

# TRUE NORTH GEMS

MANAGEMENT DISCUSSION AND  
ANALYSIS

FOR THE PERIOD ENDED  
SEPTEMBER 30, 2011

# TRUE NORTH GEMS

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 November 24, 2011 and should be read in conjunction with unaudited condensed interim consolidated financial statements for the nine month period ended September 30, 2011, the audited consolidated financial statements for the year ended December 31, 2010 and the related notes thereto, which have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), as well as the Company's December 31, 2010 Annual MD&A. All dollar amounts referred to in this discussion and analysis are expressed in Canadian dollars except where indicated otherwise.

The Company's financial statements are reported under International Financial Reporting Standards ("IFRS"). The effects of the Company's conversion from Canadian GAAP to IFRS have been identified in note 10 to the unaudited condensed interim consolidated financial statements.

## **CORPORATE DEVELOPMENTS**

### **Private Placement**

True North completed a non-brokered private placement of 33,826,000 units at a price of \$0.10 per unit in two tranches that closed on April 26 and 29, 2011 respectively. The gross proceeds of the unit placement totalled \$3,382,600. The proceeds from this financing are intended to be used to conduct exploration on the Company's properties including advancing the Greenland Property exploitation permit process, for general working capital and other purposes.

### **Corporate Changes**

On September 16, 2011, the Company announced the appointments of Peter Friedmann to the Board of Directors to replace Martin Irving as Board nominee for the Halman-Aldubi Group and Sherry Siu as Corporate Secretary. Martin Irving will continue his relationship with True North as a member of the Company's Technical Advisory Board. In October 2011, Bent Olsvig Jensen was appointed the Managing Director of the Company's wholly-owned subsidiary, True North Gems A/S.

## **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 number of revised documents were filed in August 2011 and discussions have been ongoing with the Government of Greenland regarding the final form of the SIA. Once finalized, the SIA and EIA will be published on the Greenland Government's public website in preparation for public hearings on the permit application. No date has yet been set for these hearings.

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)

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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 reserve using conventional mining equipment. The mined ore will be transported to an adjacent process 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.

## **2011 Work Program**

In a traditional mining project, the next stage of development would be completion of a larger bulk sample or additional delineation drilling or both. In the case of the Aappaluttoq Prospect, work done through 2009 and resulting project economic analysis shows that the greatest sensitivity and economic risk is related to the price received for the ruby and pink sapphire material produced. While independent appraisals of the material produced by the Company during its sampling programs have been very encouraging, the ruby and pink sapphire market is such that appraisals vary widely and only with a period of actual sales will the Company understand the true value of the deposit. Greenland does not permit sales of mined products until an exploitation (mining) permit has been issued and to obtain such a permit, the Company is required to follow a process intended for larger, traditional mining projects. Until the Company has obtained a mining permit and is able to initiate a sales and marketing campaign, the economics of the project will not be fully understood.

Therefore, the vast majority of the work planned for 2011 is to support the application for an exploitation (mining) permit for the Aappaluttoq Prospect including further work on the EIA and SIA in advance of the public hearing phase of the application. Further engineering work will be undertaken in anticipation of a positive response to the permit application so that construction permits may be obtained in a timely manner. In particular, processing testwork on material obtained from bulk sampling in 2008 is ongoing at SGS Lakefield Research Limited. Regional geological work was undertaken during June-August, 2011 with the objective of improving the Company's understanding of the relationship between the nearby corundum showings and the Aappaluttoq deposit.

## **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, work performed will be the minimum required to maintain claims in good standing including a required legal survey of the claims, which was completed in July 2011.

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## **BANDITO PROJECT – YUKON, CANADA**

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

On August 30, 2010, the Company entered into a Letter Agreement (the “Agreement”) with Endurance Gold Corporation (“Endurance”) whereby Endurance was granted an option to acquire up to a 75% interest in the Company’s 100% owned Bandito Property, Yukon subject to TSX Venture Exchange approval.

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; and,
- ii. Incur \$1,000,000 in exploration expenditure on or before December 31, 2013.

