TRUE NØRTH GEMS

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2008

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 compares its performance with those of the preceding year. This discussion as well provides an indication of future developments along with issues and risks that can be expected to impact future operations. This report has been prepared on the basis of available information up to April 29, 2009 and should be read in conjunction with the financial statements and the related notes thereto, which have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). 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.

Introduction

Overall Performance

During the current financial year and to the date of this report, True North

- Received approval to enter the exploitation (mining) permit application process for the Greenland Bureau of Mines and Petroleum ("BMP");
- Raised $1,964,170 from equity financings completed;
- Obtained approval for the five year extension of Greenland ruby exploration licence;
- Drilling was completed this past field season in Greenland and extended known ruby and pink sapphire mineralization and intersected new intervals of high grade mineralization;
- Obtained approval to permit extraction of up to 250 tonnes from the Aappaluttoq ruby occurrence;
- During the 2008 field season collected approximately 140 tonne bulk sample from the Aappaluttoq ruby occurrence;
- Completed independent market price valuations on a representative 1/8 parcel of "polished" ruby and pink sapphire from the 2006 Greenland bulk sample indicating an average value of US$ 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;
- Initiated mine permitting process;
- Obtained approval for transfer of Fiskenaesset licence 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;
- Enhanced Greenland technical team with the addition of Amaral as Project Manager and Groves as Senior Exploration Geologist; 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.

On March 2, 2009, the Company announced the addition of Rejane Amaral as Greenland Project Manager and Iain Groves as Senior Exploration Geologist. Concurrently Greg Davison resigned as VP Exploration.

FISKENAESSET RUBY PROJECT – GREENLAND

The Fiskenæsset ruby project consists of eight separate property blocks held under two exploration licences (2008/46, Fiskenæsset, and 2008/01, Qaqqatsiaq) totalling 823 square kilometres. True North Gems Inc. acquired exclusive rights to explore and apply for development of the Fiskenæsset exploration licence area (110 km^2) on April 22, 2004 through an option agreement with Brereton Engineering and Development, Ltd., of Toronto, Canada, the underlying holder of the exploration licence. The Brereton agreement is in good standing and the title to the licence is now in the name of True North. To maintain the option in good standing, additional annual cash and share payments are required until such time as True North is granted an exploitation licence. True North owns 100% interest in the Qaqqatsiaq exploration licence (713 km^2). True North also holds a prospecting licence for diamonds and coloured gemstones covering the southwest coast of Greenland. True North's exploration licence and prospecting licence together cover the thirty-one ruby occurrences now discovered near the village of Fiskenæsset. Currently, seven ruby occurrences have been mini-bulk sampled on True North's claim block.

The ruby deposits of Fiskenæsset are Archaen aged and are contact metasomatic replacements in micaceous anorthosites. Corundum forms locally in both regional and contact metamorphic environments, as well as in hydrothermal settings. Chrome enriched translucent or transparent corundum is red to pink in colour and is commonly known in the gem trade as ruby or pink sapphire, depending on the level of chrome saturation. Ruby-bearing metasomatic zones typically formed along the amphibolite hangingwall contact of the chromite bearing and cumulate-layered Fiskenæsset anorthosite complex in close proximity to altered ultramafic rocks. Individually, ruby-bearing zones can measure up to 20 metres in thickness and up to 200 metres in length. They may occur as single showings, but are usually found in alignments of multiple showings, with some of the occurrences such as The Ruby Island Line collectively up to 3.5 kilometres in strike length, and as much as 100 metres in width. To date, one ruby target representing one end of the Ruby Island Line, Aappaluttoq, has been drilled and bulk sampled extensively.

In four years between 2004 and 2008, True North has collected a total of thirteen (13) mini-bulk samples; from seven (7) ruby showings: Siggartartulik; Lower Annertusoq; Upper Annertusoq; Kigutilik; Ruby Island; Qaqqatsiaq; and, Aappaluttoq. In 2004 and 2005, True North collected 3 tonne samples from each of Siggartartulik, Lower Annertusoq, Upper Annertusoq, Kigutilik, Ruby Island, and Qaqqatsiaq. In 2006, True North collected 30 tonnes from Kigutilik and from Aappaluttoq. In 2007 True North collected three separate samples at Aappaluttoq totalling 82.8 tonnes. In 2008, an additional 125 tonnes of material was collected from Aappaluttoq by blasting and 30-40 tonnes of ruby bearing overburden was collected.

