TRUE NØRTH GEMS

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED

DECEMBER 31, 2011

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 18, 2012 and should be read in conjunction the audited consolidated financial statements for the year ended December 31, 2011 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.

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 18 to the audited 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 revised application and revised draft EIA were filed in August 2011and 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. Discussions have been ongoing with the Government of Greenland regarding the final form of the SIA and EIA and, 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)

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 completed in 2011 was in support of the exploitation (mining) permit for the Aappaluttoq Prospect. This included further work on the EIA and SIA in advance of the public hearing phase of the application. Engineering work continued throughout 2011, in particular, the processing of material obtained from the 2008 bulk sampling was advanced at SGS Lakefield Research Limited. This has led to an improved processing flow-sheet for the mine-site and a better understanding of the ore properties. Regional geological work was undertaken on Greenland during June and August, 2011 with the objective of improving the Company's understanding of the relationship between the nearby corundum showings and the Aappaluttoq deposit itself.

Outlook for 2012

The Company's efforts in 2012 will be 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. Test work at SGS Lakefield has demonstrated that the addition of a dense media separation circuit will improve the efficiency of the processing plant and, together with optic sorting test work done in December 2011, the processing flowsheet has been upgraded. Further engineering is planned for the first half of 2012, with sourcing and preliminary construction logistics planned for the second half of 2012.

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.

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. The agreement remains in good standing.

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 was the minimum required to maintain claims in good standing for a year. This work included regional scale geological mapping and rock chip sampling for QA/QC purposes.

TRUE BLUE PROJECT– YUKON, CANADA

The property comprises 94 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.

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. To December 31, 2011, the Company incurred $88,443 in costs relating to reclamation; primarily related to engaging EBA Engineering of Whitehorse, Yukon to prepare a report on what was required for restoration of the site. As a result of their report, the Company has increased the reclamation provision for site restoration to $825,000 at December 31, 2011. Based on their recommendations, 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.

SELECTED ANNUAL INFORMATION

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

Selected Annual Consolidated Financial Information
(Expressed in Canadian Dollars)

	2011 $	2010 $	2009 $
Revenues	-	-	-
Net loss	(1,864,024)	(3,594,284)	(2,352,417)
Net loss per share - basic and diluted	(0.01)	(0.03)	(0.03)
Cash dividends	-	-	-
Total assets	22,038,415	20,162,776	20,299,821
Long term liabilities	763,395	734,661	505,055
Shareholders' equity	20,701,337	19,232,437	19,029,787
Share capital	38,237,808	35,486,222	33,307,080
Warrants	1,481,670	1,848,807	1,229,757
Contributed surplus	5,030,140	4,074,226	3,091,453
Deficit	(24,056,811)	(22,192,787)	(18,598,503)
Accumulated other comprehensive income	8,531	15,969	-

FINANCIAL POSITION

As at December 31, 2011, the Company had current assets of $862,090 and current liabilities of $573,683 compared to current assets of $1,694,760 and current liabilities of $195,678 as at December 31, 2010. At December 31, 2011, the Company had working capital of $288,407 compared to a working capital of $1,499,082 at December 31, 2010.

The Company had cash and cash equivalents of $677,663 at December 31, 2011 compared to $1,195,493 at December 31, 2010. During the year ended December 31, 2011, the Company recorded cash outflows of $1,029,751 compared to cash outflows of $1,382,435 in the comparable period of 2010.

Cash used in investing activities during the year ended December 31, 2011 includes $2,615,838 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 $43,496. Additionally, True North spent $32,519 on equipment and incurred $88,443 in expenditures relating to reclamation of the Tsa da Glisza site.

Capital (share capital and warrants) as at December 31, 2011 was $39,719,477 compared to $37,335,029 as at December 31, 2010. During the year ended December 31, 2011, True North raised additional capital of $3,382,600 from the issue of 33,826,000 shares and 16,913,000 warrants. Finder's fees of $245,030 were paid and 2,490,300 finder's warrants were issued. The capital raising costs for this placement amounted to $403,656 (shares - $345,692/warrants -$58,269). 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 977,758 warrants were exercised for proceeds of $97,776. In the current year, the Company issued 1,100,000 stock options with a fair value of $73,580.