On July 25, 2011, Endurance announced that the exploration team was on site and has commenced a geological and geochemical sampling program on the Bandito Property. The results of the rock sampling for the 2011 filed program were press released by Endurance on October 12, 2011.

## **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. In 2011, work performed will be the minimum required to maintain claims in good standing.

## **TRUE BLUE PROJECT– YUKON, CANADA**

The property comprises 94 claims located 55 kilometres south of Ross River, Yukon. In 2011, work performed will be the minimum required to maintain claims in good standing.

## **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 will not be conducting further exploration work on this project; as a result the project was written down to a nominal carrying value of \$1. As at December 31, 2010, the provision for reclamation of Tsa da Glisza recorded in the financial statements was \$452,161. To September 30, 2011, the Company incurred \$80,201 in costs relating to reclamation; primarily related to engaging EBA Engineering of Whitehorse, Yukon to prepare a report on what was required to be done to restore the site. Based on recommendations by EBA Engineering of Whitehorse, Yukon, 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 consist primarily of closing the 2002 exploration adit, backfilling trenches, decommissioning roads, environmental baseline sampling and the removal of camp and heavy equipment.

## **FINANCIAL POSITION**

As at September 30, 2011, the Company had current assets of \$1,527,803 and current liabilities of \$147,574 compared to current assets of \$1,694,760 and current liabilities of \$195,678 as at December 31, 2010. At September 30, 2011, the Company had working capital of \$1,380,229 compared to a working capital of \$1,499,082 at December 31, 2010

The Company had cash of \$1,249,732 at September 30, 2011 compared to \$1,195,493 at December 31, 2010. During the nine month period ended September 30, 2011, the Company recorded cash outflows of \$792,977 compared to cash outflows of \$324,202 in the comparable period of 2010. The increase use of cash was primarily attributable to the same factors that increased the net loss during the periods.

Cash used in investing activities during the nine month period ended September 30, 2011 includes \$2,132,824 being spent on the Company’s projects; primarily on the Fiskenaasset Ruby Project Greenland. Also the net payable position with respect to exploration expenditures resulted in a cash outflow of \$99,336. Additionally, True North spent \$7,467 on computer equipment and incurred \$80,201 in expenditures relating to reclamation of Tsa da Glisza site.

Capital as at September 30, 2011 was \$44,756,973 compared to \$37,335,029 as at December 31, 2010. During the nine month period ended September 30, 2011, True North raised additional capital of \$3,382,600 from the issue of

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33,826,000 shares and 16,913,000 warrants. Finder's fees of \$249,030 were paid and 2,490,300 finder's warrants were issued. The capital raising costs for this placement amounted to \$404,495 (shares - \$346,112/warrants -\$58,383). In addition, the Company issued 323,625 shares to satisfy its obligation pursuant to the terms of the Option Agreement on the Greenland property and 686,758 warrants were exercised for proceeds of \$68,676.

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## RESULTS OF OPERATIONS

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

	<b>Nine month period ended</b>	
	<b>September 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>Expenses</b>		
Audit and related services	\$ 6,634	\$ 2,028
Consulting fees	157,500	182,280
Corporate financial services	152,500	-
Corporate secretarial and accounting	74,750	50,150
Depreciation	10,169	11,904
Directors fees	40,500	39,609
General and administrative	71,667	69,867
Investor relations	191,697	103,890
Legal fees	1,673	4,355
Rent and occupancy	71,165	42,701
Salaries and employee benefits	37,555	54,974
Stock-based compensation	80,410	1,929
Transfer agent and filing fees	32,163	23,006
Travel	74,268	23,663
	<u>1,002,651</u>	<u>610,356</u>
Loss before under noted items	(1,002,651)	(610,356)
Expenditures on mineral properties written off	(64,532)	-
Farm-out receipts	-	102,830
Foreign exchange gain (loss)	(20,178)	17,681
Gain on sale of available-for-sale-investments	-	14,794
Interest and other income	6,579	(379)
Loss on sale of property, plant and equipment	-	(54,837)
	<u>(1,080,782)</u>	<u>(530,267)</u>
Future income tax recovery (expense)	625	844
Net loss for period	<u>\$ (1,080,157)</u>	<u>\$ (529,423)</u>
Loss per share - basic and fully diluted	<u>\$ (0.01)</u>	<u>\$ (0.00)</u>
Weighted average number of common shares	<u>191,105,561</u>	<u>114,505,816</u>

