TRUE NØRTH GEMS

# MANAGEMENT DISCUSSION AND ANALYSIS

## FOR THE PERIOD ENDED
## March 31, 2014

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 May 26, 2014 and should be read in conjunction the unaudited condensed interim consolidated financial statements for the three month period ended March 31, 2014 ("Q1-2014") and the audited consolidated financial statements for the year ended December 31, 2013 and the related notes thereto ("fiscal 2013"). The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Company's reporting currency is Canadian dollars and all dollar amounts referred to in this discussion and analysis are expressed in Canadian dollars except where indicated otherwise.

Some of the statements made in this MD&A are forward-looking statements that are subject to risk factors set out in the cautionary note contained herein.

True North/s common shares are listed on the TSX Venture Exchange (the "TSX-V") trading symbol – TGX.

**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 three month period ended March 31, 2014 and to the date of this report, a number of milestones have been achieved by True North that have paved the road to mine development of the Aappaluttoq Ruby Deposit, SW Greenland:

- On March 10, 2014, the Government of Greenland awarded the Company an exclusive 30-year exploitation (mining) licence for the Aappaluttoq Ruby Deposit, SW Greenland.
- The TSX Venture Exchange approved the Option Agreement dated August 7, 2013 between the Company and LNS Greenland A/S ("LNSG") under which LNSG has been granted an option to earn a 20% interest of the issued and outstanding Class A shares of True North's subsidiary, True North Gems Greenland A/S ("TNGG"). The earn-in agreement constitutes approximately US$23 million in infrastructure and engineering costs together with construction to operational status thereby greatly reducing the total estimated capital expenditures of US$37 million, the majority of the Aappaluttoq estimated capital costs.

- True North raised $1,500,000 from private placements in the current financial year.

The granting of the exploitation licence for the Aappaluttoq Ruby Deposit is a huge step forward, as it launches True North into a new era in its corporate history, as it evolves from exploration stage to a revenue generating entity. This transformation will enable the Company to showcase and deliver a new supply of rubies and pink sapphires to the worldwide gemstone industry.

Mine development will commence in 2014 when all the requisite operating permits are in place and the Impact and Benefit Agreement with local stakeholders has been concluded. True North is currently in discussions with various interested parties to finalize the financial obligations for the remaining portion of the budgeted capital expenditures.

**FISKENAESSET RUBY PROJECT – GREENLAND**

On June 6, 2011, the Company filed a draft exploitation (mining) permit application for the Company's Aappaluttoq Ruby Deposit 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. On June 7, 2013, the Bureau of Minerals and Petroleum (BMP) approved both versions of the SIA and EIA and they have published the documents on the Greenland Government's public website. Management of the Company hosted a series of Information Meetings prior to the BMP's Public Hearings in August 2013. The meetings presented information on the Company's proposal and its opportunities in an open format that encouraged discussion and questions. These meetings were held in Fiskenaesset (August 12, 2013), Paamiut (August 14, 2013) and Nuuk (August 15, 2013). The legally required SIA and EIA Public Hearings were run by the Bureau of Minerals and Petroleum and took place in Fiskenaesset on August 26, 2013, Paamiut on August 28, 2013 and in Nuuk on August 29, 2013. The meetings were productive and all comments and written submissions were registered with the BMP before the September 12, 2013 deadline and were compiled by the Company into the 'White Book'. The Company was invited to participate in the Impact Benefit Agreement (IBA) and Royalty negotiations regarding the Aappaluttoq Exploitation Permit. The royalty negotiations were with the government. These negotiations were the critical components of the final stages in the permitting process. The royalty negotiations were successfully concluded in early March 2014 and True North was awarded an exclusive 30-year exploitation (mining) licence for the Aappaluttoq Ruby Deposit, SW Greenland by the Government of Greenland on March 10, 2014, as highlighted above. The IBA negotiations involve the Company, the BMP, the Municipality of Sermersooq, the unions and the Employers' Associations. Negotiations regarding the terms for the Operational Permit's under Section 19/43 and 86 are with the BMP. During a recent visit to Nuuk, Nick Houghton, President CEO, and Bent Jensen, Managing Director of True North Gems Greenland attended meetings to negotiate with the various interested parties the terms of the IBA and the Operational Permit's under Section 19/43 and 86. The discussions concluded with all involved agreeing that the documents are at an advanced stage but with subsequent final approval remaining. Once the final components of the requisite permits and financing are in place, mine development will commence.

