

TRUE NORTH GEMS

MANAGEMENT DISCUSSION AND
ANALYSIS

FOR THE YEAR ENDED
December 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 April 24, 2015 and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2014 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.

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 year ended December 31, 2014 and to the date of this report, a number of milestones have been achieved by True North that have paved the road toward mine development of the Aappaluttoq Ruby and Pink Sapphire Deposit, SW Greenland:

- ❖ January 4, 2014, True North Gems additional \$1,500,000 was raised from a private placement that closed in the first quarter of fiscal 2014.
- ❖ On March 10, 2014, the Government of Greenland awarded the Company an exclusive 30-year exploitation (mining) licence for the Aappaluttoq Ruby and Pink Sapphire Deposit, SW Greenland.
- ❖ On March 14, 2014, 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, TNGG. To earn in, LNSG is contributing all infrastructure and engineering costs together with construction to operational status,

which represents the majority of the Aappaluttoq estimated capital costs.

- ❖ On May 28, 2014, Greenland Ventures S/A provided funding to TNGG of up to approximately CAD \$622,050¹ (DKK 3,300,000) through a loan facility.
- ❖ On May 30, 2014, the Government of Greenland formally approved the Company's Exploitation and Closure Plan and the Impact Benefit Agreement ("IBA").
- ❖ On June 4, 2014, the Municipality of Sermersooq and City Council completed the required official formalities and officially approved the IBA. This final approval by the Municipality signals the go-ahead for mine development.
- ❖ On September 23, 2014, True North announced it had issued the commencement notice to its joint venture partner, LNSG, to authorize mobilization of equipment and inaugurate construction of the Aappaluttoq Ruby and Pink Sapphire project.
- ❖ On October 30, 2014, The Company completed an \$11,000,000 financing package with Leonard Nilsen & Sonner A/S ("LNS Group") and LNSG. The package consisted of an equity investment by LNS Group in True North and its subsidiary, TNGG of \$3,000,000 and US \$3,000,000 respectively. In addition, LNSG will provide an additional US \$5,000,000 towards the estimated construction cost through a capital loan over the term of the initial mine life, though an early payback option is available.

The granting of the exploitation licence for the Aappaluttoq Ruby and Pink Sapphire Deposit is a major accomplishment, for the Company, 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.

The signing of the IBA document is a testament from all stakeholders to the value the project brings to the Greenlandic populous.

FISKENAESSET RUBY PROJECT – GREENLAND

Current Mine Development

During 2014, the Company focussed on the commencement of mine development at the Aappaluttoq Ruby and Pink Sapphire Deposit. Exploration programs on both the Qaqqatsiaq and Fiskenaasset licences were minimal. On-going scientific work continued to investigate the geochemical characteristics of the deposits to aid future exploration within the Fiskenaasset Complex.

The formal mine construction commencement notice was issued by the Company to LNSG on September 23, 2014. This document allowed LNSG to begin their mobilization of people and equipment to the exploration camp and outer port sites.

To date, LNSG has completed the following activities on-site:

- 5 kilometre transport route from outer port to camp;
- Foundations for recreation facility and camp accommodations;
- Excavation for the fuel storage depot storage depot; and,
- Siting and installation of camp accommodation and office modules.

Construction crews are entirely comprised of Greenlandic workers, fully demonstrating the Company's commitment to local empowerment, as required under the IBA with the Municipality and the local communities. Progress reports are issued periodically by LNSG to facilitate good communication between the parties. Key mine development activities have been tabulated and are listed below:

- Construction of all roads and access tracks
- Development of the harbour and associated facilities
- Construction and fitting-out of the mine camp, hospital and offices
- Construction of the mine fuel and explosives depot
- Completion of the heliport
- Construction of the workshop
- Construction of the processing plant building and installation of the corundum recovery circuit
- Mine commissioning and calibration of plant

It is anticipated that the mine will be completed the fall of 2015.

Corporate Changes

On January 22, 2014, Mr. Jens B. Frederiksen joined TNGG management team as Executive Vice President.

On June 26, 2014, Jeffrey Giesbrecht stepped down as Vice President Corporate Development for the Company.