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## **NET LOSS**

The net loss for the nine month period ended September 30, 2011 amounted to \$1,080,157 compared to a net loss for the nine month period ended September 30, 2010 of \$529,423 representing an increase in net loss of \$550,734. Included in the nine month period results are costs of \$64,532 relating to mineral properties that have been previously written off and a foreign exchange loss of \$20,178.

## **EXPENSES**

For the nine month period ended September 30, 2011, total expenses were \$1,002,651 compared to \$610,356 recorded during the same period in 2010 representing an increase of \$392,295 or 64%. Significant factors that contributed to the variances are discussed below.

### **Consulting fees and corporate development fees**

For the nine month period ended September 30, 2011, expenses charged to consulting and corporate development fees of \$157,500 were accrued in the accounts. Consulting and corporate development fees for the nine month period ended September 30, 2010 were \$182,280.

### **Corporate financial services**

In the current financial year, the Company has paid fees of \$152,500 to an external consultant to source additional leads to fund the Company's projects.

### **Corporate secretarial and accounting**

A total of \$74,750 has been paid in fees for the nine month period ended September 30, 2011 compared to \$50,150 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.

### **General and administration**

General and administration charges were \$71,667 for the nine month period ended September 30, 2011 compared to \$69,867 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 \$191,697 for the nine month period ended September 30, 2011 compared to \$103,890 for the comparative period. Financial constraints in the prior comparative period necessitated that the investor/shareholder relations activities be curtailed to the extent possible.

### **Rent and occupancy costs**

Rent and occupancy costs increased to \$71,165 for the nine month period ended September 30, 2011 from \$42,701 for the nine month period ended September 30, 2010. Increase is result of a sub tenant vacating premises in March 2011.

### **Travel**

Travel charges were \$74,268 for the nine month period ended September 30, 2011 compared to \$23,663 for the comparative period representing an increase of 50,605 or 68%. Financial constraints in the prior comparative period necessitated that travel be curtailed to the extent possible. In the current year, the President of True North was required to travel to procure the equity financing that was completed in the second quarter. In addition, management have travelled to Greenland to facilitate the processing of the permit application and to address various other matters regarding True North's anticipated transition from a successful exploration company to being a leading producer of gem quality ruby and pink sapphire.

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## RESULTS OF OPERATIONS

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

	Three month period ended	
	September 30,	
	2011	2010
	(unaudited)	(unaudited)
<b>Expenses</b>		
Audit and related services	\$ 1,050	\$ -
Consulting fees	52,500	77,280
Corporate financial services	32,500	-
Corporate secretarial and accounting	26,000	12,500
Depreciation	3,564	3,983
Directors fees	13,500	17,609
General and administrative	22,050	24,027
Investor relations	112,882	46,757
Rent and occupancy	31,247	15,023
Salaries and employee benefits	7,072	17,363
Stock-based compensation	80,410	-
Transfer agent and filing fees	14,444	2,309
Travel	39,017	4,978
	<u>436,236</u>	<u>221,829</u>
Loss before under noted items	(436,236)	(221,829)
Expenditures on mineral properties written off	(54,318)	-
Foreign exchange gain (loss)	(2,642)	(22,721)
Gain on sale of available-for-sale-investments	-	14,794
Interest and other income	3,848	27
Loss on sale of property, plant and equipment	-	(54,837)
	<u>(489,348)</u>	<u>(284,566)</u>
Loss before future income tax recovery (expense)	(489,348)	(284,566)
Future income tax recovery (expense)	(125)	844
	<u>(489,473)</u>	<u>(283,722)</u>
Net loss for period	\$ (489,473)	\$ (283,722)
Loss per share - basic and fully diluted	\$ (0.00)	\$ (0.00)
Weighted average number of common shares	<u>176,250,742</u>	<u>114,505,816</u>

The Company had a net loss of \$489,473 for the three month period ended September 30, 2011. For the same period in the previous fiscal year, the Company had a net loss of \$283,722. The fluctuations in line item amounts are due to the same factors discussed in the 2011 year-to-date analysis.

