

# TRUE NORTH GEMS

## MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE NINE MONTH PERIOD ENDED  
SEPTEMBER 30, 2008  
(Q3)

# 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 26, 2008 and should be read in conjunction with unaudited interim consolidated financial statements for the nine month period ended September 30, 2008, the audited financial statements for the year ended December 31, 2007 and the related notes thereto, which have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), as well as the Company's December 31, 2007 Annual MD&A. All dollar amounts referred to in this discussion and analysis are expressed in Canadian dollars except where indicated otherwise.

## **Introduction**

True North is a Canadian junior resource company focused on the exploration and development of North American coloured gemstone deposits. True North's principal assets consist of advanced and early stage exploration properties.

Through the accumulation of a diversified gemstone property portfolio, True North has made significant advances toward the Company's objective to become a diversified, vertically integrated, coloured gemstone company focused on the exploration and development of Arctic coloured gemstone deposits and value-added manufacturing from wholly owned and operated mining operations.

Since 2007, the Company's exploration focus has been on the Fiskenaesset Ruby Project in Greenland where successful bulk sampling has indicated the potential for a commercial ruby and pink sapphire deposit.

## **Overall Performance**

During the current financial year to date, True North

- Raised \$1,965,070 from equity financings completed;
- Obtained approval for the five year extension of Greenland ruby exploration license;
- Drilling was completed this past field season in Greenland and extended known ruby and pink sapphire mineralization and intersected new intervals of high grade mineralization;
- Obtained approval to permit extraction of up to 250 tonnes from the Aappaluttoq ruby occurrence;
- During the 2008 field season collected approximately 140 tonne bulk sample from the Aappaluttoq ruby occurrence;
- Completed independent market price valuations on a representative 1/8 parcel of "polished" ruby and pink sapphire from the 2006 Greenland bulk sample indicating an average value of US\$ 23.60 per carat associated with an average "cut and polished grade" of 1,393 carats per tonne;
- Completed independent valuations on a different representative 1/8 parcel of clean "rough" ruby and pink sapphire from the 2006 Greenland bulk sample indicating an average value of US\$ 514.40 per kilogram associated with an average "rough grade" of 2.16 kilograms per tonne;
- Successfully exported the Fiskenaesset ruby concentrates recovered primarily from the 2007 samples;
- Completed the processing and concentration of ruby and pink sapphire from the 2007 bulk samples;
- Developed process flowsheet for successful recovery of ruby and pink sapphire from drill core samples;
- Obtained approval for transfer of Fiskenaesset license from the original vendor to True North;
- Staked six additional claims at Beluga Sapphire prospect, Baffin island;
- Identified new discoveries of sapphire during the Beluga and Crooks Inlet sapphire programs;
- Reorganized its executive appointing Boyd Chairman and Smith President and Chief Executive Officer; and,
- Appointed G. Pearson to Advisory Board.

## **Corporate**

On February 29, 2008, the Company announced a reorganization of its executive with Robert Boyd being appointed Chairman of the Board, and Andrew Lee Smith assuming the role of President and Chief Executive Officer. Greg Fekete continues as a Director but relinquished the role of President and assumed the new executive role of Corporate Secretary.

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## **Fiskenaesset Ruby Project, Greenland**

During the quarter ended September 30, 2008, True North's exploration crew, under the supervision of Greg Davison, P. Geo, Project Manager and Vice President Exploration for the Company, was engaged in its exploration/pre-feasibility program on its 823-square-kilometre Fiskenaesset ruby project, located on the southwest coast of Greenland.

The two principal objectives of the 2008 exploration program are to enhance the successful results achieved during 2004 to 2007 through advanced exploration and pre-feasibility-related studies at the Aappaluttoq prospect and to continue with regional and prospect-scale exploration on the other ruby occurrences identified to date on the Greenland properties.

The planned exploration and prefeasibility program at Aappaluttoq included an engineering study to address issues of resource determination, site pre-engineering, mine plan design, process plant design, initial permitting, environmental and socio-economic planning and development. Also, additional bulk sampling, grade confirmation drilling and pilot processing of ruby mineralization from Aappaluttoq were planned. Challenges in accessing the capital required to complete the program, as planned, required adjustments to the field work, however, considerable progress on each of the principal objectives was achieved.