In October 2014, TNGG retained the services of Mr. Janus Mortensen Skou Krog, a highly experienced Greenlandic civil engineer to oversee the construction management of the project.

On February 2, 2015, the Company appointed Ms. Hayley Henning as Vice President Marketing and Development.

On February 26, 2015, Raymond Simpson was appointed to the Company's Board of Directors.

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. 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 NAIP 4 claims group.

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. Final demobilization of the heavy equipment and bulky items from camp was completed in the winter of 2014. A site inspection was completed by Company staff during the summer of 2014; a Yukon Government closure certificate will be applied for once the final Government inspections take place in 2015.

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 2014. A management review of this project will occur in 2015, and until then, the previous assessment credit is sufficient to maintain claims in good standing.

SELECTED ANNUAL INFORMATION

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

Selected Annual Consolidated Financial Information

(Expressed in Canadian Dollars)

	2014	2013	2012
	\$	\$	\$
Revenues	-	-	-
Loss attributable to:			
Shareholders	(1,607,015)	(1,626,509)	(1,118,871)
Non-controlling interests	(21,857)	(1,526)	-
Net loss	(1,628,872)	(1,628,035)	(1,118,871)
Net loss per share - basic and diluted	(0.01)	(0.01)	(0.01)
Cash dividends	-	-	-
Total assets	32,070,502	25,255,081	22,611,176
Long term liabilities	1,404,952	1,112,591	573,205
Shareholders' equity			
Share capital	46,705,857	41,962,189	39,310,384
Warrants	306,357	43,511	613,728
Contributed surplus	8,887,612	7,403,800	6,184,423
Deficit	(28,409,206)	(26,802,191)	(25,175,682)
Accumulated other comprehensive loss	60,030	147,030	-
Shareholders' equity	27,550,650	22,754,339	20,932,853
Non-controlling interests	1,768,774	(1,526)	-
Total equity	29,319,424	22,752,813	20,932,853

FINANCIAL POSITION

As at December 31, 2014, the Company had current assets of \$2,419,209 and current liabilities of \$1,346,126 compared to current assets of \$788,115 and current liabilities of \$1,389,677 as at December 31, 2013. At December 31, 2014, the Company had working capital of \$1,073,083 compared to working capital deficit of \$601,562 at December 31, 2013.

The Company had cash and cash equivalents of \$1,988,992 at December 31, 2014 compared to \$271,095 at December 31, 2013. During year ended December 31, 2014, the Company recorded cash used in operations of \$1,948,758 compared to cash used in operations of \$1,480,299 in 2013.

Cash used in investing activities during the year ended December 31, 2014 includes \$2,143,856 being spent on the Company's projects; primarily on the Aappaluttoq Ruby and Pink Sapphire Deposit. Additionally, the Company spent \$769,451 on mine construction and development activities and in constructing facilities for the mine. As well, the Company placed DKK 8,822,137 (CAD \$1,662,973) into an escrow account with the Bank of Greenland, as security for the fulfillment of any abandonment (closure) obligations. Also the net payable position with respect to exploration expenditures resulted in cash outflows of \$100,545.

True North drew down \$642,397 (DKK 3,300,000 plus a fee of DKK 50,000 credited against the line) on its credit facility from Greenland Venture S/A. Capital (share capital and warrants) as at December 31, 2014 was \$47,012,214 compared to \$42,005,700 as at December 31, 2013. During the year ended December 31, 2014, True North raised additional capital of \$4,500,000 from the issue of 45,238,095 shares and 8,333,334 warrants. The capital raising

costs for these placements amounted to \$43,486. Brereton Engineering and Developments Ltd. was issued 4,168,820 shares (\$550,000) from treasury to satisfy the final acquisition terms of the Fiskenaasset property option agreement.