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## CAPITAL EXPENDITURES

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

During the nine month period ended September 30, 2011, the Company spent \$2,132,825 (2010-\$367,358) on its capital spending program. Capital expenditures by project and category are as follows:

	Nine month period ended September 30	
	2011	2010
Acquisition, net of non-cash consideration of \$50,000 (2010-\$50,000)		
Greenland Property - Ruby	\$ 55,561	\$ 9,996
Exploration, net of non-cash items totalling \$118,488 (2010-\$32,787)		
Greenland Property - Ruby	2,014,666	348,194
Baffin Island Property - Sapphire	-	12,882
Other Yukon Property	416	(3,714)
	2,015,082	357,362
Plus - gemstone test marketing study	62,182	-
	2,077,264	357,362
Total capital expenditures	\$ 2,132,825	\$ 367,358

The financings completed in the last quarter of fiscal 2010 and in this quarter of fiscal 2011 have provided the available funds to advance the application process for an exploitation (mining) permit for the Aappaluttoq ruby occurrence.

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## SUMMARY OF QUARTERLY RESULTS - UNAUDITED

Quarter Ended	Net revenues	Net income (loss)*	Loss per share - basic	Loss per share - diluted	Basis of preparation
	\$'s	\$'s	\$'s	\$'s	
30-Sep-11	-	\$ (489,473)	(0.00)	(0.00)	IFRS
30-Jun-11	-	(294,258)	(0.00)	(0.00)	IFRS
31-Mar-11	-	(296,426)	(0.00)	(0.00)	IFRS
31-Dec-10	-	(2,988,628)	(0.00)	(0.00)	Canadian GAAP
30-Sep-10	-	(132,505)	(0.00)	(0.00)	IFRS
30-Jun-10	-	(91,198)	(0.00)	(0.00)	IFRS
31-Mar-10	-	(154,503)	(0.00)	(0.00)	IFRS
31-Dec-09	-	(1,277,032)	(0.01)	(0.01)	Canadian GAAP

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 and consequently, the Company believes that its loss (and consequent loss per share) is not a primary concern to investors in the Company.

## LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2011, the Company had cash of \$1,249,732 and working capital of \$1,380,229.

Cash on hand at September 30, 2011 is adequate to meet requirements for fiscal 2011 based on the Company's current budgeted expenditures for operations and exploration and development of its mineral properties. The Company will require further funds in the next twelve months for operations and for exploration and development of its mineral properties. There can be no assurances that such funds will be available and/or on terms acceptable by the Company.

### 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

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to meet its financial requirements and result in an inability to advance exploration assets and meet objectives in a timely manner.

As of September 30, 2011, the Company has no long-term debt.

The Company has only one significant contractual obligation, a lease on office space, which expires in September 30, 2013 and represents a total obligation of \$230,688 over the remaining lease term, or \$9,612 per month. This obligation and other long-term overhead items will require funding through new capital resources.

The Fiskenaasset 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 September 30, 2011, 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, 2011, the Company's exploration obligations with respect to Licence 2008/46 and Licence 2008/01 are DKK 2,188,500 (CAD \$411,000) and DKK 2,722,720 (CAD \$511,327) respectively. As at June 30, 2011, the Company has surplus exploration expenditures on Licence 2008/46 and Licence 2008/01 amounting to DKK 52,541,628 (CAD \$9,867,318) and DKK 1,576,891 (CAD \$296,140) respectively 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.

Robert Boyd is the Chairman of the Board to True North.

