

TRUE NORTH GEMS

MANAGEMENT DISCUSSION AND
ANALYSIS

FOR THE NINE MONTH PERIOD ENDED
SEPTEMBER 30, 2010

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Management's discussion and analysis ("MD&A") provides a review of the performance of True North Gems Inc.'s ("True North" or the "Company") operations and has been prepared on the basis of available information up to November 24, 2010 and should be read in conjunction with unaudited interim consolidated financial statements for the nine month period ended September 30, 2010, the audited consolidated financial statements for the year ended December 31, 2009 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, 2009 Annual MD&A. All dollar amounts referred to in this discussion and analysis are expressed in Canadian dollars except where indicated otherwise.

Forward Looking Statements

The forward-looking information in the MD&A section is based on the conclusions of management. The Company cautions that due to risks and uncertainties, actual events may differ materially from current expectations. With respect to the Company's interests in mineral properties, actual events may differ from current expectations due to exploration results, new exploration opportunities, changing budget priorities of the Company and other factors.

CORPORATE DEVELOPMENTS

Private Placement

True North completed a non-brokered private placement of 41,251,981 units at a price of \$0.08 per unit in two tranches that closed on October 1 and October 22, 2010 respectively. The gross proceeds of the unit placement totalled \$3,300,158. The proceeds from this financing provide the Company with the funding it requires to advance the application process for an exploitation (mining) permit for the Aappaluttoq ruby occurrence.

Executive Appointments

On February 3, 2010, the Company announced that Mr. Nicholas Houghton was appointed President and continues to serve as a Director of the Company. Mr. Houghton replaced Andrew Lee Smith, who retains his role as a Director of the Company with executive responsibilities. Mr. Jeff Giesbrecht was appointed Vice President Corporate Development and Ms. Jacqueline Tucker was appointed to the position of Chief Financial Officer to replace David S. Parsons who was appointed to the Company's Board of Directors and Chairman of the Company's Audit Committee.

FISKENAESSET RUBY PROJECT – GREENLAND

The 2009 field program successfully achieved the following objectives:

- (1) Completion of environmental baseline data collection in drainages in the Aappaluttoq prospect area and initiation of environmental studies;
- (2) Significant advancement of pre-feasibility related engineering and capital cost studies coordinated by M.T Hojgaard;
- (3) Initiation of Acid Rock Drainage studies;
- (4) Sampling of alluvial material from the margins of the north side of the Aappaluttoq Peninsula in Lake Katrina;
- (5) Re-interpretation of surface outcrops and logging of all drill core from the Aappaluttoq prospect area using Niton technology and revised geological interpretations;
- (6) Bathymetric surveys of Lake Katrina to evaluate engineering alternatives and environmental studies. This lake immediately adjoins the Aappaluttoq prospect; and,
- (7) Exploration of the Qaqqatsiaq licence and follow up on the Fiskenaesset license of areas of interest identified in the 2008 season.

True North's management believes the 2009 work program provided valuable technical information that will allow the Company to advance towards its goal of submitting an application for an exploitation (mining) permit for the Fiskenaesset Ruby Project in Greenland. The Company is currently compiling the information and completing the steps required to facilitate advancing the exploitation (mining) permit application process on the Company's Fiskenaesset Ruby Project.

Additional detail on the Fiskenaesset Ruby Project is set out in the 43-101 Report of Activities submitted March 31, 2009 to the requisite regulatory authorities and is available on the Company's website (www.truenorthgems.com).

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2010 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 Fiskenaesset Ruby Project, project economic analysis shows that the greatest sensitivity and economic risk is related to the price received for the ruby and pink sapphire material produced. While independent appraisals of the material produced by the Company during its sampling programs have been very encouraging, the ruby and pink sapphire market is such that appraisals vary widely and only with a period of actual sales will the Company understand the true value of the deposit. Greenland does not permit sales of mined products until an exploitation (mining) permit has been issued and to obtain such a permit, the Company is required to follow a process intended for larger, traditional mining projects. Until the Company has obtained a mining permit and is able to initiate a sales and marketing campaign, the economics of the project will not be fully understood.

Therefore, the vast majority of the work planned and completed during 2010 is to support an application for an exploitation (mining) permit for the Aappaluttoq ruby occurrence. The application will include three major components: an engineering report, an environmental impact assessment (“EIA”) and a social and economic impact assessment (“SIA”).