**2014 Work Program**

The Company will be focussing on the commencement of mine development for the Aappaluttoq Ruby Deposit. Upgrades to the current exploration camp will be completed in the summer of 2014 so it can be used for the initial construction of the mine camp. Exploration programs on both the Qaqqatsiaq and Fiskenaesset licences will be minimal. Work on the Qaqqatsiaq Licence will include mapping and further evaluation of geological data gathered from previous years' field work. On Fiskenaesset further baseline study work is planned focussed on known areas of mineralization in areas away from the main Ruby Island Trend. On-going scientific work will investigate the geochemical characteristics of the various deposits and use this to aid future exploration targeting within the Fiskenaesset Complex.

**Corporate Changes**

On January 22, 2014, Mr. Jens B. Frederiksen joined the Company's subsidiary, True North Gems Greenland A/S management team as Executive Vice President.

**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 assessment reports were updated and resubmitted to the Department of Indian and Northern Affairs. Consequently new work certificates have been issued by the Nunavut Mining Recorder to extend the NAIPI 5-10 claims (which comprise approximately half of the Beluga Project) through 2015. Lease applications are still underway for the remaining NAIP I to NAIPI4 claims group.

**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 Gold Corporation. ('Endurance") subject to a 1% net smelter return ("NSR"). Consideration was a $50,000 cash payment (received January 29, 2013) and issue of 5,000,000 shares (received). Shares were released in three tranches, one million were subject to the standard four month hold period, two million were released on July 1, 2013 and the final two million were 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 Project by making an initial cash payment of $15,000 (paid February 4, 2013) and issue of 250,000 shares on closing (received) and an additional cash payment of $10,000 and issue of 150,000 shares on or before January 31, 2014. The additional cash payment of $10,000 and 150,000 shares of Pacific were received January 9, 2014 and the agreement was completed.

**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 was 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. The 2013 program started in late June and was completed in August. All reclamation at site has now been completed; this includes the backfilling of trenches, sealing of the underground adit and drift system, removal of the camp and exploration wash plant, and the removal of all roads and runways. Final demobilization of the heavy equipment and bulky items from camp was completed in the winter of 2013-2014 and it is anticipated that all work on this project will be completed by the start of Q3 2014.

**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 2013. A management review of this project will occur in 2014, and until then, the previous assessment credit is sufficient to maintain claims in good standing.

**FINANCIAL POSITION**

As at March 31, 2014, the Company had current assets of $986,873 and current liabilities of $978,752 compared to current assets of $788,115 and current liabilities of $1,389,677 as at December 31, 2013. At March 31, 2014, the Company had working capital of $8,121 compared to working capital deficit of $601,562 at December 31, 2013.

The Company had cash and cash equivalents of $509,923 at March 31, 2014 compared to $271,095 at December 31, 2013. During the three month period ended March 31, 2014, the Company recorded cash used in operations of $801, 600 compared to cash used in operations of $37,322 in the comparable period of 2013.

Cash used in investing activities during the three month period ended March 31, 2014 includes $514,509 being spent on the Company’s projects; primarily on the Fiskenaesset Ruby Deposit Greenland. Also the net payable position with respect to exploration expenditures resulted in cash inflows of $68,919. Additionally, the Company purchased computer software totalling $1,250.

Capital (share capital and warrants) as at March 31, 2014 was $44,044,365 compared to $42,005,700 as at December 31, 2013. During the three month period ended March 31, 2014, True North raised additional capital of $1,500,000 from the issue of 16,666,667 shares and 8,333,334 warrants. The capital raising costs for this placement amounted to $11,335.