RESULTS OF OPERATIONS

Information extracted from the Company's audited consolidated financial statements

	For the year ended December 31,	
	2014	2013
Operating expenses		
Audit and related services	\$ 71,014	\$ 49,488
Consulting fees	302,342	227,000
Corporate financial services fees	76,125	101,400
Corporate secretarial and accounting	166,986	147,491
Depreciation	6,243	5,251
Directors fees	54,000	54,000
Exploration and evaluation expenditures	(3,072)	12,759
Farmout receipts	(14,500)	(22,500)
Foreign exchange gain (loss)	(70,505)	79,555
General and administrative	184,776	117,172
Investor relations	176,372	54,203
Legal fees	9,448	42,776
Loss on sale of exploration and evaluation assets	-	47,790
Reclamation	-	440
Rent and occupancy costs	137,641	109,200
Share based compensation	24,342	439,487
Transfer agent and filing fees	19,345	40,284
Travel	81,309	86,996
Operating loss	(1,221,866)	(1,592,792)
Other income		
Interest and other income	2,716	6,991
Borrowing costs	(151,722)	(64,204)
Loss before income taxes	(1,370,872)	(1,650,005)
Income tax recovery (expense)	(258,000)	21,970
Net loss for year	\$ (1,628,872)	\$ (1,628,035)
Loss attributable to :		
Shareholders	\$ (1,607,015)	\$ (1,626,509)
Non-controlling interests	(21,857)	(1,526)
	\$ (1,628,872)	\$ (1,628,035)
Loss per share - basic and fully diluted	\$ (0.01)	\$ (0.01)
Weighted average number of common shares - basic and fully diluted	272,401,394	233,741,154

NET LOSS

The net loss attributable to shareholders for the year ended December 31, 2014 amounted to \$1,607,015 compared to a net loss for the year ended December 31, 2013 of \$1,626,509 representing a decrease in net loss of \$19,494. Included in the current year's results are interest income of \$2,716 (2013 - \$6,991) and borrowing costs relating to the loans from Greenland Venture's investment of \$151,722 (2013-\$64,204). In the current financial year, the Company recorded an income tax expense of \$258,000 to recognize a deferred tax liability of \$245,000 and tax of \$13,000 on unrealized losses on available for sale shares recognized through other comprehensive income.

Operating expenses

For the year ended December 31, 2014, total operating expenses were \$1,221,866 compared to \$1,592,792 recorded during the same period in 2013 representing a decrease of \$370,926.

Significant factors that contributed to the variances are discussed below.

Consulting fees

Consulting fees in 2014 increased by \$75,342 to \$302,342 from \$227,000 for the prior year. In the current financial year, the CEO was paid a performance bonus of \$100,000 on the Company being granted the exploitation licence for the Aappaluttoq Ruby and Pink Sapphire Deposit by the Government of Greenland.

Corporate financial services

In 2014, the Company paid fees of \$76,125 (2013-\$101,400). 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.

Foreign exchange loss

The foreign exchange gain for the year ended December 31, 2014 is \$70,505. The large variance from the prior financial year ended December 31, 2013 is primarily a result of the financial liability to Greenland Venture for funds loaned in 2013 and 2014 and the fact that the Danish krone has weakened significantly since the draw downs on the lending facilities.

General and administrative

General and administrative expenses totalled \$184,776 for year ended December 31, 2014 compared to \$117,172 for the year ended December 31, 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 and Pink Sapphire 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 \$176,372 for 2014 compared to \$54,203 for the comparative year representing an increase of \$122,169. In fiscal 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 fiscal 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 year ended December 31, 2014 resulted in a compensation expense of \$24,342.

The fair value of the 7,350,000 options granted during the year ended December 31, 2013 resulted in a compensation expense of \$615,323 (\$439,487 was charged to operations and \$175,836 was charged to exploration and evaluation expenditures).

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 \$40,284 to \$19,345 for the year ended December 31, 2014 relate to costs for Extraordinary General Meeting held in June 2013 to obtain shareholders' approval of the investment by Lenomi. Though approval was granted the equity investment by Lenomi failed to materialize. In addition, the Company received a refund from the TSX Venture Exchange in the current financial year for filing of the form 4B in Fiscal 2013 for a financing that did not complete.