The engineering report will be prepared principally by MT Hojgaard A/S (“MT Hojgaard”), as lead engineers. MT Hojgaard will be responsible for the design of infrastructure at the minesite; including all roads, camp, access (port) facilities, as required, and power supply. The work of MT Hojgaard will be supported by other consultants; principally by EBA Engineering, a mining consulting company who will undertake the mine plan; including pit design, waste rock and tailings handling. EBA Engineering began work in October 2010 with preliminary review of the project geology and a site visit in early November, 2010. SGS Lakefield Research Limited (“SGS”) will work in conjunction with Company personnel to prepare a processing flow-sheet and design the processing plant. The processing flow-sheet will be based on past work by SGS and continuing work on material removed from the site in 2008-2009.

The EIA is being prepared by Ramboll Greenland A/S (“Ramboll”), following on from environmental baseline studies undertaken by Ramboll during the 2009, 2008 and 2007 field seasons. Reports on the 2007 and 2008 baseline studies have been submitted to the Greenland Government’s Bureau of Mines and Petroleum (“BMP”) and the 2009 report is in process of being completed. Following on from the 2009 baseline study, including detailed hydrology, Ramboll has initiated work on the EIA. It is highly unlikely that the scope of the mining operation, particularly in the early phase of development, will exceed the preliminary mine plan so it is therefore unlikely that any significant increase in baseline work will be required. Should any further baseline work be required it will be undertaken during 2011 prior to significant development work.

The SIA will be prepared by Grontmij Carl Bro A/S. Work on the SIA is underway with the objective of holding meetings with stakeholders and community meetings, as outlined by Carl Bro in its project proposal, in 2010. As the process is still in its early stages, the precise timing for these activities is not yet known.

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.

The Company continues to work with the sapphire bearing material recovered from processed samples from previous exploration programs and awaits the processing of the 2008 mini-bulk samples and will be releasing the results of this work as they become available. Processing of the mini-bulk sample is subject to the Company obtaining sufficient financing.

On May 4, 2010, the Company announced the initiation of sales of a limited inventory of Canadian sapphires. The sapphire material being sold has been generated from the recovery, cutting and polishing of bulk sample material acquired during previous exploration programs on the Beluga Property. The purpose of the sale program is to test market demand and to gather actual wholesale and retail sales value of the gem sapphire recovered to date from Beluga.

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BANDITO PROJECT – YUKON, CANADA

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

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

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

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

Once Endurance earns a 51% working interest in the property, it may earn an additional 24% interest by issuing 200,000 shares from treasury and incurring an additional \$1,000,000 in exploration expenditures by December 31, 2015. Regulatory approval of the Agreement was obtained on September 7, 2010.

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.

TRUE BLUE PROJECT– YUKON, CANADA

The property comprises 94 claims located 55 kilometres south of Ross River, Yukon.

On March 5, 2010, the Company announced it had entered into a Letter of Intent (“LOI”) with Great Western Minerals Ltd. (“GWMG”) whereby GWMG has been granted an option to acquire up to a 65% working interest in the True Blue Property in exchange for a carried interest through to completion of a Bankable Feasibility Study.

Under the terms of the LOI, GWMG can earn a 51% interest as follows:

- iii. On signing payment of \$50,000 (April 7, 2010) and additional cash payments of \$350,000 in staged allotments over the four year option term;
- iv. Incur \$1,000,000 in exploration expenditure on or before December 31, 2010 and cumulative exploration expenditure of \$5,000,000 on or before December 31, 2013; and,
- v. Issued 300,000 shares from treasury on signing and an additional 900,000 shares in staged allotments over the four year option term.

Once GWMG earns a 51% working interest in the property, it may earn an additional 14% interest by completing all expenditures through to completion of a Bankable Feasibility Study. GWMG will also have the right to market the Company’s share of REE (“Rare Earth Element”) production with a renewal option to the Company every three years.

The LOI is subject to a formal option and joint venture agreement being executed by the parties to the LOI on or before May 30, 2010 and requisite regulatory approval. The deadline for completion of the formal option and joint venture agreement was not met; however, the cash and share consideration has been received.