## RESULTS OF OPERATIONS

Three month period ended March 31, 2014 (fiscal 2014) compared with three month period ended March 31, 2013 (fiscal 2013)

*(Information extracted from the Company's unaudited condensed interim consolidated financial statements)*

| | Q1-2014 | Q1-2013 |
|---|---|---|
| | (unaudited) | (unaudited) |
| Operating expenses | | |
| Audit and related services | $ 215 | $ - |
| Consulting fees | 45,000 | 45,000 |
| Corporate secretarial and accounting | 41,504 | 35,439 |
| Depreciation | 1,185 | 1,221 |
| Directors fees | 13,500 | 13,500 |
| Exploration and evaluation expenditures | (903) | 6,943 |
| Farmout receipts | (14,500) | (52,500) |
| Foreign exchange loss | 53,207 | 80 |
| General and administrative | 53,610 | 14,825 |
| Investor relations | 57,130 | 14,877 |
| Legal fees | 1,161 | 1,297 |
| Loss on sale of exploration and evaluation assets | - | 47,790 |
| Rent and occupancy costs | 27,300 | 27,300 |
| Share-based compensation | 24,342 | - |
| Transfer agent and filing fees | (699) | 16,096 |
| Travel | 6,850 | 24,450 |
| Operating loss | (308,902) | (196,318) |
| Other income | | |
| Interest income | 2,961 | 355 |
| Borrowing costs | (25,013) | (2,420) |
| Loss before income tax expense | (330,954) | (198,383) |
| Income tax expense | (12,610) | - |
| Net loss for period | $ (343,564) | $ (198,383) |
| Loss attributable to : | | |
| Shareholders | $ (343,085) | $ (198,383) |
| Non-controlling interests | (479) | - |
| | $ (343,564) | $ (198,383) |
| Loss per share - basic and fully diluted | $ (0.00) | $ (0.00) |
| Weighted average number of common shares - basic and fully diluted | 264,148,993 | 214,452,241 |

## NET LOSS

The net loss attributable to shareholders for the three month period ended March 31, 2014 amounted to $343,085 compared to a net loss for the period ended March 31, 2013 of $198,383 representing an increase in net loss of $132,569. Included in the current year's results are interest income of $2,961 (2013 - $355) and borrowing costs of $25,013 (2013- $2,420).

### Operating expenses

For the three month period ended March 31, 2014, total operating expenses were $308,902 compared to $196,318 recorded during the same period in 2013 representing an increase of $112,584.

Significant factors that contributed to the variances are discussed below.

**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.

**Farmout receipts**

In January 2013, the Company entered into an Option Agreement with Pacific whereby Pacific has the right to acquire 100% interest in 43 claims located in the Finlayson District Yukon. Initial consideration was a cash payment of $15,000 and issue of 250,000 shares (originally recorded at $37,500 and subsequently adjusted to the correct fair value at date of issue $7,500 in Q4-2013). In January 2014, the final cash payment of $10,000 and issue of 150,000 shares were received and the agreement is complete. All expenditures relating to this property had been written off in a prior reporting period.

**Foreign exchange loss**

The foreign exchange loss for Q1-2014 is $53,207 compared to $80 in Q1-2013. The large variance from Q1-2013 is primarily a result of the financial liability to Greenland Venture for funds loaned in 2013 and the fact that the Danish krone has strengthened significantly since the draw downs on the lending facility.

**General and administrative**

General and administrative expenses totalled $53,610 for Q1-2014 compared to $14,825 in Q1-2013. Increase in general and administrative relates to higher level of corporate activities in preparation for the commencement of mine development of the Aappaluttoq Ruby Deposit and hiring of an administrative assistant to the CEO Included in this category are administrative assistant fees, bank fees, communications lines (telephone, facsimile and internet, delivery, interest, office supplies and printing).

**Investor relations**

Investor relations charges were $57,130 for Q1-2014 compared to $14,877 for Q1-2013 representing an increase of $42,253. In Q1-2014, the Company engaged a person to perform investor relations services on their behalf on a part time bases. Additionally, the corporate website was revamped. Due to financial constraint in Q1-2013, expenditures on investor relations activities were curtailed to the extent possible.

**Loss on sale of exploration and evaluation assets**

Carrying cost of the exploration and evaluation asset exceeded the consideration received from Endurance (cash payment of $50,000 and issue of 5,000,000 shares (fair value at date of issue $175,000)) resulting in a loss on sale of mineral property interest of $47,790 being recorded.

**Share-based compensation**

The fair value of the 300,000 options granted during the three month period ended March 31, 2014 resulted in a compensation expense of $24,342.

There were no significant changes in assumptions used in valuing the options using the Black-Scholes valuation model.

**Transfer agent and filing fees**

Decrease from 2013 total of $16 096 to a credit of $699 for the three month period ended March 31, 2014 relate to a refund from TSX Venture Exchange for filing of the form 4B in 2013 for a financing that did not complete.