Three month period ended December 31, 2014 (Q4-2014) compared with three month period ended December 31, 2013 (Q4-2013)

	Q4-2014	Q4-2013
	(unaudited)	(unaudited)
Operating expenses		
Audit and related services	\$ 63,814	\$ 40,750
Consulting fees	167,342	92,000
Corporate financial services fees	76,125	-
Corporate secretarial and accounting	46,484	37,276
Depreciation	2,650	1,398
Directors fees	13,500	13,500
Exploration and evaluation expenditures	(2,015)	-
Farmout receipts	-	30,000
Foreign exchange (gain) loss	(34,595)	54,989
General and administrative	66,963	33,097
Investor relations	73,666	13,767
Legal fees	265	4,761
Reclamation	-	440
Rent and occupancy costs	55,741	27,300
Share-based compensation	-	439,487
Transfer agent and filing fees	1,548	1,080
Travel	54,465	16,902
Operating loss	(585,953)	(806,747)
Other income		
Interest income	147	1,558
Borrowing costs	(56,338)	(28,963)
Loss before income tax expense	(642,144)	(834,152)
Income tax recovery (expense)	(297,780)	21,970
Net loss for period	\$ (939,924)	\$ (812,182)
Loss attributable to :		
Shareholders	(919,915)	\$ (833,409)
Non-controlling interests	(20,009)	21,227
	\$ (939,924)	\$ (812,182)
Loss per share - basic and fully diluted	\$ (0.00)	\$ (0.00)
Weighted average number of common shares - basic and fully diluted	345,328,773	290,978,908

NET LOSS

The net loss attributable to shareholders for Q4-2014 amounted to \$919,915 compared to a net loss for Q4-2013 of \$833,409 representing an increase of \$86,506. Included in Q4-2014 results are interest and other income of \$147 (Q4-2013 - \$1,558) and borrowing costs relating to Greenland Venture investment of \$54,168 (Q4- 2013 -28,963). In the current financial year, the Company recorded an income tax expense of \$297,780 in Q4-2014 compared to an income tax recovery of \$21,970 in Q4-2013. The fluctuations in line item amounts are due to the same factors discussed in the 2014 year-to-date analysis.

CAPITAL EXPENDITURES

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

During year ended December 31, 2014, the Company spent \$2,913,307 (2013-\$2,085,828) on its capital spending program. Capital expenditures by project and category are as follows:

	Fiscal 2014	Fiscal 2013
Exploration and evaluation expenditures		
Acquisition, net of non-cash consideration of \$50,000 (Fiscal 2013 - \$Nil)		
Greenland Property - Ruby	\$ 845,576	\$ 220,426
Exploration, net of non-cash items totalling \$94,388 (Fiscal 2013-\$116,138)		
Greenland Property - Ruby	1,240,789	1,837,609
Other Yukon Property	-	10
	1,240,789	1,837,619
Less - Farm out receipts	-	(50,000)
Plus - gemstone test marketing study	57,492	70,086
	1,298,280	1,857,705
Total exploration & evaluation expenditures	\$ 2,143,856	\$ 2,078,131

	Fiscal 2014	Fiscal 2013
Property, plant and equipment		
Mine construction and development costs, net of non-cash items totalling \$594,854 (Fiscal 2013-\$Nil)	\$ 404,367	\$ -
Property, plant and equipment	365,084	12,697
Total property, plant and equipment	\$ 769,451	\$ 12,697

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-Dec-14	-	(919,915)	(20,009)	(939,924)	(0.00)	(0.00)
30-Sep-14	-	(215,404)	(650)	(216,054)	(0.00)	(0.00)
30-Jun-14	-	(128,611)	(719)	(129,330)	(0.00)	(0.00)
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)	(2,992)	(272,038)	(0.00)	(0.00)
31-Mar-13	-	(186,120)	(12,263)	(198,383)	(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 and mine development 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 significant fluctuations in the Company’s quarterly results are the timing of stock option grants, foreign exchange gains (losses), corporate financial services, consulting fees and income taxes (refer to table below). The Company’s properties are not yet into production.