FINANCIAL POSITION

As at September 30, 2010, the Company had current assets of \$183,397 and current liabilities of \$1,032,084 compared to current assets of \$325,497 and current liabilities of \$764,979 as at December 31, 2009. At September 30, 2010, the Company had a working capital deficit of \$848,687 compared to working capital deficit of \$439,482 at December 31, 2009.

The Company had cash of \$85,791 at September 30, 2010 compared to \$244,029 at December 31, 2009. During the nine month period ended September 30, 2010, the Company recorded cash outflows of \$255,205 compared to cash outflows of \$1,352,002 in the comparable period of 2009. The decrease in use of cash was primarily attributable to the same factors that decreased the net loss during the periods.

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Cash used in investing activities includes \$355,295 being spent on its mineral properties (primarily Greenland), net of farm out receipts credited to deferred expenditures totalling \$36,670 and proceeds from the sale of equipment amounting to \$88,000. Also the net payable position with respect to exploration expenditures resulted in a cash inflow of \$68,181.

Capital (share capital and warrants) as at September 30, 2010 was \$34,460,102 compared to \$34,536,837 as at December 31, 2009. During the nine month period, the Company issued 571,429 shares in satisfaction of its obligations to the vendor of the Greenland property (\$50,000) and 2,008,393 warrants expired unexercised and the fair value assigned to warrants credited to contributed surplus (\$126,735). To September 30, 2010, the Company had received deposits amounting to \$300,000 from subscribers to the non-brokered private placement that closed in two tranches subsequent to the quarter end and had incurred costs relating to the placement of \$13,737.

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RESULTS OF OPERATIONS

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

	Three month period ended September 30,		Nine month period ended September 30,	
	2010	2009	2010	2009
Expenses				
Amortization	\$ 3,983	8,950	\$ 11,904	27,138
Audit and related services	-	2,625	\$ 2,028	(1,839)
Consulting and corporate development fees	77,280	85,890	182,280	250,070
Corporate financial services	-	-	-	20,000
Corporate secretarial and accounting fees	12,500	25,225	50,150	62,071
Directors fees	17,609	11,000	39,609	33,000
General and administrative	24,027	44,643	69,867	101,283
Investor/shareholder relations	46,757	29,138	103,890	76,196
Legal fees	-	2,135	4,355	7,385
Rent and occupancy costs	15,023	14,845	42,701	42,720
Salaries and employee benefits	17,363	17,471	54,974	53,318
Stock-based compensation	-	360,935	1,929	360,935
Transfer agent and filing fees	2,309	11,255	23,006	30,272
Travel	4,978	22,801	23,663	45,133
	<u>221,829</u>	<u>636,913</u>	<u>610,356</u>	<u>1,107,682</u>
Loss before under noted items	(221,829)	(636,913)	(610,356)	(1,107,682)
Farm-out receipts	-	-	102,830	-
Foreign exchange gain (loss)	(22,721)	1,565	17,681	20,776
Interest income (expense)	27	137	(379)	2,746
Loss on sale of equipment	-	-	-	(148)
Realized gains on sale of available-for-sale investments	14,794	-	14,794	8,919
	<u>(229,729)</u>	<u>(635,211)</u>	<u>(475,430)</u>	<u>(1,075,389)</u>
Loss before future income tax recovery	(229,729)	(635,211)	(475,430)	(1,075,389)
Future income tax recovery	97,224	-	97,224	-
	<u>\$ (132,505)</u>	<u>\$ (635,211)</u>	<u>\$ (378,206)</u>	<u>\$ (1,075,389)</u>
Net loss for period	<u>\$ (132,505)</u>	<u>\$ (635,211)</u>	<u>\$ (378,206)</u>	<u>\$ (1,075,389)</u>
Loss per share - basic and fully diluted	<u>\$ (0.00)</u>	<u>\$ (0.01)</u>	<u>\$ (0.00)</u>	<u>\$ (0.01)</u>
Weighted average number of common shares	<u>114,537,562</u>	<u>101,955,329</u>	<u>114,525,003</u>	<u>87,393,903</u>

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NET LOSS

The net loss for the quarter ended September 30, 2010 was \$132,505 compared to a net loss of \$635,211 for the quarter ended September 30, 2009 representing a decrease of \$502,706. Included in the current quarter results is a foreign exchange loss of \$22,721, realized gains of \$14,794 on the sale of available-for-sale investments and recognition of a recovery of future income taxes of \$97,224 relating to the unrealized gain on available for sale investments and gross up of future income taxes relating to exploration expenditure (capitalized stock-based compensation) that will never be deductible for tax purposes.