**Travel**
For the three month period ended March 31, 2014, travel totalled $6,850 compared to $24,450 for the comparative period in 2013. Timing of the CEO's travel to source financing or monitor project developments can cause significant variances in the amount recorded in each quarter.

## CAPITAL EXPENDITURES

*(Information extracted from the Company's unaudited condensed interim consolidated financial statements)*

During Q1-2014, the Company spent $514,509 (Q1-2013-$185,892) on its capital spending program. Capital expenditures by project and category are as follows:

| | Q1-2014 | Q1-2013 |
|---|---|---|
| Acquisition, net of non-cash consideration of $550,000 (Q1-2013 - $Nil) | | |
| Greenland Property - Ruby | $ 98,593 | $ 13,321 |
| Exploration, net of non-cash items totalling $31,274 (Q1-2013-$30,690 ) | | |
| Greenland Property - Ruby | 395,918 | 204,678 |
| Other Yukon Property | - | 10 |
| | 395,918 | 204,688 |
| Less - Farm out receipts | - | (50,000) |
| Plus - gemstone test marketing study, net of non-cash item totalling $Nil (2013-$46,052) | 19,998 | 17,883 |
| | 415,916 | 172,571 |
| Total capital expenditures | $ 514,509 | $ 185,892 |

## SUMMARY OF QUARTERLY RESULTS - UNAUDITED

The following table details the Company's quarterly results:

| Quarter Ended | Net revenues | Net income (loss) attributable to shareholders* | Net income (loss) attributable to non-controlling interests* | Net income (loss)* | Loss per share - basic | Loss per share - diluted |
|---|---|---|---|---|---|---|
| | $'s | $'s | $'s | $'s | $'s | $'s |
| 31-Mar-14 | - | (343,085) | (479) | (343,564) | (0.00) | (0.00) |
| 31-Dec-13 | - | (833,409) | 21,227 | (812,182) | (0.00) | (0.00) |
| 30-Sep-13 | - | (337,934) | (7,568) | (345,502) | (0.00) | (0.00) |
| 30-Jun-13 | - | (269,046) | (2,922) | (271,968) | (0.00) | (0.00) |
| 31-Mar-13 | - | (186,120) | (12,263) | (198,383) | (0.00) | (0.00) |
| 31-Dec-12 | - | (343,295) | - | (343,295) | (0.00) | (0.00) |
| 30-Sep-12 | - | (231,578) | - | (231,578) | (0.00) | (0.00) |
| 30-Jun-12 | - | (185,277) | - | (185,277) | (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 AND CAPITAL RESOURCES**

At March 31, 2014, the Company had cash and cash equivalents (collectively referred to as "cash") of $509,923 and working capital of $8,121.

Based on the financial position at March 31, 2014, available funds are not considered adequate to meet requirements for the next twelve months based on budgeted expenditures for operations, mine development and project exploration; further funds will be required to meet planned expenditures. To meet working capital requirements, the Company will have to access financial resources through the issuance of securities or resource secured debt.

**CAPITAL RESOURCES**

The Company has been successful in meeting its capital requirements through the completion of equity placements and debt financings. 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 and evaluation assets and the Company's ability to access the financial resources required to meet these demands. As the exploration and evaluation assets advance from exploration to mine development, more capital is required that apply pressure to the Company's financial resources, which 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 or procuring resource secured debt facilities.

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 March 31, 2014, the Company has $933,296 in debt. The debt consists of a term loan and a financial liability. The term loan bears interest at the rate of 10% per annum payable annually in arrears. The principal balance of $815,600 (DKK 4,000,000) and any accrued interest thereon are repayable on the fifth anniversary date of the funding of the final draw (June 14, 2013) on the credit facility (the "Maturity Date") with repayment guaranteed by TNGG parent company, True North Gems Inc. TNGG is entitled to repay the loan in full or in part including accrued payable interest thereon as at the date of repayment and including an early payout premium of 5% of the outstanding loan at any time before the Maturity Date. The financial liability of $101,950 (DKK 500,000) represents the equity component of Greenland Venture's investment in TNGG that is considered a financial liability for accounting purposes. Judgment was required by management in determining that the put option related to the Class B shares issued to Greenland Venture does not result in the transfer of risks and rewards of ownership and therefore, accounted for as a financial liability. The put option granted to Greenland Venture's is exercisable on or after fifth anniversary date of the funding of the final draw (June 14, 2013). The expected settlement amount of the obligation is anticipated to be DKK 750,000 and the premium of DKK 250,000 is being accreted over the term as a borrowing cost and the 10% annual cumulative dividend is being accrued as a borrowing cost.

