TRUE NØRTH GEMS

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2012

Management's discussion and analysis ("MD&A") provides a review of the performance of True North Gems Inc.'s ("True North" or the "Company") operations and has been prepared on the basis of available information up to August 23, 2012 and should be read in conjunction with the unaudited condensed interim consolidated financial statements for the six month period ended June 30, 2012 ("fiscal 2012") and the audited consolidated financial statements for the year ended December 31, 2011 and the related notes thereto ("fiscal 2011"). 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.

CORPORATE DEVELOPMENTS

Private Placement

On August 9, 2012, True North completed a non-brokered private placement of 14,508,000 units at a price of $0.05 per unit. The gross proceeds of the unit placement totalled $725,400. The proceeds from this financing are intended to be used to further the exploitation permitting process with the Greenland government, for seasonal exploration work and for general working capital and other purposes.

Corporate

The Board of Directors initiated a strategic review process to consider strategic alternatives that have presented themselves to the Company, with a view to enhancing shareholder value. Strategic alternatives may include; but are not limited to, the sale of all or a portion of the Company's assets, the outright sale of the Company, a merger or other business combination transaction involving a third party, or any combination thereof. A Special Committee, consisting of directors, independent of management, has been formed to oversee the strategic process. It is the intention of the Special Committee to appoint a financial markets advisor to assist in this regard.

FISKENAESSET RUBY PROJECT – GREENLAND

On June 6, 2011, the Company filed an exploitation (mining) permit application for the Company's Aappaluttoq Prospect in Greenland. The 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.

Subsequent to this filing, the Company received comments on the permit application, the SIA and EIA. A revised application and revised draft EIA were filed in August 2011 and a revised draft SIA was filed in March 2012. In response to further comments, a further revised EIA was filed on April 10, 2012, which responded to environmental concerns regarding certain of the processes to be used both at the Aappaluttoq site, including the possible addition of a ferrosilicon dense media separation circuit, and in Nuuk for hydrofluoric acid cleaning of corundum concentrate. The final draft of the EIA and formal translation into both Greenlandic and Danish has been completed. Discussions have been ongoing with the Government of Greenland regarding the final form of the SIA. The final SIA and EIA will be published on the Greenland Government's public website in preparation for public hearings on the permit application. The schedule for these hearings is under discussion with the BMP.

The permit application is based on a pre-feasibility study for the Aappaluttoq Prospect which was filed on June 15, 2011. This study was prepared by EBA, a Tetra Tech Company, of Vancouver BC and MT Hojgaard of Denmark and Greenland following the resource estimate released on May 17, 2011. Key operating parameters:

- Open pit mine with a 9 year mine life

- Camp and mine facility easily accessible to cost-efficient water transportation
- Total probable reserve of 161,600 tonnes of ore grading 350 grams per tonne of clean corundum
- Processing of 1,100 tonnes of ore in the year of construction increasing to an average of 22,000 tonnes per year by year 3
- Initial capital investment of $37.4 million including contingency of $4.4 million
- IRR pre-tax (100% equity) of 19.1%
- NPV pre-tax (100% equity) $25.7 Million (8% discount rate)

Only corundum over 1.7 mm is considered in the study, which is nominally larger than the minimum size of gemstone rough that can be commercially polished. The study contemplates the development of an open pit mine at a 300 meter elevation to extract the probable reserves using conventional mining equipment. The mined ore will be transported to an adjacent processing facility where it will be crushed, screened and sorted using a combination of hand-sorting and automated mechanical methods to extract rough corundum concentrate. Personnel will be accommodated at a nearby, fully serviced camp. Supplies and personnel will be transported largely by commuter boat from the capital Nuuk (150 km) with other personnel arriving by boat from the local community of Qeqartarsuatsiat (25 km). The rough concentrate will be transported from the mine to a secure sorthouse operated by the Company in Nuuk, where the concentrate will be graded by trained sorters to separate the gem and near-gem rubies and pink sapphires. Non-gem corundum is presently assumed to be waste.

Based on bulk sampling done to date, the study assumes that rough gem and near-gem ruby and pink sapphire comprises 39% of the total clean rough corundum in the deposit and that of the gem-and near-gem, 15.9% is rough ruby and 84.1% is rough pink sapphire. An overall total clean rough corundum recovery of 95% is assumed for the processing plant. Total initial capital investment in the project is estimated to be $33.4 million, exclusive of contingency, which represents the total direct and indirect cost for the complete development of the project, including associated infrastructure such as a full camp, roads and two small ports, as well as sorting facilities in Nuuk. Because reliable estimates of the value of rough corundum were not available, the study assumes that 100% of ruby recovered will be sold as polished gemstones, while 60% of pink sapphire recovered will be sold as polished gemstones with the balance of the pink sapphire sold as rough. However, the Company’s marketing plan is to work toward increasing the gemstone industry’s knowledge of Greenland corundum with the objective of increasing rough prices and selling the majority of the corundum production as rough gemstones.