The 2008 work program began on May 30<sup>th</sup> with the arrival of advance field personnel and equipment at the site. The exploration camp was closed for winter on September 29<sup>th</sup>.

The Company's operating policy is to hire and train, as required, from the local communities, where capacity is available. During the past four field seasons, True North has hired and trained between ten to twenty five persons per season from the local Greenland communities of Fiskenaesset, Nuuk and Qaqortoq. Additionally, contracts for environmental, consulting, expediting logistics, transportation, consumables and equipment have utilized Greenlandic companies, subsidiaries and individuals, wherever possible. The Company follows strictly enforced guidelines and policies for health and safety, drugs and alcohol, weapons and prohibited devices, security, corporate property, confidentiality and a respectful workplace environment. True North believes in a safety first approach with its exploration programs. Town hall presentations were given in Fiskenaesset and Nuuk supplemented by regular meetings with the local municipality and Greenland government through the Bureau of Mines and Petroleum (BMP). The Company also participated with Thai and Danish gemstone specialists, during three days of educational seminars to members of the BMP, police and Greenland customs services in Nuuk.

The 2008 field work focused on drilling and bulk sampling at Aappaluttoq. Stripping of the Aappaluttoq occurrence and bulk sampling of the ruby-bearing overburden, was followed by blasting of the principal surface occurrence along strike from the 2005-2007 samples. More than 125 tonnes were removed from the bedrock at Aappaluttoq. In all, more than 175 tonnes of rock and soil were packaged for pending shipment to Canada for processing via multiple stage crushing, dense media separation, magnetic separation and optical sorting. The stripping and blasting clearly indicated the continuity of mineralization for more than 40 metres, in multiple bands, and contained lenses of large pink sapphire and ruby crystals.

On August 20, 2008, True North Gems announced the results of drilling to extend and define the known ruby and pink sapphire mineralization at Aappaluttoq. A total of 1,834.8 metres were drilled in 19 drill holes to a maximum depth of 176.8 metres. This program was implemented to test an area of the host zone to the north and west of previous drilling, and to the east along the projected strike of the Aappaluttoq Deep zone (Aappaluttoq Itisooq). Fourteen of these drill holes contain significant intersections of ruby and pink sapphire. In addition, all of the eight holes targeted to intersect the Aappaluttoq Deep zone were successful in identifying multiple significant intersections with concentrations and confirming the continuity of ruby and pink sapphire mineralization.

Of particular note, to date, ruby and pink sapphire has been identified in forty-five of the sixty-five holes (6,850 metres) drilled into and peripheral to the Aappaluttoq occurrence, including thirty-one holes completed during the 2007 and 2008 program. Ruby and pink sapphire, identified in core logging of these drill holes, occurred at intervals that varied from less than 1 to 12 metres in thickness and at down hole depths from 1.2 metres to 152.5 metres. Individual crystals, visible to initial core logging, ranged in size from less than 1 mm to 45 mm in size and comprised from less than 0.5 percent to more than 25 percent of ruby and sapphire by rock volume within these intervals. Coarse euhedral crystals

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commonly exhibited red to pink cores with rims of labradorite-anorthite feldspar, and occurred in massive aggregates to more than 11 centimetres along the core axis.

The Aappaluttoq mineralization has been identified over a 135 metre strike length and the Deep Zone exhibited continuity over an 85 metre strike, and in the recent drilling, the Deep Zone mineralization has been shown to continue to vertical depths of 70-143 metres below surface. Both zones remain open along strike and to depth. The identification of the previously unrecognized Aappaluttoq Deep mineralization contributes to a significant potential increase in target dimensions based on the strength and thickness of the mineralized intervals.

A Preliminary Economic Assessment Report (PEAR) is being prepared by an independent firm, Wardrop Engineering of Vancouver, Canada and London, UK. Geological and block modeling using GEMCOM software, resource classification and determination of a resource estimate are in progress with the 43-101 report expected in the fourth quarter of 2008.