Quarter Ended	Stock-based compensation \$	Foreign exchange losses (gains) \$	Corporate financial services \$	Consulting fees \$	Income tax expense (recovery) \$
31-Dec-14	-	(34,595)	76,125	167,342	297,780
30-Sep-14	-	(45,792)	-	45,000	13,000
30-Jun-14	-	(43,324)	-	45,000	(65,390)
31-Mar-14	24,342	53,207	-	45,000	12,610
31-Dec-13	439,487	79,555	-	92,000	(21,970)
30-Sep-13	-	10,821	-	45,000	-
30-Jun-13	-	13,665	30,000	45,000	-
31-Mar-13	-	(80)	-	45,000	-

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2014, the Company had cash and cash equivalents (collectively referred to as “cash”) of \$1,988,992 and working capital of \$1,073,083.

Based on the financial position at December 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 continued 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 mine construction 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 finance the Company's contributing assets for completion of the Aappaluttoq Ruby and Pink Sapphire mine, capital will be generated from a combination of accessing equity markets, arranging loan facilities and revenues generated from sales of gemstones prior to commencement of commercial production.

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

As of December 31, 2014, the Company has \$1,508,452 in debt. The debt consists of a line of credit, a term loan and a financial liability. The line of credit (principle balance approximately \$631,475 (DKK 3,350,000) and accrued interest thereon was due on November 5, 2014 (Ministerial approval of the Exploitation and Abandonment Plan under Sections 19 and 43 of Mineral Resources Act and Articles 12 and 13 of Exclusive Licence No. 2014/21 was received on August 5, 2014, which represented the final authorization required to commence mine development of the Aappaluttoq Ruby and Pink Sapphire Deposit). In addition, the interest rate increased to 18% per annum. In the event that the loan is not repaid in full within six months of the due date, Greenland Venture's may deem the loan to be in default and enforce the parent company guarantee. The term loan bears interest at the rate of 10% per annum payable annually in arrears. The principal balance of \$754,000 (DKK 4,000,000) and any accrued interest thereon are repayable on June 14, 2018 (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 June 14, 2018. The financial liability of \$122,977 (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 December 31, 2014, the Company had no significant contractual obligations.

As of December 31, 2014, the Company has no long-term contractual agreements to acquire mineral properties. To maintain the exploration licences in good standing, the Company is required to meet minimum expenditure levels, as prescribed by the Mineral Licence and Safety Authority ("MLSA") annually, as set out in the table below:

Licences	Licence Renewal Date	2015 Exploration Obligation		Surplus Expenditures - December 31, 2014	
		DKK	CAD	DKK	CAD
Exploration Licences					
Fiskenaasset - Licence 2008/46	December 31, 2015	3,714,750	\$ 700,230	21,910,959	\$ 4,130,216
Qaqqatsiaq - Licence 2008/01	December 31, 2017	1,238,540	\$ 233,465	951,970	\$ 179,446
Manitsiq - Licence 2014/47	December 31, 2018	270,100	\$ 50,914	364,609	\$ 68,729

Surplus expenditures on the exploration licences may be carried forward and credited against the calculated exploration commitment in future years, which is subject to confirmation by the Mineral Licencing and Safety Authority (“MLSA”). 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.