2012 Work Program

The Company’s efforts in 2012 are dedicated to completing the exploitation permit application on the Fiskanaesset ruby project. This includes completion of the EIA and SIA with the commensurate public hearings in Greenland. At the same time, basic engineering of the project is underway with final design of many of the project components including the processing plant. The processing flowsheet has been upgraded; as a result of the test work at SGS Lakefield, which demonstrated that the addition of a dense media separation circuit will improve the efficiency of the processing plant and optic sorting test work done in December 2011. The annual field program was initiated on July 31, 2012 with 5 geoscientists and up to 4 support staff on-site at the Aappaluttoq camp at various times. The program focussed on high priority targets and included the use of ground geophysical surveys to better delineate the dimension of the ruby bearing units on the main Ruby Island Trend. Other regional work was completed along with significant logistical preparatory work. Geological mapping and soil sampling will continue during Q3 to better delineate current targets.

BELUGA SAPPHIRE PROJECT – BAFFIN ISLAND, CANADA

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

BANDITO PROJECT – YUKON, CANADA

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

Pursuant to the terms of the Option Agreement (the "Agreement") Endurance Gold Corporation ("Endurance") was granted the right to acquire up to a 75% interest in the Company's 100% owned Bandito Property, Yukon.

Under the terms of the Agreement, Endurance can earn a 51% interest as follows:

i. On receipt of regulatory approval an initial cash payment of $25,000 (paid September 10, 2010) and additional cash payments of $100,000 by December 31, 2012 (paid $50,000 in Q1-2012); and,
ii. Incur $1,000,000 in exploration expenditure on or before December 31, 2013.

Once Endurance earns a 51% working interest in the property, it may earn an additional 24% interest by issuing 200,000 shares and incurring an additional $1,000,000 in exploration expenditures by December 31, 2015. Regulatory approval of the Agreement was obtained on September 7, 2010. The Agreement remains in good standing and Endurance have provided the Company with an update on their 2012 exploration program aims and current activities on-site.

BATEA PROJECT – YUKON, CANADA

The property comprises fifty-six claims 200 kilometres east of Whitehorse, Yukon.

The Company continues to assess the polymetallic potential of the Batea prospect and intends to seek option and/or sale agreements for this project. During the first six months of 2012 there has been no activity recorded on this project. A decision regarding its future will occur in Q3 or Q4 of 2012.

STRAW PROJECT – YUKON, CANADA

The property comprises 43 claims located 130 kilometres south of Ross River, Yukon. In 2011, minor QA/QC and due diligence work was performed on-site. Previous assessment credit was sufficient to maintain claims in good standing and no further work is required in 2012.

TRUE BLUE PROJECT– YUKON, CANADA

The property comprises 335 claims located 55 kilometres south of Ross River, Yukon. In 2011, no work was performed on-site. Previous assessment credit was sufficient to maintain claims in good standing and no further work is required in 2012.

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. Based on EBA Engineering's recommendations contained in their 2011 report, the Company has proposed a work program in 2012 to begin reclamation on the site and determine what further work will be necessary in subsequent years, if any. The reclamation items to be addressed in 2012 will focus on backfilling old exploration trenches, decommissioning the emerald processing plant, environmental baseline sampling and the removal of several camp buildings using the heavy equipment currently on-site.

FINANCIAL POSITION

As at June 30, 2012, the Company had current assets of $191,384 and current liabilities of $1,082,451 compared to current assets of $862,090 and current liabilities of $573,683 as at December 31, 2011. At June 30, 2012, the Company had working capital deficit of $891,067 compared to a working capital of $288,407 at December 31, 2011.

The Company had cash and cash equivalents of $12,486 at June 30, 2012 compared to $677,663 at December 31, 2011. During the six month period ended June 30, 2012, the Company recorded cash outflows of $337,873 compared to cash outflows of $414,740 in the comparable period of 2011.

Cash used in investing activities during Q2-2012 includes $644,127 being spent on the Company's projects; primarily on the Fiskenaesset Ruby Project Greenland. Also the net payable position with respect to exploration expenditures resulted in a cash inflow of $258,210.