Nick Houghton is President and CEO and a Director of the Company. He provides services to True North through Cadium Investments Ltd.

Jacqueline M. Tucker is True North's CFO and provides services to the Company through J.M. Tucker Professional Corporation.

Jeff Giesbrecht is True North's VP Corporate Development.

Sherry Sui was appointed Corporate Secretary on September 16, 2011.

Andrew Lee Smith is not an Independent Director as he was True North's President and CEO up to February 3, 2010 and still retains executive responsibilities.

On September 16, 2011, Peter Friedmann was appointed a director to replace Martin Irving, the Board nominee for the Halman-Aldulbi Group. William Anderson, Robert Boyd, Peter Friedmann, David Parsons and John Ryder are Independent Directors of True North. During the nine month period ended September 30, 2011, \$40,500 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.

During the nine month period ended September 30, 2011, directors and officers charged \$333,750 in fees for services rendered, of which \$209,850 was charged to operations and \$83,400 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 September 30, 2011, the Company has no proposed material transactions.

## **CRITICAL ACCOUNTING ESTIMATES**

The significant accounting policies used by True North are disclosed in note 2 to the financial statements. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management reviews its estimates 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.

## **INTANGIBLE MINING ASSETS**

Exploration and evaluation costs related to an area of interest are carried forward as an intangible asset in the balance sheet where the rights to tenure of an area of interest are current and its expected expenditure will be recovered through the successful development and exploration of the area of interest or alternatively by its sale. Where these conditions are not met, such costs are written off as incurred. The expenditure is carried at cost less impairment. Intangible mining assets are assumed to have an indefinite life until such time as production of the associated mining asset commences at which time the definite life of the of the mining assets will be assessed based on the estimated mine life.

Development expenditure incurred by or on behalf of the Company or acquired from a third party is also classified as an intangible asset and is accumulated separately for each area of interest in which economically recoverable resources have been identified. Such expenditure comprises acquisition cost and other costs directly attributable to the construction of a mine and the related infrastructure. This expenditure is carried at costs less impairment.

Exploration, evaluation and development costs are under intangible assets in the Consolidated Statement of Financial Position. Exploration, evaluation and development costs include all directly attributable expenditure together with the relevant depreciation of property equipment utilized within the project.

Once a development decision has been made, the carrying amount of the exploration, evaluation and development expenditure in respect of the area of interest is aggregated with the development expenditure and classified under non-current assets as “mining property”.

No amortization is recognized in respect of exploration, evaluation and development expenditures until it is reclassified as a mining property.

Exploration, evaluation and development expenditure and mining property are tested annually for impairment if facts and circumstances indicate that impairment may exist. Exploration, evaluation and development expenditure is also tested for impairment once commercial reserves are found, before the assets are transferred to mining property.

## **RECLAMATION COSTS**

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 reclamation is determined on an annual basis.

## **STOCK-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

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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 loans and receivables and investments as available-for-sale. Accounts receivable are classified as loans and receivables. Accounts payable, accrued charges and loans payable are classified as other liabilities. At September 30, 2011 and 2010, 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.

## **NEW ACCOUNTING STANDARDS**

### **INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)**

Effective January 1, 2011, Canadian publicly traded entities were required to prepare their financial statements in accordance with IFRS. Due to the requirement to present comparative financial information, the effective transition date was January 1, 2010. The three month period ended March 31, 2011 was the Company’s first reporting period under IFRS and this is the second reporting period prepared on this basis.

## **OTHER MD&A REQUIREMENTS**

### **ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE**

Refer to the interim financial statements for capitalized or expensed exploration and development costs, general and administration expenses and other material costs.

## **OUTSTANDING SHARE DATA**

At September 30, 2011, True North had 191,163,170 common shares, 48,164,898 warrants and 15,505,000 options issued and outstanding.

As at the date of this report, True North had 191,454,170 common shares, 47,873,898 warrants and 15,505,000 options issued and outstanding.

## **RISK FACTORS**

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.

## **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.*