In addition, the Company and LNSG entered into an Option Agreement dated August 7, 2013, as amended effective October 30, 2014, whereby LNSG has been granted the option to earn 20% of the issued and outstanding Class A shares of TNGG. To earn in, LNSG is contributing all infrastructure and engineering costs together with construction to operational status for the Aappaluttoq Ruby and Pink Sapphire mine. The earn-in will occur as certain milestones of the project are achieved. In addition, the relationship between the Company and LNSG are governed by four additional agreements, which will be effective upon earn in, the TNGG Shareholders Agreement, the Lease and Purchase Agreement, the Management Agreement and the Pledge Agreement (whereby the Company has pledged the Class A TNGG shares, which may be earned by LNSG as security for LNSG’s earn-in expenditures). The Shareholders’ Agreement and Amendment No. 1 dated August 7, 2014 and October 30, 2014 respectively formalize the procedural protocols for management of TNGG and grant certain rights to LNSG with respect to directing the relevant activities of TNGG. The Lease and Purchase Agreement and Amendment No. 1 dated August 7, 2014 and October 30, 2014 respectively, is a nine year lease for the ore storage facility, two port facilities, mine operations camp, workshop, site roads, power plant and the fuel and explosive storage facility at the project. The lease fee is DKK 998,985 (approximately \$188,300) per month for the first twelve months and escalates by 2.5% per annum thereafter. The Company has the right to acquire all of the leased assets at any time during the lease term for DKK 94,650,000 (approximately \$17,842,000) of which all of the lease payments to date of exercise will be credited to the purchase price. After the lease term the Company may acquire all of the assets for DKK 8,000,000 (approximately \$1,508,000). Additionally, the Company has the option to acquire only the primary crusher and processing facility assets at any time during the lease term for DKK 29,650,000 (approximately \$5,589,000) of which the proportionate amount of lease payments to date of exercise for these assets will be credited to the purchase price. After the lease term the Company may acquire these assets for DKK 3,300,000 (approximately \$622,000). The Management Agreement and Amendment No. 1 dated August 7, 2014 and October 30, 2014 respectively governs all parties’ cooperation, division of duties and each participant’s obligations in respect of exploration, marketing and mining activities.

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, 2014, key management personnel charged \$412,407 in fees for services rendered, of which \$304,751 was charged to operations and \$107,655 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, \$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.

At December 31, 2014, there is a balance due to key management personnel of \$96,000 for compensation, which is

included in accounts payable and accrued liabilities.

PROPOSED TRANSACTIONS

As of December 31, 2014, the Company has no proposed material transactions.

CRITICAL ACCOUNTING ESTIMATES

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

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

The Company has identified the following accounting policies under which significant judgments, estimates and assumptions are made where actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the Company's statement of financial position within the next years. Actual results may differ from these estimates.

Commercial viability and technical feasibility – Aappaluttoq Ruby and Pink Sapphire Deposit

In making the reclassification decision, management assessed the technical feasibility and commercial viability of the project and concluded that the Aappaluttoq Ruby and Pink Sapphire Deposit can be developed to a point where it can extract resources disclosed in its 43-101 Report, prepared in accordance with the respective National Instrument. The Company was awarded the Exploitation Licence, all requisite operating permits, environmental and social impact agreements were in place and construction financing secured during 2014. Upon consideration of these factors, management concluded the Aappaluttoq Ruby and Pink Sapphire Deposit exploration and evaluation expenditures should be reclassified to mine construction and development costs within property, plant and equipment.

Immediately prior to the reclassification, an impairment test was performed by management on the above asset. The impairment test is based on comparing the carrying amount to the recoverable amount. The recoverable amount is the higher of the value in use and, which is based on discounted cash flows and fair value less costs of disposal (the amount obtainable from the sale of an asset or a cash-generating unit ("CGU") in an arm's length transaction between knowledgeable, willing parties, less costs of disposal). Where there is no binding sale agreement or active market, fair value less costs of disposal is based on the best available information available to estimate what after-tax rate of return a market participant might expect to achieve for an arm's length acquisition of the CGU, using estimated cash flows, which include capital expenditures.

In making the assessment, management used the fair value less costs of disposal ("FVLCD") model to estimate fair value based on a discounted cash flow technique generated from a detailed life of mine financial model. The significant assumptions that, which affect the financial analysis include; exchange rate, capital expenditures, operating costs, gemstone selling price and mineral reserve estimates. These estimates are subject to certain risks and uncertainties that may affect the determination of the recoverability of the Aappaluttoq Ruby and Pink Sapphire Deposit. Upon completion of impairment test, management concluded there was no impairment.

Functional currency

The functional currency of the Company's subsidiary, TNGG, is the currency of the primary economic environment in which the entity operates. Management had determined the functional currency of TNGG is the Canadian dollar. Determination of functional currency may involve certain judgments to determine the primary economic environment. Upon commencement of mine development of the Aappaluttoq Ruby & Pink Sapphire Deposit in 2014, management reconsidered the following primary factors to determine the functional currency:

- the currency that mainly effects the prices at which the goods and services are sold
- the currency of the country whose regulations, market conditions and competitive forces mainly affect the

pricing policy of the TNGG

- the currency that influences the costs and expenses of TNGG

Based on consideration of these factors, it was determined that functional currency effective December 31, 2014 is the US dollar.