A total of 6,974 metres of diamond drilling has been completed in 65 holes drilled in 2007 and 2008. Ruby and pink sapphire has been found in 48 of the holes. At Aappaluttoq, the ruby and pink sapphire mineralization occurs in a corundum (ruby-sapphire) alteration band that exhibits trench-to-trench and drill hole-to-drill hole continuity. This corundum band is contained within a broader phlogopite and pargasite-enriched alteration zone referred to as the Host Zone Alteration. The ruby mineralization at the Aappaluttoq prospect has now been traced in drilling and surface exposures over a strike length of 135 metres and a vertical depth of 143 metres. The closely associated Aappaluttoq Deep Zone has now been traced in drilling over a strike length of 85 metres and continues to vertical depths of 70-143 metres below surface. Both zones remain open along strike and to depth.

Ruby Island, located at sea level, was the first confirmed ruby location in the Fiskenæsset district and was discovered in 1966. True North discovered the Aappaluttoq prospect in 2005 and the prospect was located only 3.3 kilometres from Ruby Island, 2.3 kilometres from the closest tide water at an elevation of 235 meters ASL.

True North's exploration campaign, has now demonstrated the existence of a geologically predictable high-grade ruby and pink sapphire deposit at Aappaluttoq. Economic evaluations, engineering studies, and environmental studies are recommended to advance Aappaluttoq towards completion of a feasibility study.

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).

BELUGA SAPPHIRE PROJECT – BAFFIN ISLAND, CANADA

During the year ended December 31, 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 lithogeochemical 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.

TSA DA GLISZA EMERALD PROJECT – YUKON, CANADA

Due to the Company's focus of its resources on the Fiskenaesset 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.

As at December 31, 2008, management of the Company determined that impairment indicators existed and completed an impairment assessment for each of its mineral property interests. The current economic environment and the decline in the Company's stock price were considered as impairment indicators. These assessments included a determination of fair value for each mineral property using various valuation techniques including commodity price changes and recent expenditures analysis.

As a result of management's impairment assessment at December 31, 2008, it was determined that exploration expenditures amounting to $1,419,484 on the Tsa da Glisza Property should be written off in the current year. This project has not reached a stage of development, which permits reasonable assessment of an economically recoverable reserve; however, only those expenditures that management have assessed as having value in terms of evaluation of this deposit have been continued to be carried forward and the other expenditures representing primarily costs incurred in the earlier years of this project have been written off.

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 Fiskenaesset Ruby and Beluga Sapphire projects no exploration 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 Fiskenaesset 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.

SELECTED ANNUAL INFORMATION

	2008 $	2007 $	2006 $
Revenues	-	-	-
Net loss	(3,006,186)	(3,607,400)	(3,741,849)
Net loss per share - basic	(0.04)	(0.06)	(0.09)
Net loss per share - diluted	(0.04)	(0.06)	(0.09)
Cash dividends	-	-	-
Total assets	19,706,392	19,971,884	13,429,490
Long term liability	505,055	500,055	475,055
Shareholders' equity	17,866,381	18,837,820	12,483,507
Share capital	31,056,761	29,627,760	20,394,734
Warrants	855,471	891,595	553,505
Contributed surplus	2,200,235	1,568,227	1,167,768
Deficit	(16,246,086)	(13,239,900)	(9,632,500)
Accumulated other comprehensive loss	-	(9,862)	-

FINANCIAL POSITION

As at December 31, 2008, the Company had current assets of $214,239 and current liabilities of $1,334,956 compared to current assets of $4,818,449 and current liabilities of $634,009 as at December 31, 2007. At December 31, 2008, the Company had a working capital deficit of $1,120,717 compared to working capital of $4,184,440 at December 31, 2007.