The net loss for the nine month period ended September 30, 2010 amounted to \$378,206 compared to a net loss for the nine month period ended September 30, 2009 of \$1,075,389. Included in the nine month period results are farm out receipts of \$102,830 from GWMG 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, a foreign exchange gain of \$17,681, realized gains of \$14,794 on the sale of available-for-sale investments and recognition of a recovery of future income taxes of \$97,224 relating to the unrealized gain on available for sale investments and gross up of future income taxes relating to exploration expenditure (capitalized stock-based compensation) that will never be deductible for tax purposes.

EXPENSES

For the quarter ended September 30, 2010, total expenses were \$221,829 compared to \$636,913 recorded during the same period in 2009, representing a decrease of \$415,084 or 65%. For the nine month period ended September 30, 2010, total expenses were \$610,356 compared to \$1,107,682 for the nine month period September 30, 2009 representing a decrease of \$497,326 or 45%. Significant factors that contributed to the variances are discussed below.

Consulting fees and corporate development fees

For the quarter ended September 30, 2010, expenses charged to consulting and corporate development fees of \$77,280 were accrued in the accounts. Consulting and corporate development fees for the quarter ended September 30, 2009 were \$85,890 representing a decrease of 8,610 or 11%. For the nine month period ended September 30, 2010, expenses charged to consulting and corporate development fees of \$182,280 were accrued in the accounts. Consulting and corporate development fees for the nine month period ended September 30, 2009 were \$250,070. In the current fiscal year, none of the fees accrued for services rendered have been paid. The decrease in fees is indicative of limited financial resources being available in the current financial year resulting in lower overall levels of activity.

Corporate secretarial and accounting

For the quarter ended September 30, 2010, corporate secretarial and accounting fees totalled \$12,500 for the three month period ended September 30, 2010 compared to \$25,225 for the comparative three month period. For the nine month period ended September 30, 2010, corporate secretarial and accounting fees totalled \$50,150 compared to \$62,071 for the nine month period ended September 30, 2009. The decrease in fees is directly related to financial constraints and lower overall levels of activity in the Company.

Directors fees

Independent directors are paid fees quarterly to compensate them for their time invested in fulfilling their duties. A total of \$39,609 has been recorded as payable to directors in the nine month period ended September 30, 2010. Increase is a result of appointment of David Parsons to the Board and him receiving compensation as a director and Chair of the Audit Committee.

General and administration

For the quarter ended September 30, 2010, general and administrative expenses were \$24,027 compared to \$44,643 for the quarter ended September 30, 2009. General and administrative charges were \$69,867 for the current nine month period ended September 30, 2010 compared to \$101,283 for the comparative period. Included in this category are bank fees, communications lines (telephone, facsimile and internet), delivery, interest, office supplies, printing and reproduction. Decrease in general and administrative expenses is directly related to financial constraints and lower overall levels of activity in the Company.

Investor/shareholder relations

For the quarter ended September 30, 2010, investor relations expenses were \$46,757 compared to \$29,138 for the

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quarter ended September 30, 2009. Investor relation charges were \$103,890 for the nine month period ended September 30, 2010 compared to \$76,196 for the comparative period. Financial constraints in both the current and prior comparative period have necessitated that the investor/shareholder relations activities be curtailed to the extent possible.

Travel

For the quarter ended September 30, 2010, travel expenses were \$4,978 compared to \$22,801 for the quarter ended September 30, 2009, a decrease of \$17,823. Travel charges were \$23,663 for the nine month period ended September 30, 2010 compared to \$45,133 for the comparative period. Financial constraints in the current and prior comparative period resulted in the decision to reduce travel to the extent possible.