RESULTS OF OPERATIONS

Six month period ended June 30, 2012 (fiscal 2012) compared with six month period ended June 30, 2011 (fiscal 2011)

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

	Fiscal 2012	Fiscal 2011
Operating expenses		
Audit and related services	$ (1,452)	$ 5,584
Consulting fees	100,000	105,000
Corporate financial services fees	22,500	120,000
Corporate secretarial and accounting	74,361	48,750
Depreciation	3,392	6,605
Directors fees	27,000	27,000
Exploration and evaluation expenditures	5,788	10,214
Foreign exchange loss	3,299	17,536
General and administrative	55,344	49,617
Investor relations	85,802	78,815
Legal fees	7,322	1,673
Loss on disposal of property, plant and equipment	20,292	-
Rent and occupancy costs	91,814	39,918
Salaries and employee benefits	1,753	30,483
Transfer agent and filing fees	16,895	17,719
Travel	57,355	35,251
Operating loss	(571,465)	(594,165)
Other income		
Gain on sale of available-for-sale-investments	18,670	-
Interest income	7,341	2,731
Loss before income taxes	(545,454)	(591,434)
Deferred income tax recovery (expense)	(1,219)	750
Net loss for period	(546,673)	(590,684)
Realized losses (gains) on available-for-sale investments	(8,531)	5,250
Comprehensive loss for period	$ (555,204)	$ (585,434)
Loss per share - basic and fully diluted	$ (0.01)	$ (0.00)
Weighted average number of common shares - basic and fully diluted	193,009,741	168,700,227

NET LOSS

The net loss for the six month period ended June 30, 2012 amounted to $546,673 compared to a net loss for the six month period ended June 30, 2011 of $590,684 representing a decrease in net loss of $44,011.

EXPENSES

For the six month period ended June 30, 2012, total expenses were $571,465 compared to $594,165 recorded during the same period in 2011 representing an increase of $22,700 or 4%. Significant factors that contributed to the variances are discussed below.

Corporate financial services
In the current financial year, the Company has paid fees of $22,500 (fiscal 2011 - $120,000)**.** Fees charged to this account represent amounts paid to third parties to source leads on behalf of the Company to procure financing for projects and variances depend on timing of equity financings.

Corporate secretarial and accounting
A total of $74,361 has been paid in fees for the six month period ended June 30, 2012 compared to $48,750 for the prior comparative period. The increase in the current year relates to the additional time spent on financial reporting upon conversion to International Financial Reporting Standards effective January 1, 2011 and retroactive restatement to apply such standards to prior reporting periods and time charges for an accounting assistant in current year.

General and administration

General and administration charges were $55,344 for the six month period ended June 30, 2012 compared to $49,617 for the comparative period. Included in this category are bank fees, communications lines (telephone, facsimile and internet), delivery, interest, office supplies and printing.

Investor/shareholder relations
Investor relations charges were $85,802 for fiscal 2012 compared to $78,815 for fiscal 2011. An active investor relation program was launched in the later part of fiscal 2011 resulting in increased communications with shareholders on project developments and in anticipation of further financing being required in the first half of fiscal 2012 to fund working capital requirements and planned project programs.

Loss on disposal of property, plant and equipment
In January 2012, True North surrendered its lease for premises. The office furniture in those premises was relinquished to the landlord.

Rent and occupancy costs
Rent and occupancy costs increased from $39,918 for fiscal 2011 to $91,814 for fiscal 2012. Increase is a result of new premises being rented at a rate of $8,500 per month commencing January 2012 and payment of approximately $31,000 in January 2012 to surrender previous premise lease to landlord.

Travel
Travel charges were $57,355 for the six month period ended June 30, 2012 compared to $35,251 for the comparative period representing an increase of $22,104 or 63%. Financial constraints in the prior comparative period necessitated that travel be curtailed to the extent possible.

Three month period ended June 30, 2012 (Q2-2012) compared with three month period ended June 30, 2011 (Q2-2011)
(Information extracted from the Company's unaudited condensed interim consolidated financial statements.)