Capital (share capital and warrants) as at December 31, 2008 was $31,912,232 compared to $30,519,355 as at December 31, 2007. During the fiscal year ended December 31, 2008, True North raised additional capital of $1,964,170 from the issue of 12,955,700 shares and 11,293,200 warrants. The agent's were issued 205,765 units and 771,260 warrants. The capital raising costs for these placements amounted to $275,485 (shares - $236,108/warrants -$39,377). 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 4,134,104 warrants expired resulting in the fair value of these instruments of $362,941 being credited to contributed surplus. A future tax liability of $98,312 was recognized during the year for amounts renounced to investors effective December 31, 2007 but the expenditures of $393,250 had not yet been incurred. These expenditures were incurred during the financial year ended December 31, 2008. During the fiscal year ended December 31, 2007, True North raised additional capital of $8,173,049 from the issue of 14,860,090 shares and 7,430,045 warrants; and, $393,250 from the issue of 715,000 flow-through common shares and 244,000 warrants. The capital raising costs for these placements amounted to $564,191 (shares - $487,733/warrants -$76,458). In addition, the Company issued 200,000 shares on the conversion of options for proceeds of $70,000 and 3,209,142 shares on the exercise of warrants for proceeds of $1,604,571. Also the Company issued 16,020 shares and 523,600 warrants to agents and 56,360 shares to satisfy obligations pursuant to the terms of the Option Agreements on the Yukon and Greenland properties.

RESULTS OF OPERATIONS

	Three month period ended December 31,		Twelve month period ended December 31,	
	2008	2007	2008	2007
Expenses				
Amortization	$ 10,952	$ 11,055	$ 41,989	$ 40,504
Audit fees	31,000	24,719	33,141	33,586
Consulting and corporate development fees	(28,597)	39,187	303,734	178,207
Conventions and trade shows	10,220	7,949	121,210	71,116
Corporate financial services fees	-	-	-	71,995
Corporate secretarial and accounting fees	58,875	57,569	130,694	138,894
Directors fees	9,000	23,000	36,000	115,500
General and administrative	65,978	42,201	181,880	162,667
Investor/shareholder relations	20,262	126,586	191,854	359,129
Legal fees	5,562	7,983	19,571	23,685
Rent and occupancy costs	20,894	10,082	66,121	38,982
Salaries and employee benefits	19,369	19,944	90,514	90,917
Stock-based compensation	-	137,988	194,647	137,988
Transfer agent and filing fees	2,199	2,450	27,503	24,871
Travel	34,486	16,733	124,356	60,870
	260,200	527,446	1,563,214	1,548,911
Loss before under noted items	(260,200)	(527,446)	(1,563,214)	(1,548,911)
Foreign exchange loss	(26,218)	(32,016)	(74,233)	(2,282)
Gain (loss) on sale of available-for-sale investments	1,175	21,338	(11,113)	55,591
Impairment of available -for-sale investments	(111,865)	-	(111,865)	-
Interest income	(247)	14,920	75,411	97,902
Write off of capital assets	-	(3,870)	-	(3,870)
Write off of mineral properties	(1,419,484)	(2,205,830)	(1,419,484)	(2,205,830)
.				
Loss before recovery of future income tax	(1,816,839)	(2,732,904)	(3,104,498)	(3,607,400)
Recovery of future income tax	98,312	-	98,312	-
Loss for period	$ (1,718,527)	$ (2,732,904)	$ (3,006,186)	$ (3,607,400)
Loss per share - basic and fully diluted	$ (0.02)	$ (0.04)	$ (0.04)	$ (0.06)
Weighted average number of common shares	75,980,423	61,796,055	69,232,208	56,563,699