RESULTS OF OPERATIONS

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

	Twelve month period ended December 31, 2011	Twelve month period ended December 31, 2010
Operating expenses		
Audit and related services	$ 43,634	$ 32,028
Consulting fees	248,000	235,396
Corporate financial services	175,000	30,000
Corporate secretarial and accounting	109,185	75,150
Depreciation	13,810	16,127
Directors fees	54,000	53,109
Exploration and evaluation expenditures	50,214	1,265
Farm-out receipts	-	(102,830)
Foreign exchange loss (gain)	24,865	(9,083)
General and administrative	99,361	105,988
Investor relations	253,515	95,464
Legal fees	3,043	6,233
Loss on sale of property, plant and equipment	-	54,837
Reclamation	463,482	27,107
Rent and occupancy	111,440	60,783
Salaries and employee benefits	38,165	70,091
Share-based compensation	53,513	418,952
Transfer agent and filing fees	45,115	25,395
Travel	87,940	25,696
Write off of exploration and evaluation expenditures	-	2,351,012
Write off of property, plant and equipment	-	30,578
Operating loss	(1,874,282)	(3,603,298)
Other income (expense)		
Gain (loss) on sale of available-for-sale-investments	-	14,794
Interest and other income	11,321	(275)
Interest on loans	-	(7,787)
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Loss before income taxes	(1,862,961)	(3,596,566)
Deferred income tax recovery (expense)	(1,063)	2,282
Net loss for period	$ (1,864,024)	$ (3,594,284)
Loss per share - basic and fully diluted	$ (0.01)	$ (0.03)
Weighted average number of common shares -basic and fully diluted	180,066,097	123,508,005

NET LOSS

The net loss for the year ended December 31, 2011 amounted to $1,864,024 compared to a net loss for year ended December 31, 2010 of $3,594,284 representing a decrease in net loss of $1,730,260. Included in the current year's results is interest income of $11,321.

Operating expenses
For the year ended December 31, 2011, total operating expenses were $1,874,282 compared to $3,603,297 recorded during the same period in 2010 representing an decrease of $1,729,015 or 48%. Included in operating expenses is a charge of $53,513 (2010 - $418,952) for share-based compensation. After adjustment for share-based compensation, operating expenses totalled $1,820,769 for the year ended December 31, 2010 compared to $3,184,345 for the year ended December 31, 2010 representing a decrease of $1,363,576. Included in the operating expenses are expenditures of $50,214 (2010-$1,265) on the Tsa Glisza property that had been written down to a nominal value of $1 in the fiscal 2009, farm out receipts of 102,830 received from GWMG in fiscal 2010 representing the excess of the proceeds received totalling $114,500 over cumulative deferred exploration expenditures that had been capitalized ($11,670) on the True Blue Project and a write down of mineral properties and write off of property, plant and equipment of $2,381,590 in fiscal 2010. Management reviewed the carrying value of each of its properties and determined that the Baffin Island property should be written down to its fair value (estimated recoverable amount) of $909,838. Additionally in fiscal 2010, the Company sold a modular camp that resulted in a loss on sale of $54,837.

Significant factors that contributed to the variances are discussed below.

Consulting fees
For the year ended December 31, 2011, expenses charged to consulting fees were $248,000 compared to consulting fees for the year ended December 31, 2010 of $235,396.

Corporate financial services
In the current financial year, the Company has paid fees of $175,000 (2010-$30,000). 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 $109,185 has been paid in fees for the year ended December 31, 2011 compared to $75,150 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.

Directors' fees
Independent directors are paid fees on a quarterly basis to compensate them for their time invested in fulfilling their duties. Fees paid in the current financial year ended December 31, 2011 totalled $54,000 compared to $53,109 for prior comparative period.

General and administration
General and administration charges were $99,361 for the year ended December 31, 2011 compared to $105,998 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 $253,515 for the year ended December 31, 2011 compared to $95,464 for the comparative period. An active investor relation program was launched in the current year 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. Financial constraints in

the prior comparative period necessitated that the investor/shareholder relations activities be curtailed to the extent possible.

Reclamation
The amounts charged in 2011 of $463,482 (2010-$27,107) represent the change to the reclamation provision for Baffin Island Property and Tsa da Glizsa.

Rent and occupancy
Rent and occupancy increased to $111,440 for the year ended December 31, 2011 from $60,783 for the year ended December 31, 2010. Increase is a result of two sub tenants vacating premises during 2011; resulting, in True North paying 100% of the rental costs for a portion of the year.

Share –based compensation
Share-based compensation expense for the year ended December 31, 2011 totalled 53,513 decreased from increased to $418,952 for the year ended December 31, 2010. There was a decrease in number of options granted (2011-1,100,000 options/2010-7,200,000 options) but there was no significant changes in assumptions used in valuing the options using the Black-Scholes valuation model.

Travel
Travel charges were $87,940 for the year ended December 32, 2011 compared to $25,696 for the comparative period representing an increase of $62,244 or 71%. 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.