	Q2-2012	Q2-2011
Operating expenses		
Audit and related services	$ (1,452)	$ (10,166)
Consulting fees	55,000	52,500
Corporate financial services fees	-	52,500
Corporate secretarial and accounting	38,309	30,000
Depreciation	1,696	3,402
Directors fees	13,500	13,500
Exploration and evaluation expenditures	5,116	6,716
Foreign exchange loss	2,010	9,558
General and administrative	25,823	25,478
Investor relations	25,111	34,660
Legal fees	2,060	1,673
Rent and occupancy costs	13,796	21,103
Salaries and employee benefits	1,143	15,981
Transfer agent and filing fees	5,475	8,246
Travel	2,854	30,616
Operating loss	(190,441)	(295,767)
Other income		
Interest income	2,487	2,259
Loss before income taxes	(187,954)	(293,508)
Deferred income tax recovery (expense)	-	(750)
Net loss for period	(187,954)	(294,258)
Realized losses (gains) on available-for-sale investments	-	(5,250)
Comprehensive loss for period	$ (187,954)	$ (299,508)
Loss per share - basic and fully diluted	$ (0.00)	$ (0.00)
Weighted average number of common shares - basic and fully diluted	191,923,492	180,653,189

The Company had a net loss of $187,954 ($0.00 per common share) for the three month period ended June 30, 2012. For the same period in the previous fiscal year, the Company had a net loss of $294,258 ($0.00 per share). The fluctuations in line item amounts are due to the same factors discussed in the 2012 year-to-date analysis.

CAPITAL EXPENDITURES

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

During the six month period ended June 30, 2012, the Company spent $644,127 (2011-$1,584,893) on its capital spending program. Capital expenditures by project and category are as follows:

	Six month period ended June 30, 2012	2011
Acquisition, net of non-cash consideration of $50,000 (2011-$50,000)		
Greenland Property - Ruby	$ 7,388	$ 50,000
Exploration, net of non-cash items totalling $61,364 (2011-$58,677)		
Greenland Property - Ruby	640,645	1,490,986
Baffin Island Property - Sapphire	(724)	-
Other Yukon Property	6,568	25
	646,489	1,491,011
Less - Farm out receipts	(50,000)	-
Plus - gemstone test marketing study	40,250	43,882
	636,739	1,534,893
Total capital expenditures	$ 644,127	$ 1,584,893

All efforts in fiscal 2012 are towards completing the application process for an exploitation (mining) permit for the Fiskanaesset ruby occurrence, which was submitted to the BMP in June 2011.

SUMMARY OF QUARTERLY RESULTS - UNAUDITED

Quarter Ended	Net revenues	Net income (loss)*	Loss per share - basic	Loss per share - diluted
	$'s	$'s	$'s	$'s
30-Jun-12	-	(187,954)	(0.00)	(0.00)
31-Mar-12	-	(358,719)	(0.01)	(0.01)
31-Dec-11	-	(783,868)	(0.00)	(0.00)
30-Sep-11	-	(489,473)	(0.00)	(0.00)
30-Jun-11	-	(294,258)	(0.00)	(0.00)
31-Mar-11	-	(296,426)	(0.00)	(0.00)
31-Dec-10	-	(3,064,861)	(0.00)	(0.00)
30-Sep-10	-	(283,722)	(0.00)	(0.00)

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

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

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

LIQUIDITY, CAPITAL RESOURCES AND GOING CONCERN

At June 30, 2012, the Company had cash and cash equivalents (collectively referred to as "cash") of $12,486 and working capital deficit of $891,067.

Cash on hand at June 30, 2012 is not adequate to meet requirements for fiscal 2012 based on the Company's current budgeted expenditures for operations and exploration and development of its mineral properties. To meet working capital requirements, the Company will have to access financial resources through equity placements. On August 9, 2012, the Company raised $725,400 on completion of an equity financing. Further financing will be required to meet capital requirements for 2012.There can be no assurances that such funds will be available and/or on terms acceptable by the Company. These conditions cast significant doubt on the Company to continue as a going concern.

If the going concern assumption were not appropriate for these financial statements, then adjustments would be necessary to the carrying values of assets, liabilities, the reported income and expenses and the consolidated statement of financial position classifications used. Such adjustments could be material.

Capital Resources

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

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

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

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

As of June 30, 2012, the Company has no long-term debt.

As of June 30, 2012, the Company has no long-term contractual obligations.

The Fiskenaesset Licence was obtained by the Company satisfying all the terms of an option agreement with Brereton Engineering and Developments Ltd. ("Brereton"). Ongoing commitments from the option agreement include cash payments of $50,000 and issue of $50,000 worth of shares from treasury annually for each year the Company maintains the exploration licence (Anniversary Date - December 31). Once an exploitation (mining) permit is obtained the Company is required to make a one-time cash payment of $500,000 and issue $500,000 worth of shares from treasury.