NET LOSS

The net loss for the quarter ended December 31, 2008 was $1,718,527 compared to a net loss of $2,732,904 for the quarter ended December 31, 2007 representing a decrease of $1,014,377. Included in the current quarter results are a foreign exchange loss of $26,218, an adjustment to loss amount on sale of available-for-sale investments of $1,175, impairment of available-for-sale investments of $111,865, interest income adjustment of $247, a write off of mineral properties amounting to $1,419,484 related to the Tsa da Glisza property and a recovery of future income tax of $98,312. The net loss for the year ended December 31, 2008 amounted to $3,006,186 or $0.04 per share compared to a net loss for the year ended December 31, 2007 of $3,607,400 or $0.06 per share representing a decrease of $604,214. Included in the current year's results are a foreign exchange loss of $74,233, impairment of available-for-sale investments of $111,865, a loss on the sale of available-for-sale investments of $11,113, interest income of $75,411 from surplus funds on hand invested in short term deposits, a write down of mineral properties of $1,419,484 and a recovery of future income tax of $98,312. The decline in value of the available-for-sale investments was considered by management to be significant and deemed it to be other- than-temporary and as such, the loss was recognized in net earnings. Management reviewed the carrying value of each of its properties and determined that the Tsa da Glisza property should be written down. The Company has been active on this property since 2001 and has not yet been able to determine if the property contains an economically recoverable reserve. Based on this fact, management believes it is the work done in the past three field seasons that will be of value going forward and wrote off exploration expenditures incurred in fiscal 2005. A future tax liability of $98,312 was recognized during the year for amounts renounced to investors effective December 31, 2007 but the expenditures of $393,250 had not yet been incurred. These expenditures were incurred during the financial year ended December 31, 2008. Concurrently, the benefit of the loss carry forwards were recognized.

EXPENSES

For the quarter ended December 31, 2008, total expenses were $260,200 compared to $527,446 recorded during the same period in 2007, representing a decrease of $267,246 or 51%. Included in expenses is a charge of $Nil (2007 - $137,988) for stock-based compensation. After adjustment for stock-based compensation expenses totalled $260,200 (2007 - $389,458) representing a decrease of 33%. For the year ended December 31, 2008, total expenses were $1,563,214 compared to $1,548,911 recorded during the same period in 2007. Included in expenses is a charge of $194,647 (2007 - $137,988) for stock-based compensation. After adjustment for stock-based compensation expenses totalled $1,368,567 for the year ended December 31, 2008 compared to $1,410,923 for the year ended December 31, 2007 representing a decrease of $42,356 or 3%. Significant factors that contributed to the variances are discussed below.

Consulting fees and corporate development fees

In the fourth quarter of 2008, there was a reallocation of fees totalling $75,847 charged by Iron Mask Explorations Ltd., a company controlled by Andrew Lee Smith, to mineral properties resulting in a credit in the expense account of $28,597. Consulting and corporate development fees were $303,734 in the year ended December 31, 2008 compared to $178,207 reported in the same period of 2007. Increase in consulting fees parallels the progress on development of the Greenland project.

Conventions and trade shows

For the quarter ended December 31, 2008, conventions and trade show expenses were $10,220 compared to $7,949 for the quarter ended December 31, 2007 representing an increase of $2,271 or 29%. Conventions and trade show expenses were $121,210 for the fiscal year ended December 31, 2008 compared to $71,116 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 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.

Corporate secretarial and accounting services fees
For the quarter ended December 31, 2008, corporate secretarial and accounting services fees were $58,875 compared to $57,569 for the quarter ended December 31, 2007. The corporate secretarial and accounting fees were $130,694 for the year ended December 31, 2008 compared to $138,894 for the comparative period.

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 $36,000 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 upon acceptance of board position.

General and administration
For the quarter ended December 31, 2008, general and administrative expenses were $65,978 compared to $42,201 for the quarter ended December 31, 2007. General and administration charges were $181,880 for the current year ended December 31, 2008 compared to $162,667 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 December 31, 2008, investor relations expenses were $20,262 compared to $126,586 for the quarter ended December 31, 2007. Investor relations charges were $191,854 for the year ended December 31, 2008 compared to $359,129 for the comparative period. The Company has maintained a progressive investor relation program, which commenced in the prior fiscal year, to increase its exposure and attract capital financing.

Rent and occupancy costs
For the quarter ended December 31, 2008, rent and occupancy costs were $20,894 compared to $10,082 for the quarter ended December 31, 2007. Rent and occupancy for the year ended December 31, 2008 was $66,121 compared to $38,982 for the comparative period. Variance in rent and occupancy costs is a result of an increase of approximately $2,000 per month commencing October 1, 2008 on start of new five year lease term for premises combined with a decrease in office rental revenue for the year ended December 31, 2008 of $18,000.

