolidated financial statements for capitalized or expensed exploration and development costs, general and administrative expenses and other material costs. Additional information relating to the Company is on SEDAR www.sedar.com.

OUTSTANDING SHARE DATA

At December 31, 2012, True North had 214,452,241 common shares, 31,654,900 warrants and 18,725,000 options issued and outstanding.

As at the date of this report, True North had 220,007,796 common shares, 31,821,567 warrants and 17,700,000 options issued and outstanding.

RISK FACTORS

Financial capability and additional financing

The Company relies on equity financings to funds its activities. While it has been successful in raising funds in the past, there is no guarantee that adequate funds will be available in the future. The Company has cash and cash equivalents of $4,157 at December 31, 2012. Based on current budgeted expenditures for operations and exploration, cash on hand at December 31, 2012 is not adequate to meet capital requirements for fiscal 2013. To meet working capital requirements, the Company will have to access financial resources through equity placements in the junior resource market, procure industry partners for its primary exploration projects and/or sell its projects in exchange for equity/cash.

A discussion of risk factors particular to the financial instruments is presented in note 16 of the audited consolidated financial statements for the years ended December 31, 2012 and 2011.

Exploration risk

Mineral exploration and development involves a high degree of risk and few properties that are explored are ultimately developed into producing mines. There is no assurance that the Company's mineral exploration activities will result in any discoveries of new bodies of commercial gemstone deposits. There is also no assurance that if a commercial gemstone deposit is discovered that the ore body would be economical for commercial production. Discovery of mineral deposits is dependent upon a number of factors and significantly influenced by the technical skill of the exploration personnel involved. The commercial viability of a mineral deposit is also dependent upon a number of factors, which are beyond the Company's control. Some of these factors are the attributes of the deposit, gemstone and jewellery market, government policies and regulation and environmental protection. True North Gems is a unique company and as such subject to risk factors which are not shared by other, traditional junior exploration companies. These risks are associated with the lack of an existing coloured gemstone industry infrastructure in Canada. For example, the Company's reliance on uncertified foreign laboratories for cutting and manufacturing requires a lengthy process of testing and assessing in order to develop business relationships with reliable partners in foreign jurisdictions. Also, the resistance to innovation prevalent in the junior mining financial community presents challenges to True North Gems in communicating the value of the Company's assets and competing for market attention. Aspects like this add an element of risk to the Company's business not imposed on junior precious and base metal exploration companies. These are risk factors similar to those encountered, and overcome by a nascent junior diamond industry in the early 1990's and risks that are continually being addressed by the Company's technical and promotional programs.

Environmental risk

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. Environmental hazards may exist on the properties on which the Company is seeking an interest, which are unknown to the Company at present and which may have been caused by previous or existing owners or operators of the properties. The Company may become liable for such environmental hazards caused by previous owners and operators of the properties even where it has attempted to contractually limit its liability. Government approvals and permits are currently, and may in the future, be required and obtained in connection with the Company's operations.

Political policy risk

Substantially all of the Company's assets are located in Greenland. As such, the Company's is subject to political, economic, and other uncertainties, including, but not limited to, the uncertainty of negotiating with foreign governments, expropriation of property without fair compensation, adverse determination or rulings by governmental authorities, changes in mining policies or in the personnel administering them, currency fluctuations, disputes between various levels of authorities, arbitrating and enforcing claims against entities that may claim sovereignty, authorities claiming jurisdiction, royalty and government take increases and other risks arising out of foreign governmental sovereignty over the areas in which the Company's operations are conducted. The Company's operations may be adversely affected by changes in government policies and legislation and other factors which are not within the control of the Company.