CAPITAL EXPENDITURES

During the nine month period ended September 30, 2010, the Company spent \$242,688 (2009-\$999,216) on its capital spending program. The expenditures on the Greenland Property in the current fiscal year are primarily for technical services being provided in connection with planning and co-ordinating activities to move forward on the application process to obtain an exploitation (mining) permit. Capital expenditures by project and category are as follows:

	Nine month period ended	
	September 30, 2010	September 30, 2009
Acquisition*		
Greenland Property - Ruby	\$ 9,996	\$ 55,483
Exploration**		
Greenland Property - Ruby	348,194	941,681
Baffin Island Property - Sapphire	12,882	1,845
Tsa da Glisza Property - Emerald	-	(3,881)
Other Yukon Property	(3,714)	4,088
	357,362	943,733
Less - farm out receipts	(36,670)	-
Less - proceeds on sale of equipment	(88,000)	-
	232,692	943,733
Total capital expenditures	\$ 242,688	\$ 999,216

*-excludes non cash consideration of \$50,000 (2009-\$78,750)

** - excludes gross ups future income taxes of \$96,380 (2009-\$Nil), non cash proceeds from sale of equipment of \$Nil (2009-\$17,010), stock-based compensaton of \$32,787 (2009-\$72,059) & advances of \$2,067 (2009-\$35,000)

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SUMMARY OF QUARTERLY RESULTS - UNAUDITED

Quarter Ended	Net revenues	Net income (loss)*	Loss per share - basic	Loss per share - diluted
	\$'s	\$'s	\$'s	\$'s
30-Sep-10	-	(132,505)	(0.00)	(0.00)
30-Jun-10	-	(91,198)	(0.00)	(0.00)
31-Mar-10	-	(154,503)	(0.00)	(0.00)
31-Dec-09	-	(1,277,033)	(0.01)	(0.01)
30-Sep-09	-	(635,211)	(0.01)	(0.01)
30-Jun-09	-	(223,116)	(0.01)	(0.01)
31-Mar-09	-	(217,062)	(0.00)	(0.00)
31-Dec-08	-	(1,718,527)	(0.02)	(0.02)

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

There are no meaningful trends evident from analysis of the summary of quarterly financial information over the last eight quarters. The Company carries out exploration 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, mineral property impairments, sales of available-for-sale investments and impairments in available-for-sale investments that are considered to be other than temporary. The Company's properties are not yet into production and consequently, the Company believes that its loss (and consequent loss per share) is not a primary concern to investors in the Company.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2010, the Company had cash of \$85,791 and a working capital deficiency of \$848,687. The deficit is primarily attributable to the capital spending on the Greenland project and ongoing operating costs in excess of funds raised from equity placements.

Cash on hand at September 30, 2010 is not adequate to meet requirements for fiscal 2010. 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. True North completed a non-brokered private placement of 41,251,981 units at a price of \$0.08 per unit in two tranches that closed on October 1 and October 22, 2010 respectively. The gross proceeds of the unit placement totalled \$3,300,158. After completion of the financing based on the Company's current budgeted expenditures for operations and exploration and development of its mineral properties, the Company believes it has adequate funds for the balance of fiscal 2010; however, further funds will be required early in fiscal 2011.

Capital Resources and Going Concern

True North has been successful in the past in meeting its capital requirements through the completion of equity placements but there can be no assurance that it will be able to continue to do so in the future. The Company's financial statements have been prepared on a going concern basis, which contemplates that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. Several adverse conditions cast significant doubt on the validity of that assumption. During the nine month period ended September 30, 2010, the Company incurred a net loss and utilized funds in operations totalling \$378,206 and \$255,205 respectively. The accumulated deficit at September 30, 2010 is \$18,976,709. The Company has limited financial resources, no source of operating cash flow and no assurances that sufficient funding will be available to conduct further exploration and development of its mineral property projects.

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The ability of the Company to continue as a going concern will depend upon the following:

- The ability to raise further funds through the issue of equity financing or through joint ventures;
- Continued financial support from creditors; and,
- The sale of non-core assets in the ordinary course of business.

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

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 September 30, 2010, 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 \$346,032 over the remaining lease term, or \$9,612 per month. This obligation and other long-term overhead items will require funding through new capital resources.

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

As of September 30, 2010, 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 exploration expenditures. However, the fulfillment of these obligations is optional, at the discretion of True North.

TRANSACTIONS WITH RELATED PARTIES

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

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

Andrew Lee Smith was the President and CEO up to February 3, 2010 and a Director, of True North and provides services to the Company through Iron Mask Explorations Ltd. Mr. Smith has retained his role as a Director with executive responsibilities.