Quantitative determination of ruby and pink sapphire contents from the 2007 drill core samples was nearing completion by the Saskatchewan Research Council (SRC) as of September 30<sup>th</sup>. Core sampling protocols developed in co-operation with Wardrop Engineering, called for whole core intervals to maximize the potential recovery of contained corundum and to minimize, in relative terms, the skewing effects of coarse-grained mineralization. The available results from these 46 drill holes and the 2008 drill logs (19 holes) were submitted to Wardrop Engineering for the resource modeling of the Aappaluttoq occurrence. To date, analytical data from the 2007 drill core samples exhibited numerous intervals with recoverable ruby and pink sapphire, and showed marked consistency with intervals containing visible mineralization identified during logging. Several samples peripheral to known mineralized zones also returned minor to significant quantities of corundum as ruby and pink sapphire. Quantitative determinations ranged from <100 grams per tonne to >20,000 grams per tonne with grades based only on those samples actually processed and with individual corundum grains physically separated from the concentrates. From 429 samples, to date, more than 150 contained measurable ruby and pink sapphire. The detailed results of the 2007 core are pending further review of the concentrates expected from SRC in December 2008.

In 2008, the Phase II environmental program was initiated using Ramboll Denmark, as subcontractor and operator. Work includes regional background water sampling for heavy metal chemistry, coastal marine and terrestrial surveys of biological parameters with collection of fish, mussels, algae, and lichen for chemical analysis. In addition, detailed water balance measurements, water quality profiling, water chemistry and biological sampling of fish and plankton were expanded in the lake adjacent to the Aappaluttoq occurrence, the principal focus of advanced exploration. The analytical data are pending.

As the key pre-requisite to an application for an exploitation license for the Aappaluttoq site, a proposal for environmental and socio-economic impact assessment (ESIA) for the Fiskenaasset project and specifically the Aappaluttoq development was received a Danish contractor. The exact content of the baseline study remains to be determined but is expected to be finalized in the fourth quarter of 2008.

Preliminary site visits by MTHojgaard (MTH) have been completed with a view to preparation of a proposal for mine planning and feasibility study, and with Dowding Reynard and Associates (DRAA) for processing plant design and construction, in parallel with the proposed EIA/SIA documentation. Conceptual engineering including preliminary site layout, generic mine plan, and schematic process flowsheet and unit equipment plant design, were prepared by the Company in consultation with the engineering groups, as a precursor to independent studies.

Additionally, in terms of quality control and quality assurance (QC/QA) all of the gemstone exploration, processing, sorting and cutting operations will be closely monitored by True North and the independent qualified persons of Wardrop Engineering, an internationally recognized consulting firm, and documented by a quarterly report to the BMP, using a format approved by the BMP.

In anticipation of environmental review meetings in Copenhagen in the fourth quarter of 2008, a report has been initiated summarizing the project history, including exploration, environmental baseline studies, bulk sample processing, extraction and recovery of ruby and pink sapphire, cutting and manufacturing tests, and valuation exercises leading to proposed pre-production scenario whereby conceptual mine planning and design efforts are provided with a view to National Environmental Research Institute (NERI) and Bureau of Mines and Petroleum (BMP) approval of an

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independent environmental impact assessment (EIA) and socio-economic impact assessment (SIA) program to be carried out immediately upon program approvals and appropriate levels of project financing.

The 2008 field work also included detailed mapping of the property geology and the principal occurrences of the main block of the Fiskenaasset license, creek and lake sediment geochemistry with heavy mineral concentrate analysis, and reconnaissance mapping and prospecting of priority geological targets on the adjacent Qaqqatsiaq license, held 100% by the Company. Mapping and prospecting successfully delineated and extended several of the known ruby and pink sapphire occurrences, including Siggartartulik and Kangarsuk, and identified a number of prospective targets in intervening areas near Pupiq and Laks Elv, located west and southwest of Siggartartulik. The regional program identified new discoveries of ruby and pink sapphire within the Qaqqatsiaq license including several locations over a 2 kilometre strike northeast of the Ruby Island Line.

Additional results from the 2008 exploration program are expected to be released during the fourth quarter of 2008.

## **Beluga Sapphire Project – Baffin Island, Canada**

During the quarter ended September 30, 2008, True North carried out exploration at its wholly owned Beluga Sapphire property and its Crooks Inlet prospecting permits.