Travel
For the quarter ended December 31, 2008, travel expenses were $34,486 compared to $16,733 for the quarter ended December 31, 2007, an increase of $17,753. Travel charges were $124,356 for the year ended December 31, 2008 compared to $60,870 for the comparative period. 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 oversee gemstone processing in the Bangkok manufacturing facility.

CAPITAL EXPENDITURES

During the year ended December 31, 2008, the Company spent $5,655,830 (2007-$5,429,540) on its capital spending program. Capital expenditures by project and category are as follows:

	Years ended December 31,	
	2008	2007
Acquisition*		
Greenland Property - Ruby	$ -	$ 75,000
Baffin Island Property - Sapphire	658	3,000
Bandito Property (Yukon) - Nickel	-	-
	658	78,000
Exploration**		
Greenland Property - Ruby	5,216,319	4,059,755
Baffin Island Property - Sapphire	392,078	729,935
Tsa da Glisza Property - Emerald	43,127	146,232
Bandito Property (Yukon) - Nickel	3,648	123,331
	5,655,172	5,059,253
Total capital expenditures	$ 5,655,830	$ 5,137,253

*-excludes non- cash consideration - shares issued for properties $50,000 (2007-$25,000)
** - excludes advances (application of advances) ($2,554) (2007-$75,975); reclamation $5,000 (2007-$25,000) & stock-based compensation $74,420 (2007-$113,995)

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
31-Dec-08	-	(1,718,527)	(0.02)	(0.02)
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)

* Values may not add to reported amount for the years then ended due to rounding
** Quarters restated to reflect adoption of Section 1530 - Comprehesive 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, 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 December 31, 2008, the Company had cash of $4,206 and a working capital deficiency of $1,120,717. 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.

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 non-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 December 31, 2008 is not adequate to meet requirements for fiscal 2009. 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.

Capital Resources and Going Concern

True North has been successful in meeting its 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. 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 fiscal year ended December 31, 2008, the Company incurred a net loss and utilized funds in operations totalling $3,006,186 and $655,830 respectively. The accumulated deficit at December 31, 2008 is $16,246,086. 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.

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.

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.

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 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. The current equity market conditions, the challenging funding environment and the low price of the Company's common shares make it dilutive and difficult to raise funds by the sale of the Company's shares. The junior resource industry has been severely impacted by the world economic situation, as it is considered to be a high-risk investment. In order to ensure its ability to continue operating, the Company has negotiated extensions on payment of certain accounts payable and is also examining various funding alternatives. However, there is no assurance that any such activity will generate funds that will be available for investments or operations.

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

As of December 31, 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 December 31, 2008, 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.

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 Cadiam Investments Ltd.

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

Greg Davison was Vice-President of Exploration up to March 1, 2009 and provided consulting services to True North through Davison & Associates.

John Ryder, William Anderson and Greg Fekete are Independent Directors of True North. During the fiscal year ended December 31, 2008, $36,000 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 fiscal year ended December 31, 2008, directors and officers charged $695,964 in fees for services rendered, of which $479,596 was charged to operations and $216,368 to mineral properties. These transactions were entered into on a normal commercial basis.

During the fiscal year ended December 31, 2008, Austring Fendrick Fairman & Parkkari, a firm in which Greg Fekete, an officer of the Company is a partner charged fees of $2,479 for legal services. These transactions were entered into on a normal commercial basis.

PROPOSED TRANSACTIONS

As of December 31, 2008, the Company has no proposed material transactions.

CRITICAL ACCOUNTING ESTIMATES

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

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.

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

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.

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
Section 1535 specifies the disclosure of (i) an entity's objective, 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

FINANCIAL INSTRUMENTS – DISCLOSURES AND PRESENTATION
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.

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. The changes are effective for interim and annual financial statements beginning on or after January 1, 2008. The Company has disclosed the material uncertainties that cast doubt on its ability to continue as a going concern in note 1 of these financial statements.

NEW ACCOUNTING STANDARDS

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")
In 2006, the Canadian Accounting Standards Board ("AcSB") published a strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian generally accepted accounting principles ("Canadian GAAP") with IFRS over an expected five year transitional period. The AcSB announced in February 2008 that 2011 will be the changeover date for publicly-listed companies to use IFRS, replacing Canadian 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 ending December 31, 2010. The Company has begun an internal diagnostic review to understand, identify and assess the overall effort require to produce financial information under IFRS, however, at this time; the financial reporting impact of the transition to IFRS has not been determined.