Nick Houghton was Vice-President of Product Development and Marketing up to February 3, 2010 when he was appointed

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President and CEO and a Director of the Company. He provides services to True North through Cadiam Investments Ltd.

David S. Parsons was True North's CFO up to February 3, 2010 and was appointed a director concurrently.

Jacqueline M. Tucker was appointed True North's CFO on February 3, 2010 and provides services to the Company through J.M. Tucker Inc.

Jeff Giesbrecht was appointed True North's VP Corporate Development on February 3, 2010 and provides services to the Company.

William Anderson, Robert Boyd, Martin Irving, David Parsons and John Ryder are Independent Directors of True North. During the nine month period ended September 30, 2010, \$39,609 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, 2010, directors and officers charged \$302,250 in fees for services rendered, of which \$218,250 was charged to operations and \$84,000 to mineral properties. These transactions were in the normal course of business recorded at their exchange amounts, which was established and agreed to by the related parties.

PROPOSED TRANSACTIONS

As of September 30, 2010, the Company has no proposed material transactions other than as disclosed under the True Blue Project.

CRITICAL ACCOUNTING ESTIMATES

The significant accounting policies used by True North are disclosed in note 2 to the financial statements. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management reviews its estimates on a regular basis. The emergence of new information and changed circumstances may result in actual results or changes to estimated amounts that differ materially from current estimates. The following discussion helps to assess the critical accounting policies and practices of the Company and the likelihood of materially different results being reported.

MINERAL PROPERTIES AND RELATED DEFERRED COSTS

The Company follows the method of accounting for its mineral properties whereby all costs related to acquisition, exploration and development are capitalized by area of interest. These expenditures are carried forward where rights to tenure of the areas of interest are current and it is expected the expenditure will be recovered through successful development and exploitation of the area of interest or alternatively by its sale. Expenditures are also carried forward where activities are continuing in the area of interest but have not yet reached a stage of development, which permits reasonable assessments of the existence or otherwise of economically recoverable reserves. Expenditures that are determined to be impaired are written off.

When events and circumstances indicate possible impairment, management reviews the carrying value of each of the Company's mineral properties. Where information is available and conditions suggest impairment, estimated future net cash flows are calculated using estimated future prices, proven and probable reserves, resources and operating and capital costs on an undiscounted basis. An impairment charge is recorded if the undiscounted future net cash flows are less than the carrying amount. Reductions in the carrying value, with a corresponding charge to operations, are recorded to the extent that the estimated future net cash flows on a discounted basis are less than the property interest carrying value.

Where estimates of future net cash flows are not available and where other conditions suggest impairment, management assesses whether the carrying value can be recovered. If impairment is identified, the carrying value of the property interest is written down to its estimated fair value.

From time to time, the Company acquires and disposes of properties 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.

Although the Company has taken steps to verify title to mineral properties in which it has an interest according to the usual industry standards, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

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RECLAMATION COSTS

The amounts recorded for reclamation costs are estimates based on engineering studies and management's assessment of the work that is anticipated to remediate the Tsa da Glisza, Baffin Island and Greenland sites based on the current state of ground disturbance. The provision for reclamation is determined on an annual basis.

STOCK-BASED COMPENSATION AND WARRANTS

Compensation expense for options and warrants granted is determined based on estimated fair values of the options and warrants at the time of grant, the cost of which is recognized over the vesting period of the respective options and grants. The key parameters impacting the calculation of fair value of options and warrants are the share volatility and the expected life.

INCOME TAXES

The determination of income and other tax liabilities requires interpretation of complex laws and regulations. All tax 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 as held-for-trading and investments as available-for-sale. Amounts receivable are classified as loans and receivables. Accounts payable, accrued liabilities and loans payable are classified as other liabilities. At September 30, 2010 and December 31, 2009 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.

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.

NEW ACCOUNTING STANDARDS

INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)

True North will adopt International Financial Reporting Standards (“IFRS”) effective January 1, 2011. In 2011, the Company will have to present 2010 comparative figures restated using IFRS for each comparative period after the transition date. As a result, the Company began to execute its IFRS implementation plan in 2009. As part of the transition process, the Company has provided or will provide IFRS specific training to financial reporting personnel and directors.