Investment in subsidiary – True North Gems Greenland A/S (“TNGG”)

TNGG is consolidated as a subsidiary. During the year ended December 31, 2014, the TSX Venture Exchange approved the Option Agreement dated August 7, 2013, as amended effective October 30, 2014, 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 TNGG (note 7). On October 30, 2014, LNSG invested US \$3,000,000 into TNGG and were issued 5,722,939 Class A shares of TNGG from treasury representing a 7% equity interest (note 13). Upon completion of earn-in, LNSG will own 27% of TNGG’s Class A shares.

A subsidiary is an entity controlled by a company. Management reviewed the following criteria to determine whether the Company had control over TNGG:

- a. the Company’s power over TNGG;
- b. the Company’s exposure, or rights, to variable returns from its involvement with TNGG; and,
- c. the Company’s ability to use its power over TNGG to affect the amount of its return.

In reviewing the rights granted to the Company set out in the Shareholders’ Agreement; it was concluded that the Company holds the substantive rights to direct the primary activities of TNGG, which affects the risks and reward from the Appalluttoq Ruby & Pink Sapphire Deposit thus controlling the entity.

Exploration and evaluation assets – impairment assessment

The application of the Company’s accounting policy for exploration and evaluation expenditures requires judgment in determining whether it is likely that the future economic benefits are probable either from future exploitation or sale or where activities have not reached a stage, which permits a reasonable assessment of the existence of reserves. The deferral policy requires management to make certain assumptions about future events or circumstances, in particular, whether an economically viable extraction operation can be established. Estimates and assumptions made may change if new information becomes available. If, after and expenditures is capitalized, information becomes available suggesting that the recovery of the expenditure is unlikely, the amount capitalized is written off in the statement of loss in the period when the new information becomes available.

Financial liability – put option

The determination of the fair value of the financial liability relating to the put option involves significant judgment. On initial recognition, the fair value of the financial liability is based on the expected fair value of the resources given up in the future to settle the liability. Judgment was required by management in determining that the put option related to the Class B shares held by Greenland Venture A/S does not result in the transfer of risks and rewards of ownership and therefore, accounted for as a financial liability.

Going concern

These consolidated financial statements have been prepared on the assumption that the Company is able to continue as a going concern. Additional information relating to the going concern assumption is disclosed in note 1 to the consolidated financial statements.

Site restoration and environmental provisions

The Company has accounted for site restoration and environmental provisions that existed as of the year end based on facts and circumstances that existed as at December 31, 2014. The Company reviews facts and circumstances surrounding its exploration program, existing laws, contracts and other policies. A material reclamation obligation involves a number of estimates relating to timing, type of costs and associated contract negotiations and a review of potential methods and technical advancements.

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.

OUTSTANDING SHARE DATA

At December 31, 2014, True North had 297,232,049 common shares, 9,313,990 warrants and 18,700,000 options issued and outstanding.

At the date of this report, True North had 297,332,049 common shares, 9,313,990 warrants and 24,800,000 options issued and outstanding.

RISK FACTORS

Financial capability and additional financing

The Company relies on equity or debt financings to fund 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 \$1,988,992 at December 31, 2014. Based on the financial position at December 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 18 of the audited consolidated financial statements for the year ended December 31, 2014.

Mine construction and start-up of new mine

The Company's decision to commence construction at the Aappaluttoq Ruby and Pink Sapphire deposit was based upon the Pre-Feasibility Study ("PFS"), National Instrument 43-101 Technical Report. There is no guarantee that construction will be completed as scheduled, when production will begin or that financial results will be consistent with the PFS. Failure to complete construction on schedule, commence production when planned or if financial results are not

consistent with the PF, it could have a material adverse impact on the Company's ability to generate revenue and cash flow in the future to fund operations.

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.