RESULTS OF OPERATIONS

	Three month period ended December 31, 2011 (unaudited)	Three month period ended December 31, 2010 (unaudited)
Operating expenses		
Audit and related services	$ 37,000	$ 30,000
Consulting fees	90,500	53,116
Corporate financial services	22,500	30,000
Corporate secretarial and accounting	34,435	25,000
Depreciation	3,641	4,223
Directors fees	13,500	13,500
Exploration and evaluation expenditures	(14,318)	1,265
Foreign exchange loss (gain)	4,686	8,598
General and administrative	27,699	36,121
Investor relations	61,818	(8,426)
Legal fees	1,369	1,878
Reclamation	463,482	27,107
Rent and occupancy	40,275	18,082
Salaries and employee benefits	610	15,117
Share-based compensation	(26,897)	417,023
Transfer agent and filing fees	12,952	2,389
Travel	13,672	2,033
Write off of exploration and evaluation expenditures	-	2,351,012
Write off of property, plant and equipment	-	30,578
Operating loss	(786,924)	(3,058,616)
Other income (expense)		
Interest and other income	4,743	104
Interest on loans	-	(7,787)
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Loss before income taxes	(782,181)	(3,066,299)
Deferred income tax recovery (expense)	(1,688)	1,438
Net loss for period	$ (783,868)	$ (3,064,861)
Loss per share - basic and fully diluted	$ (0.00)	$ (0.02)
Weighted average number of common shares -basic and fully diluted	191,387,746	150,164,085

The Company had a net loss of $783,868 for the three month period ended December 31, 2011. For the same period in the previous fiscal year, the Company had a net loss of $3,064,861. The fluctuations in line item amounts are due to the same factors discussed in the 2011 annual analysis.

CAPITAL EXPENDITURES

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

During the twelve month period ended December 31, 2011, the Company spent $2,615,837 (2010-$649,959) on its capital spending program. Capital expenditures by project and category are as follows:

	Twelve month period ended December 31 2011	2010
Acquisition, net of non-cash consideration of $50,000 (2010-$50,000)		
Greenland Property - Ruby	$ 142,961	$ 20,360
Exploration, net of non-cash items totalling $141,737 (2010-$490,775)		
Greenland Property - Ruby	2,383,020	555,582
Baffin Island Property - Sapphire	-	4,354
Other Yukon Property	14,336	(4,857)
	2,397,356	555,079
Plus - gemstone test marketing study	75,521	74,520
	2,472,876	629,599
Total capital expenditures	$ 2,615,837	$ 649,959

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

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	
31-Dec-11	-	$ (783,868)	(0.00)	(0.00)	IFRS
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	-	(3,064,861)	(0.00)	(0.00)	IFRS
30-Sep-10	-	(283,722)	(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

* 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 December 31, 2011, the Company had cash and cash equivalents (collectively referred to as “cash”) of $677,663 and working capital of $288,407.

Cash on hand at December 31, 2011 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. Based on the financial position at December 31, 2011, available funds are not considered adequate to meet requirements for fiscal 2012 based on budgeted expenditures for operations and project exploration and investigation. To meet working capital requirements, the Company will have to access financial resources through equity placements. 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 December 31, 2011, the Company has no long-term debt.

As of December 31, 2011, the Company had one significant contractual obligation, a lease on office space, which expires in September 30, 2013 and represents a total obligation of $201,852 over the remaining lease term, or $9,612 per month. Subsequent to December 31, 2011, the Company entered into an agreement with its landlord whereby the parties agreed that the lease would be surrendered effective January 26, 2012 upon payment of fee totalling approximately $31,000.

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

As of December 31, 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, 2012, the Company's exploration obligation with respect to Licence 2008/46 is DKK 2,231,900 (CAD $396,162). As at December 31, 2011, the Company has surplus exploration expenditures on Licence 2008/46 amounting to DKK 65,999,956 (CAD $11,714,992) 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$493,887). As at December 31, 2011, the Company has surplus exploration expenditures on Licence 2008/01 of DKK858,205 (CAD$152,331), which is subject to confirmation by the BMP.

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.

Bent Olsvig Jensen was appointed the Managing Director of the Company's wholly-owned subsidiary, True North Gems A/S in the current year. Mr. Jensen received share-based compensation of $13,378 concurrent with his appointment.

Sherry Sui was appointed Corporate Secretary in September 2011. Ms. Sui received share-based compensation of $6,689 concurrent with her appointment.

In September 2011, Peter Friedmann was appointed a director to replace Martin Irving, the Board nominee for the Halman-Aldulbi Group. Mr. Friedmann received share-based compensation of $13,378 concurrent with his appointment. William Anderson,

Robert Boyd, Peter Friedmann, David Parsons and John Ryder are Independent Directors of True North. During the year ended December 31, 2011, $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.