The 2008 Beluga exploration program comprised mainly of regional and detailed geological mapping, ultraviolet light 'night' prospecting, geochemical sampling and blast-assisted mini-bulk sampling. The purpose of the program was to provide a geological assessment of the Beluga property over the entire ten claims sufficient to complete the geology mapping. The mapping program was completed with the identification of several new sapphire showings, including new showings on the recently acquired claims. Some mini-bulk sampling was completed on promising targets located primarily along the principal strike of the Beluga occurrence.

Exploration on eight prospecting permits, located at Crooks Inlet, west of the Beluga claims, was conducted by a team of geologists and local prospectors and included reconnaissance mapping, daylight and ultraviolet light prospecting, and litho-geochemical sampling of rocks and heavy minerals. The preliminary exploration program identified sapphires located in rocks similar to those of the Beluga area. Samples were collected for comparative analysis.

Processing of the remainder of the 2005, 2006 and 2007 mini-bulk samples (22 tonnes) was completed at SGS Minerals Services and the final concentrates will be shipped to the Company's office in November for sapphire analysis. Sorting of concentrates from the second split of the 2005 bulk sample (45 tonnes) was completed though optical sorting remains to be carried out on fine sapphire concentrate. The 2008 mini-bulk samples were forwarded to SGS by container ship from Kimmirut, Baffin Island, in late September.

The results of the ongoing exploration program at Beluga are expected to be released in the fourth quarter of 2008.

## **Tsa da Glisza Emerald Project – Yukon, Canada**

Due to the Company's focus of its resources on the Fiskenaasset Ruby and Beluga Sapphire projects no exploration was conducted at the Tsa da Glisza Emerald property in 2008.

The Company continues to assess the potential of the Tsa da Glisza Emerald property through internal review.

## **Bandito Project – Yukon, Canada**

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

Due to the Company's focus of its resources on the Fiskenaasset Ruby and Beluga Sapphire projects no exploration

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was conducted at the Bandito property in 2008.

The Company has received several expressions of interest from potential joint venture partners for the Bandito project, though no agreements are forthcoming from those companies. The Company continues to seek option and/or sale agreements for this project.

## **Batea Project– Yukon, Canada**

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

Due to the Company's mandate to focus all of its resources on the Fiskenaasset Ruby and Beluga Sapphire projects, only a limited exploration program was planned for the Batea property in 2008. McPhar Geophysics was contracted to carry out a helicopter-based airborne geophysical survey (EM, magnetic and radiometric components) over the entire property (52 Batea claims and 4 Aurora claims). Due to scheduling and equipment constraints of the contractor, the survey was deferred to the 2009 operating season.

The Company continues to assess the polymetallic potential of the Batea prospect and intends to seek option and/or sale agreements for this project.

## **FINANCIAL POSITION**

As at September 30, 2008, the Company had current assets of \$436,521 and current liabilities of \$1,708,221 compared to current assets of \$4,818,449 and current liabilities of \$634,009 as at December 31, 2007. At September 30, 2008, the Company had a working capital deficit of \$1,271,700 compared to working capital of \$4,184,440 at December 31, 2007.

Capital (share capital and warrants) as at September 30, 2008 was \$31,136,618 compared to \$30,519,355 as at December 31, 2007. During the nine month period ended September 30, 2008, True North raised additional capital of \$1,002,900 from the issue of 3,343,000 shares and 1,671,500 warrants. The agent's were issued 205,765 units and 234,010 warrants. The capital raising costs for these placements amounted to \$178,524 (shares - \$157,517/warrants -\$21,007). In addition, the Company issued 121,506 shares to satisfy its obligation pursuant to the terms of the Option Agreement on the Greenland property and 3,912,834 warrants expired resulting in the fair value of these instruments of \$346,770 being credited to contributed surplus.