During fiscal 2009, True North compared its current accounting policies under Canadian Generally Accepted Accounting Principles (“GAAP”) to IFRS and identified differences between the two standards. Based on its review of historical transactions and its current and expected business activities, the Company identified the treatment of Exploration and Evaluation (“E&E”) costs, income taxes and asset impairment, as areas with the greatest potential to create significant differences in the Company’s financial statements, as a result of adopting IFRS.

True North is currently completing its comprehensive analysis of these areas to determine the potential impact on the financial statements on adoption of IFRS.

To date, the International Accounting Standard Board (“IASB”) has not made a definitive determination as to whether E&E costs should be capitalized or expensed. IFRS 6 provides companies with the option to choose to capitalize these costs. This policy must be disclosed in the notes to the financial statements. True North expects to continue to capitalize E&E costs in a manner consistent with its current accounting policy under Canadian GAAP.

The method of accounting for income taxes under IFRS is similar to Canadian GAAP. Future income taxes that arise from the initial recognition of assets or liabilities that do not impact profit and loss other than in a business combination is

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prohibited. The Company's future income tax liability primarily arises as a result of the difference between book and tax cost on additions to its mineral properties. The opening balance sheet will need to reflect the reversal of these amounts as if it had never occurred. We do not believe that any of the exemptions under IFRS will have any impact on the Company's financial reporting. The IASB has recently issued an exposure draft suggesting changes to its income tax standard. The exposure draft has received a significant number of comments and it is uncertain what changes, if any, will be made before True North's adoption date.

Other IFRS that apply to the Company's operations but are not expected to have a significant effect on 2010 financial results based on the Company's current and expected activities are foreign currency, share based payments and decommissioning and retirement obligations.

True North is in the final stages of determining the impact that the adoption of IFRS will have on its financial statements.

The Company's review of IFRS is based on the standards applicable as of the date of this report. The IASB is still developing IFRS and changes to standards may be made between the date of this report and the date True North adopts IFRS. The Company's assessment of the differences between Canadian GAAP and IFRS is based on historical, current and expected business activities. Changes in business activities could also lead to unexpected differences to the Company's financial statements, notes and other disclosures, as reported under Canadian GAAP and IFRS. Changes to business activities or transactions and/or IFRS could have a material effect on True North analysis discussed above.

True North has been tracking the differences under Canadian GAAP and IFRS on individual transactions through 2010. It will also analyze the effect of changes in IFRS as they occur. At the end of 2010, True North will prepare two sets of financial statements; one will comply with Canadian GAAP, for reporting purposes and the other set will comply with IFRS for use as comparative figures when True North adopts IFRS on January 1, 2011.

BUSINESS COMBINATIONS/CONSOLIDATED FINANCIAL STATEMENTS/NON-CONTROLLING INTEREST

In January 2009, the Canadian Institute of Chartered Accountants ("CICA") adopted Handbook sections 1582, "Business Combinations", 1601, "Consolidated Financial Statements" and 1602, "Non-Controlling Interest", which superseded current sections 1581, "Business Combinations" and 1600, "Consolidated Financial Statements". These sections will be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier adoption is permitted. If an entity applies these sections before January 1, 2011, it is required to disclose that fact and apply each of the new sections concurrently. These new sections are the Canadian equivalent to IFRS.

OTHER MD&A REQUIREMENTS

ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE

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

OUTSTANDING SHARE DATA

At September 30, 2010, True North had 114,537,562 common shares, 44,237,073 warrants and 8,905,000 options issued and outstanding.

As at the date of this report, True North had 156,326,787 common shares, 58,058,356 warrants and 8,905,000 options issued and outstanding.

RISK FACTORS

Mineral exploration and development involves a high degree of risk and few properties that are explored are ultimately developed into producing mines. There is no assurance that the Company's mineral exploration activities will result in any discoveries of new bodies of commercial gemstone deposits. There is also no assurance that if a commercial gemstone deposit is discovered that the ore body would be economical for commercial production. Discovery of mineral deposits is dependent upon a number of factors and significantly influenced by the technical skill of the exploration personnel involved. The commercial viability of a mineral deposit is also dependent upon a number of factors, which are beyond the

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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.