As of March 31, 2014, the Company had no significant contractual obligations except as described above.

The Fiskenaesset Licence was obtained by the Company satisfying all the terms of an option agreement with Brereton Engineering and Developments Ltd. ("Brereton"). The Company was required to make a one time cash payment of $500,000 and issue $500,000 worth of shares from treasury to Brereton when Licence 2014/21 was granted. The $500,000 worth of shares were issued from treasury (3,703,704 shares) to Brereton. Brereton have agreed to postponement of the $500,000 cash payment until True North has its financing in place for its obligations for the remaining portion of the budgeted capital expenditures. In recognition of this concession, the Company agreed to pay interest on the $500,000 at the rate of 1% per month ($5,000 per month) commencing April 1, 2014, payable quarterly.

As of March 31, 2014, the Company has no long-term contractual agreements to acquire mineral properties. To maintain the Greenland exploration 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, 2014, the Company's exploration obligation with respect to Licence 2008/46 is DKK 3,664,640 (CAD $747,220). As at December 31, 2013, the Company has surplus exploration expenditures on Licence 2008/46 amounting to DKK 36,897,568 (CAD $7,523,414) that may be carried forward and credited against the calculated exploration commitment in future years. For the year ending December 31, 2014, the Company's exploration obligation with respect to Licence 2008/01 is DKK 1,221,380 (CAD $249,039). As at December 31, 2013, the Company has surplus exploration expenditures on Licence 2008/01 of DKK 1,272,982 (CAD $259,561) that may be carried forward and credited against the calculated exploration commitment in future years, which is subject to confirmation by the BMP.

Additionally, the Company holds a non-exclusive prospecting licence, Licence 2011/07, for West Greenland that expires December 31, 2015, which has no minimum expenditure levels over the licence term to maintain in good standing.

## 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 three month period ended March 31, 2014, key management personnel charged $109,453 in fees for services rendered, of which $75,000 was charged to operations and $34,453 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.

William Anderson, Robert Boyd, David Parsons and John Ryder are Independent Directors of True North. During the three month period ended March 31, 2014, $13,500 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. Peter Friedmann, nominee of Halman-Aldubi Provident Funds Ltd., and Andrew Lee Smith are as well Independent Directors but did not receive director's fees.

At March 31, 2014, there is a balance due to key management personnel of $96,395 for compensation, which is included in accounts payable and accrued liabilities.

## PROPOSED TRANSACTIONS

As of March 31, 2014, 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 audited consolidated financial statements for the year ended December 31, 2013. 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 exploration and evaluation assets 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 at each reporting date 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 March 31, 2014.

**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 cash equivalents and accounts receivable are classified as loans and receivables. Accounts payable and debt are classified as other financial liabilities. The carrying value of the Company’s cash and cash equivalents, accounts receivable and accounts payable approximate their fair value at March 31, 2014 and December 31, 2013 due to their short term nature. The fair value of accounts payable and debt may be less than the carrying value as a result of the Company’s credit and liquidity risk.

**ACCOUNTING POLICIES**

The Company has applied 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 audited 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](http://www.sedar.com).

## OUTSTANDING SHARE DATA

At March 31, 2014, True North had 268,660,621 common shares, 9,313,990 warrants and 24,300,000 options issued and outstanding.

At the date of this report, True North had 268,660,621common shares, 9,313,990 warrants and 24,300,000 options issued and outstanding.

## RISK FACTORS

Financial capability and additional financing
The Company relies on equity or debt 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 and/or on terms acceptable by the Company. The Company has cash and cash equivalents of $509,923 at March 31, 2014. Based on the financial position at March 31, 2014, available funds are not considered adequate to meet requirements for the next twelve months based on budgeted expenditures for operations, mine development and project exploration. A discussion of risk factors particular to the financial instruments is presented in note 16 of the unaudited condensed interim consolidated financial statements for the three month period ended March 31, 2014.

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.