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.

GOODWILL AND INTANGIBLE ASSETS
The CICA issued the new Handbook Section 3064, "Goodwill and Intangible Assets", which will replace Section 3062, "Goodwill and Other 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. The Company does not expect the adoption of this standard to have an impact on its financial statements.

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 December 31, 2008, True North had 79,428,457 common shares, 20,111,988 warrants and 5,275,000 options issued and outstanding.

As at the date of this report, True North had 79,428,457 common shares, 16,315,888 warrants and 5,275,000 options issued and outstanding.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified by securities regulations and that information required to be disclosed is accumulated and communicated to Management.

The Company evaluated the design of its internal controls and procedures over financial reporting as defined under Multilateral Instrument 52-109 for the year ended December 31, 2008. The Chief Executive Officer and the Chief Financial Officer performed this evaluation with the assistance of other Company employees to the extent necessary or appropriate. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design of these internal controls and procedures over financial reporting was effective.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Chief Executive Officer and Chief Financial Officer of the Company are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. We have assessed the design of our internal controls over financial reporting and during this process we have identified a weakness in internal controls over financial reporting which is as follows:

Due to the limited number of staff at the Company, it is not possible to achieve complete segregation of duties.

Management and the Board of Directors work to mitigate the risk of material misstatement in financial reporting. In addition, when complex accounting and technical issues arise during the preparation of quarterly financial statements outside consulting expertise is engaged. In spite of management's best efforts, there can be no assurance that this risk can be reduced to less than a remote likelihood of material misstatement.

RISK FACTORS

Mineral exploration and development involves a high degree of risk and few properties that are explored are ultimately developed into producing mines. There is no assurance that the Company's mineral exploration activities will result in any discoveries of new bodies of commercial gemstone deposits. There is also no assurance that if a commercial gemstone deposit is discovered that the ore body would be economical for commercial production. Discovery of mineral deposits is dependent upon a number of factors and significantly influenced by the technical skill of the exploration personnel involved. The commercial viability of a mineral deposit is also dependent upon a number of factors, which are beyond the Company's control. Some of these factors are the attributes of the deposit, gemstone and jewellery market, government policies and regulation and environmental protection. True North Gems is a unique company and as such subject to risk factors which are not shared by other, traditional junior exploration companies. These risks are associated with the lack of an existing coloured gemstone industry infrastructure in Canada. For example, the Company's reliance on uncertified foreign laboratories for cutting and manufacturing requires a lengthy process of testing and assessing in order to develop business relationships with reliable partners in foreign jurisdictions. Also, the resistance to innovation prevalent in the junior mining financial community presents challenges to True North Gems in communicating the value of the Company's assets and competing for market attention. Aspects like this add an element of risk to the Company's business not imposed on junior precious and base metal exploration companies. These are risk factors similar to those encountered, and overcome by a nascent junior diamond industry in the early 1990's and risks that are continually being addressed by the Company's technical and promotional programs.

Caution on Forward-Looking Statements

The MD&A contains certain forward-looking statements concerning anticipated development in True North's operation in future periods. Forward-looking statements are frequently, but not always identified by words such as "expects", "anticipates", "believes", "intends", "estimates", "potential", "possible" and similar expressions, or statements that events, conditions or results "will", "may", "could" or "should" occur or be achieved. The forward-looking statements are set forth principally under the heading "Outlook" in the MD&A and may include statements regarding exploration results and budgets, mineral resource estimates, work programs, capital expenditures, timelines, strategic plans, market price of gemstones or other statements that are not statement of fact. Forward-looking statements are statements about the future and are inherently uncertain, and actual achievements of True North may differ materially from those reflected in forward-looking statements due to a variety of risks, uncertainties and other factors. True North's forward-looking statements are based on the beliefs, expectations and opinions of management on the date the statements are made, and True North does not assume any obligation to update forward-looking statements if circumstances or management's beliefs, expectations or opinions should change except as required by law. For the reasons set forth above, investors should not place undue reliance on forward-looking statements. Important factors that the 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.