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## RESULTS OF OPERATIONS

	Three month period ended September 30,		Nine month period ended September 30,	
	2008	2007	2008	2007
<b>Expenses</b>				
Amortization	\$ 10,849	\$ 10,225	\$ 31,037	\$ 29,449
Audit and related services	400	-	2,141	8,867
Consulting and corporate development fees	152,840	30,025	332,331	139,020
Conventions and trade shows	9,488	6,950	110,990	63,168
Corporate secretarial and accounting fees	24,144	20,175	71,819	81,325
Corporate financial services fees	-	-	-	71,995
Directors fees	9,000	-	27,000	92,500
General and administrative	40,349	30,787	115,902	96,598
Investor/shareholder relations	37,695	100,351	171,592	232,543
Legal fees	1,093	5,957	14,009	15,703
Rent and occupancy costs	18,618	9,985	45,227	28,900
Salaries and employee benefits	21,658	20,472	71,145	70,972
Stock-based compensation	-	-	194,647	-
Transfer agent and filing fees	4,626	3,014	25,304	22,421
Travel	19,093	16,680	89,870	44,137
	<u>349,853</u>	<u>254,621</u>	<u>1,303,014</u>	<u>997,598</u>
Loss before under noted items	(349,853)	(254,621)	(1,303,014)	(997,598)
Foreign exchange gain (loss)	(25,502)	29,734	(48,015)	5,867
Gain (loss) on sale of available-for-sale investments	(12,288)	(9,815)	(12,288)	26,785
Interest income	2,077	29,997	75,658	82,982
Net loss for period	<u>\$ (385,566)</u>	<u>\$ (204,705)</u>	<u>\$ (1,287,659)</u>	<u>\$ (881,964)</u>

### Net loss

The net loss for the quarter ended September 30, 2008 was \$385,566 or \$.01 per share compared to \$204,705 or \$.00 per share for the quarter ended September 30, 2007 representing an increase of \$180,861. Included in the current quarter results are a foreign exchange loss of \$25,502, loss on sale of available-for-sale investments of \$12,288 and interest income of \$2,077 from surplus funds on hand invested in short term deposits.

The net loss for the nine month period ended September 30, 2008 amounted to \$1,287,659 or \$0.02 per share compared to a net loss for the nine month period ended September 30, 2007 of \$881,964 or \$0.02 per share. Included in results for the nine month period ended September 30, 2008 are a foreign exchange loss of \$48,015, loss on sale of available-for-sale investments of \$12,288 and interest earned on surplus funds on hand of \$75,658.

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## **Expenses**

For the quarter ended September 30, 2008, total expenses were \$349,853 compared to \$254,621 recorded during the same period in 2007, representing an increase of \$95,232 or 37%. For the nine month period ended September 30, 2008, total expenses were \$1,303,014 compared to \$997,598 for the nine month period ended September 30, 2007 representing an increase of \$305,416 or 31%. After adjustment for stock-based compensation charge expensed in the current financial year of \$194,647 (2007 – \$Nil), expenses totalled \$1,108,367 compared to the prior year's nine month period expenses of \$997,598 representing an increase of \$110,769 or 11%. Significant variances that contributed to the increase are discussed below.

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

For the quarter ended September 30, 2008, expenses charged to consulting fees and corporate development were \$152,840 compared to \$30,025 for the quarter ended September 30, 2007, representing an increase of 409%. Consulting fees and corporate development fees were \$332,331 for the nine month period ended September 30, 2008 compared to \$139,020 for the nine month period ended September 30, 2007. Increase in consulting fees parallel progress on development of projects.

### **Conventions and trade shows**

For the quarter ended September 30, 2008, conventions and trade show expenses were \$9,488 compared to \$6,950 for the quarter ended September 30, 2007 representing an increase of \$2,538 or 37%. Conventions and trade show expenses were \$110,990 for the nine month period ended September 30, 2008 compared to \$63,168 reported in the same period of 2007. In the current year, the Company participated in additional North American trade shows to increase their exposure to various investor groups with anticipation of additional financing being required to fund current projects.

### **Corporate secretarial and accounting services fees**

For the quarter ended September 30, 2008, corporate secretarial and accounting services were \$24,144 compared to \$20,175 for the quarter ended September 30, 2007, an increase of \$3,969. Increase relates to timing of billing for services rendered. The corporate secretarial and accounting service fees were \$71,819 for the nine month period ended September 30, 2008 compared to \$81,325 for the comparative period.