As of June 30, 2012, the Company has no long-term contractual agreements to acquire mineral properties. To maintain the Greenland licences in good standing, the Company is required to meet minimum expenditure levels, as prescribed by the BMP annually. However, the fulfillment of these obligations is optional, at the discretion of True North. For the year ending December 31, 2012, the Company's exploration obligation with respect to Licence 2008/46 is DKK 2,231,900 (CAD $387,681). As at June 30, 2012, the Company has surplus exploration expenditures on Licence

2008/46 amounting to DKK 65,999,956 (CAD $11,464,192) that may be carried forward and credited against the calculated exploration commitment in future years. For the year ending December 31, 2012, the Company's exploration obligation with respect to Licence 2008/01 is DKK 2,782,460 (CAD$483,313). As at June 30, 2012, the Company has surplus exploration expenditures on Licence 2008/01 of DKK 858,205 (CAD$149,070) that may be carried forward and credited against the calculated exploration commitment in future years.

TRANSACTIONS WITH RELATED PARTIES

In the normal course of business, True North has had transactions with individuals and companies considered related parties. Related party transactions involve normal commercial compensation for services rendered by senior management, officers, directors or insiders of the Company and by companies with which they are associated as owners, contractors or employees.

William Anderson, Robert Boyd, Peter Friedmann, David Parsons and John Ryder are independent Directors of True North. During the six month period ended June 30, 2012, $27,000 in aggregate has been recorded as paid/payable to William Anderson, Robert Boyd, David Parsons and John Ryder 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., did not receive director's fees.

During the six month period ended June 30, 2012, two director related companies loaned the Company $33,000. The loans are without interest or stated terms of repayment and are included in current liabilities.

During the six month period ended June 30, 2012, directors and officers charged $213,250 in fees for services rendered, of which $152,000 was charged to operations and $61,250 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.

PROPOSED TRANSACTIONS

As of June 30, 2012, the Company has no proposed material transactions.

CRITICAL ACCOUNTING ESTIMATES

The significant accounting policies used by True North are disclosed in note 3 to the audited consolidated financial statements for the year ended December 31, 2011. 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 on a regular basis. The emergence of new information and changed circumstances may result in actual results or changes to estimated amounts that differ materially from current estimates. The following discussion helps to assess the critical accounting policies and practises of the Company and the likelihood of materially different results being reported.

EXPLORATION AND EVALUATION EXPENDITURES

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

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

From time to time, the Company acquires and disposes of mineral property interests pursuant to the terms of option agreements. Options are exercisable entirely at the discretion of the optionee, and accordingly, are recorded as mineral property costs (recoveries) when payments are made or received until the original cost is recovered and after which subsequent recoveries are charged to the statement of loss.

Mineral properties are tested annually for impairment if facts and circumstances indicate that the carrying amount may exceed its recoverable amount.

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 on an annual basis.

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.

INCOME TAXES

The determination of income and other tax liabilities requires interpretation of complex laws and regulations. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded by management.

FINANCIAL INSTRUMENTS

Designation and fair value

True North has classified its cash and cash equivalents as financial assets held-for-trading and investments financial assets as available-for-sale. Accounts receivable are classified as loans and receivables. Accounts payable and accrued liabilities are classified as other financial liabilities. At June 30, 2012 and December 31, 2011, there were no significant differences between the carrying amounts of the financial instruments reported on the balance sheet and their estimated fair values due primarily to the short-term maturity of the financial instruments.

INTERNAL CONTROL OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS AND PROCEDURES

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

i. Controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and,
ii. A process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer’s GAAP.

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

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

ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE

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

OUTSTANDING SHARE DATA

At June 30, 2012, True North had 191,975,003 common shares, 42,671,158 warrants and 15,505,000 options issued and outstanding.

As at the date of this report, True North had 206,483,003 common shares, 50,939,558 warrants and 15,505,000 options issued and outstanding.

RISK FACTORS

Financial capability and additional financing

The Company relies on equity financings to funds its activities. While it has been successful in raising funds in the past, there is no guarantee that adequate funds will be available in the future. The Company has cash and cash equivalents of $12,486 at June 30, 2012. Based on current budgeted expenditures for operations and exploration, cash on hand at June 30, 2012 is not adequate to meet capital requirements for fiscal 2012. To meet working capital requirements, the Company will have to access financial resources through equity placements in the junior resource market, procure industry partners for its primary exploration projects and/or sell its projects in exchange for equity/cash. On August 9, 2012, the Company raised $725,400 on completion of an equity financing. Further financing will be required to meet capital requirements for 2012.

A discussion of risk factors particular to the financial instruments is presented in note 11 of the unaudited condensed interim consolidated financial statements for the three month period ended June 30, 2012.

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.

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.