During the year ended December 31, 2011, directors and officers charged $476,665 in fees for services rendered, of which $349,850 was charged to operations and $126,815 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 December 31, 2011, the Company has no proposed material transactions.

CRITICAL ACCOUNTING ESTIMATES

The significant accounting policies used by True North are disclosed in note 3 to the financial statements. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management reviews its estimates 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 December 31, 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 first annual financial statement prepared on this basis. An explanation of how the transition from previous Canadian GAAP to IFRS has affected the Company’s financial position, financial performance and cash flows is presented in note 18 of the audited consolidated financial statements for the years ended December 31, 2011 and 2010.

Adoption of new and revised standards and interpretations

The IASB has issued the following statements, which have not yet been adopted by Company. Unless otherwise stated, each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet assessed the impact that the new and amended standards will have on its consolidated financial statements or whether to early adopt any of the new requirements.

The following is a brief summary of the new standards.

IFRS 9 – Financial instruments - classification and measurement

IASB intends to replace IAS 39 - *Financial Instruments: Recognition and Measurement* ("IAS 39") in its entirety with IFRS 9 - *Financial Instruments* ("IFRS 9") in three main phases. IFRS 9 will be the new standard for the financial reporting of financial instruments, and is effective for annual periods beginning on or after January 1, 2015, with earlier adoption permitted. In November 2009 and October 2010, IFRS 9 (2009) and IFRS 9 (2010) were issued, respectively, which address the classification and measurement of financial assets and financial liabilities. IFRS 9 (2009) requires that all financial assets be classified as subsequently measured at amortized cost or at fair value based on the Company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. IFRS 9 (2010) requires that financial liabilities are classified as subsequently measured at amortized cost except for financial liabilities classified as fair value through profit or loss, financial guarantees and certain other exceptions. IFRS 9 (2009) and IFRS 9 (2010) are effective for annual periods beginning on or after January 1, 2015. Early adoption is permitted and the standard is required to be applied retrospectively.

IFRS 10 – Consolidated Financial Statements

IFRS 10 requires that a reporting entity should consolidate any investee it controls. Control is the basis for consolidation for all types of investees. IFRS 10 also provides guidance on assessing control in circumstances where the assessment has proven to be difficult. IFRS 10 provides more guidance about the factors to consider in such structures that involve potential voting rights, agency relationships, relationships with structured entities and control without a majority of voting rights. The Company's consolidation with its current subsidiary and related consolidation decisions should be unaffected by the new consolidation model in IFRS 10.

IFRS 11 – Joint Arrangements

The IASB issued IFRS 11 – *Joint Arrangements* on May 12, 2011. IFRS 11 eliminates the Company's choice to proportionately consolidate jointly controlled entities and requires such entities to be accounted for using the equity method and proposes to establish a principles-based approach to the accounting for joint arrangements, which focuses on the nature, extent and financial effects of the activities that an entity carries out through joint arrangements and its contractual rights and obligations to assets and liabilities, respectively, of the joint arrangements. The Company does not anticipate this amendment will have a significant impact on its consolidated financial statements.

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12 sets out disclosure requirements for reporting entities that have an interest in a subsidiary, joint arrangement, associate or unconsolidated structured entity. There are no additional interests or disclosures required.

IFRS 13 – Fair Value Measurements

IFRS 13 – *Fair Value Measurements* is effective for annual periods beginning on or after January1, 2013, with earlier adoption permitted and sets out in a single IFRS framework for measuring fair value and new required disclosures about the fair value measurements. Management anticipates that this standard will be adopted in the Company's consolidated financial statements for the period beginning January 1, 2013 and has not yet considered the potential impact of the adoption of IFRS 13.

Amendments to other standards

In addition, there have been amendments to existing standards, including IAS 27, Separate Financial Statements (IAS 27) and IAS 28, Investments in Associates and Joint Ventures (IAS 28). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS, as addressed above.

INTERNAL CONTROL OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS AND PROCEDURES

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

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

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

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

ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE

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

OUTSTANDING SHARE DATA

At December 31, 2011, True North had 191,454,170 common shares, 42,671,158 warrants and 15,505,000 options issued and outstanding.

As at the date of this report, True North had 191,454,170 common shares, 42,671,158 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 $667,663 and $538,407 at December 31. 2011. Based on current budgeted expenditures for operations and exploration, cash on hand at December 31, 2011 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.

A discussion of risk factors particular to the financial instruments is presented in note 17 of the audited consolidated financial statements for the years ended December 31, 2011 and 2010.

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.*