### **Corporate financial services fees**

Timing differences of financing activities result in fluctuations of this expense. No fees were paid in the current financial year relating to services rendered in connection with the equity financing completed in the current financial year.

### **Directors fees**

Independent directors and the corporate secretary are paid fees quarterly to compensate them for their time invested in fulfilling their duties. A total of \$27,000 has been recorded as paid/payable to directors in the current financial year. In the prior year, lump sum payments of \$27,500 each totaling \$82,500 were paid to each of the newly appointed independent board members for acceptance of board position.

### **General and administration**

For the quarter ended September 30, 2008, general and administrative expenses were \$40,349 compared to \$30,787 for the quarter ended September 30, 2007. General and administration charges were \$115,902 for the current nine month period ended September 30, 2008 compared to \$96,598 for the comparative period. Included in this category are bank fees, communications lines (telephone, facsimile and internet), delivery, interest, office supplies, printing and reproduction.

### **Investor/shareholder relations**

For the quarter ended September 30, 2008, investor relations expenses were \$37,695 compared to \$100,351 for the quarter ended September 30, 2007. Investor relation charges were \$171,592 for the nine month period ended September 30, 2008 compared to \$232,543 for the comparative period. The Company has maintained a progressive investor relation program, which commenced in the prior financial year, to increase its exposure and attract capital financing.

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## Travel

For the quarter ended September 30, 2008, travel expenses were \$19,093 compared to \$16,680 for the quarter ended September 30, 2007, an increase of \$2,413 or 14%. Travel charges were \$89,870 for the nine month period ended September 30, 2008 compared to \$44,137 for the comparative period, an increase of \$45,733. Extensive travel in the current year by the Chief Executive Officer to meet with various investment groups to procure funds and by the VP of Product Development and Marketing to supervise overseas manufacturing facility.

## CAPITAL EXPENDITURES

During the nine month period ended September 30, 2008, the Company spent \$4,778,341 (2007-\$4,586,655) on its capital spending program. Additionally, a further \$203,769 was expended on pre-operating jewellery production costs; cumulative costs to date total \$947,197. Capital expenditures by project and category are as follows:

	Nine months ended September 30,	
	2008	2007
Acquisition*		
Greenland Property - Ruby	\$ 9,779	\$ 26,012
Baffin Island Property - Sapphire	658	3,000
Bandito Property (Yukon) - Nickel	-	3,061
	10,437	32,073
Exploration**		
Greenland Property - Ruby	4,385,916	3,824,809
Baffin Island Property - Sapphire	358,029	543,749
Tsa da Glisza Property - Emerald	20,899	141,130
Bandito Property (Yukon) - Nickel	3,060	44,894
	4,767,904	4,554,582
<b>Total capital expenditures</b>	<b>\$ 4,778,341</b>	<b>\$ 4,586,655</b>

\*-excludes non- cash consideration (shares issued for properties - \$54,677)

\*\* - excludes advances (\$9,902)and stock-based compensation (\$66,365)

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## SUMMARY OF QUARTERLY RESULTS

### Summary of Quarterly Financial Information

Quarter Ended	Net revenues*	Net income (loss)*	Loss per share - basic	Loss per share - diluted
	\$'s	\$'s	\$'s	\$'s
30-Sep-08	-	(385,566)	(0.01)	(0.01)
30-Jun-08	-	(564,759)	(0.01)	(0.01)
31-Mar-08	-	(337,334)	(0.01)	(0.01)
12/31/2007**	-	(2,725,436)	(0.04)	(0.04)
9/30/2007**	-	(204,705)	(0.00)	(0.00)
6/30/2007**	-	(74,057)	(0.00)	(0.00)
3/31/2007**	-	(603,202)	(0.01)	(0.01)
31-Dec-06	-	(3,037,109)	(0.07)	(0.07)

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

\*\* Quarters restated to reflect adoption of Section 1530 - Comprehensive Income as of January 1, 2007

Quarter Ended	As previously reported	As restated	Adjustment
	\$'s	\$'s	\$'s
31-Dec-07	(2,716,001)	(2,725,436)	(9,435)
30-Sep-07	(198,175)	(204,705)	(6,530)
30-Jun-07	(79,432)	(74,057)	5,375
31-Mar-07	(613,792)	(603,202)	10,590
Total	(3,607,400)	(3,607,400)	-

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 Canada and Greenland. 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. The Company's properties are not yet into production and consequently, the Company believes that its earnings or loss (and consequent earnings or loss per share) is not a primary concern to investors in the Company.

## LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2008, the Company had cash of \$19,085 and a working capital deficiency of \$1,271,700.

True North has been successful in meeting its exploration capital requirements through the completion of equity placements in the past. On August 8, 2008, the Company completed a brokered private placement of 3,343,000 units at \$0.30 per unit. The gross proceeds of the unit placement totalled \$1,002,900. On November 5, 2008, the Company completed a non-brokered private placement of 9,621,700 units at \$0.10 per unit. The gross proceeds of the unit placement totalled \$962,170.

Cash on hand at September 30, 2008 is not considered adequate to meet requirements for fiscal 2008 based on the exploration programs and budgeted general and administrative expenses. To meet working capital requirements, the Company will have to access financial resources through equity placements in the junior resource market, procure

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industry partners for its primary exploration projects and/or sell its projects in exchange for equity/cash.

## **Capital Resources**

True North has been successful in meeting its exploration capital requirements through the completion of equity placements. Although the Company has been successful in obtaining the necessary financing to continue operations in the past, there can be no assurance that it will be able to continue to do so in the future. Management is of the opinion that the basis upon which the financial statements have been prepared is appropriate in the circumstances. Notwithstanding management's expectations, there is a level of uncertainty that the Company will be able to continue as a going concern and therefore whether they will be able to realize assets and discharge liabilities in the normal course of business.

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, with their attendant exploration commitments and the Company's ability to access the financial resources required to meet these demands. As the exploration properties advance through exploration toward development potential, they typically require more capital-intensive programs that apply pressure to the Company's financial resources. Additional exploration programs on the non-producing properties 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 junior 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 junior resource marketplace will be affected by general trends in the junior 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.

The Company has historically financed its exploration programs through the issuance of equity capital, while at the same time trying to reduce shareholder dilution by securing joint venture partners where appropriate. Recent malaise in the Canadian equity capital markets could make securing additional financing difficult in the short term. The Company's management intends to continue to seek out the best opportunities to maximize shareholder value by further exploration programs on its projects and by generating new discoveries. However, failure to secure additional financing at reasonable terms may significantly impact the Company's ability to continue as a going concern.

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 September 30, 2008, 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 dollar obligation of \$576,720 over the five year lease term, or \$9,612 per month. This obligation and other long-term overhead items will require funding through new capital resources.

As of September 30, 2008, the Company has no long-term contractual agreements to acquire mineral properties. To maintain certain mineral property interests in good standing the Company is required to meet minimum exploration expenditures. However, the fulfillment of these obligations is optional, at the discretion of True North and will be subject to the results of the 2008 exploration programs.

## **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

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owners, contractors or employees.

Andrew Lee Smith is the President and CEO, and a Director, of True North and provides contracted consulting services to the Company through Iron Mask Explorations Ltd.

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

Nick Houghton is Vice-President of Product Development and Marketing, and a Director of the Company, and provides consulting services to True North through Cadium Investments Ltd.

David S. Parsons is True North's CFO and provides consulting services to the Company on an ad hoc basis.

Greg Davison is Vice-President of Exploration and provides consulting services to True North through Davison & Associates.

John Ryder, William Anderson and Greg Fekete are Independent Directors of True North. During the nine month period ended September 30, 2008, \$27,000 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 nine month period ended September 30, 2008, directors and officers charged \$627,764 in fees for services rendered, of which \$438,347 was charged to operations and \$189,417 to mineral properties. These transactions were entered into on a normal commercial basis.

During the nine month period ended September 30, 2008, Austrig Fendrick Fairman & Parkkari, a firm in which Greg Fekete, an officer of the Company is a partner charged fees of \$950 for legal services. These transactions were entered into on a normal commercial basis.

## **PROPOSED TRANSACTIONS**

As of September 30, 2008, the Company has no proposed material transactions.

## **CRITICAL ACCOUNTING ESTIMATES**

Management is often required to make judgments, assumptions and estimates in the application of generally accepted accounting principles that have a significant impact on the financial results of the Company. Certain policies are more significant than others and are, therefore, considered critical accounting policies. Accounting policies are considered critical if they rely on a substantial amount of judgment (use of estimates) in their application or if they result from a choice between accounting alternatives and that choice has a material impact on True North's reported results or financial position. There have been no changes to the Company's critical accounting policies or estimates from those disclosed in the Company MD&A for the financial year ended December 31, 2007.

## **ACCOUNTING POLICIES**

The Company has established accounting policies generally accepted in Canada and applicable to development stage enterprises in the resource sector, which are applied on a consistent basis.

### **Changes in Accounting Policies**

Effective January 1, 2008, the Company has adopted the guidelines governed by the following Sections of the Canadian Institute of Chartered Accountants ("CICA") Handbook:

#### **Capital disclosures and financial instruments – disclosures and presentation**

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535, "Capital Disclosures, Handbook Section 3862, "Financial Instruments – Disclosures" and Handbook Section 3863, "Financial Instruments – Presentation".

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital reporting requirements; and, (iv) if it has not complied, the consequences of such non-compliance.

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The new sections 3862 and 3863 replace Handbook Section 3861, “Financial Instruments – Disclosure and Presentation”, revising and enhancing its disclosure requirements and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how a company manages those risks.

## **Inventories**

In March 2007, the CICA issued the new Handbook Section 3031, “Inventories”, which will replace Section 3030, “Inventories”. The new Section mentions that inventories shall be measured at the lower of cost and net realizable value. It provides guidelines on determining cost, prohibiting going forward the use of the last in, first out method (LIFO) and requires the reversal of a previous write-down when the value of inventories increases. The Company has evaluated the impact of Section 3031 and determined that no adjustments are currently required.

## **General standards on financial statement presentation**

CICA Section 1400, “General Standards on Financial Statement Presentation”, has been amended to include requirements to assess and disclose an entity’s ability to continue as a going concern. Adoption of this standard has had no impact on the Company’s financial statements.

## **New Accounting Standards**

### **Goodwill and Intangible Assets**

The CICA issued the new Handbook Section 3064, “Goodwill and Intangible Assets”, which will replace Section 3062, “Goodwill and Intangible Assets”. The new standard establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of preproduction and start-up costs and requires that these costs be expensed as incurred. The new standard applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. Management is currently assessing the impact of these new accounting standards on its financial statements.

### **International Financial Reporting Standards (“IFRS”)**

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonable estimated at this time.

## **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**

### **Issued**

At September 30, 2008, True North had 69,815,757 common shares issued and outstanding.

At November 26, 2008, True North had 79,437,457 common shares issued and outstanding.

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## Warrants

As at September 30, 2008 warrants outstanding are as follows:

Number of warrants outstanding	Exercise price \$	Expiry date
221,270	\$0.85	18-Dec-2008
3,796,100	\$1.00	14-Mar-2009
1,705,545	\$1.00	3-Apr-2009
2,452,000	\$0.70/\$1.00	29-Nov-2008/2009
1,774,383	\$0.40	07-Aug-2010
234,010	\$0.30	07-Aug-2010
10,183,308		

As at November 21, 2008 warrants outstanding are as follows:

Number of warrants outstanding	Exercise price \$	Expiry date
221,270	\$0.85	18-Dec-2008
3,796,100	\$1.00	14-Mar-2009
1,705,545	\$1.00	3-Apr-2009
2,452,000	\$0.70/\$1.00	29-Nov-2008/2009
1,774,383	\$0.40	07-Aug-2010
234,010	\$0.30	07-Aug-2010
9,621,700	\$0.20	04-Nov-2010
537,250	\$0.10	04-Nov-2010
20,342,258		

## Options

As at September 30, 2008 and at the date of this report, options outstanding are as follows:

Number of stock options Outstanding	Exercise price	Expiry date
650,000	\$0.64	25-Jun-2009
1,070,000	\$0.40	30-Aug-2010
725,000	\$0.415	26-Jul-2011
1,160,000	\$0.56	16-Oct-2012
1,670,000	\$0.38	03-Apr-2013
5,275,000		

## 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,

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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.*