TRUE NØRTH GEMS

Management Discussion and Analysis

For The Year Ended December 31, 2009

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 23, 2010 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.

CORPORATE

On March 2, 2009, the Company announced the appointment of Rejane Amaral as Greenland Project Manager and the addition of Iain Groves as Senior Exploration Geologist. Concurrently Greg Davison resigned as VP Exploration. On July 24, 2009, Gregory Fekete resigned as a Director and Corporate Secretary to pursue other business opportunities. Martin Irving was appointed to the Board of Directors on August 31, 2009. On February 3, 2010, the Company announced that Mr. Nicholas Houghton has been appointed President and continues to serve as a Director of the Company. Mr. Houghton replaces Andrew Lee Smith, who retains his role as a Director of the Company with executive responsibilities. Mr. Jeff Giesbrecht is appointed Vice President Corporate Development and Ms. Jacqueline Tucker has been appointed to the position of Chief Financial Officer to replace David S. Parsons who has now been appointed to the Company's Board of Directors and will be appointed Chairman of the Company's Audit Committee.

FISKENAESSET RUBY PROJECT – GREENLAND

During the first half of the most recently completed financial year ended December 31, 2009, the Company's technical personnel continued to evaluate the results of the 2008 exploration program and plan the field program for 2009. Manufacturing experiments with the ruby and pink sapphire remained ongoing, albeit at a reduced level. The polishing of cutable material from the 2006 bulk sample is now near completion and the rough inventory from the 2007 bulk sample remains in secure storage until decisions have been made for further processing.

During the last half of 2009, the field related components of the 2009 program were completed. The strategic focus of the 2009 program was the acquisition of data required to support the Company's application for an exploitation (mining) permit to facilitate subsequent test mining and test marketing. The field program began in late July and concluded the first week of September and 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) Shipping of the 160 tonne 2008 Aappaluttoq bulk sample and overburden sample to Canada for processing;

(4) Initiation of the processing for the 2008 Aappaluttoq bulk sample and overburden sample;

(5) Sampling of alluvial material from the margins of the north side of the Aappaluttoq Peninsula in Lake Katrina;

(6) Re-interpretation of surface outcrops and logging of all drill core from the Aappaluttoq prospect area using Niton technology and revised geological interpretations;

(7) Bathymetric surveys of Lake Katrina to evaluate engineering alternatives and environmental studies. This lake immediately adjoins the Aappaluttoq prospect; and,

(8) 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 has 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).

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, the Company completed a comprehensive compilation of all available technical information to facilitate the project evaluation process. Due to the Company's focus of its resources on the Fiskenaesset Ruby project, no 2009 field program for the Beluga sapphire property was conducted in 2009. The project will remain on care and maintenance.

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.

TSA DA GLISZA EMERALD PROJECT – YUKON, CANADA

Based on internal review of the potential of the Tsa da Glisza Emerald property during the financial year ended December 31, 2009, management determined that it will not conduct further exploration on the project and the project was written down to a nominal value of $1 in most recently completed financial year ended December 31, 2009.

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 on the Fiskenaesset Ruby project, no 2009 exploration program at the Bandito property is planned at this time.

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.

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.

A field program was conducted over an eight day period in August and was operated by Mackevoy Geosciences Ltd. The field crew was headed by David Turner, M.Sc., P.Geo.. The True Blue field program was conducted with financial support from the Yukon Mining Incentives Program (YMIP).

The preliminary mineralogy was reported on November 24, 2009 returned assay results on samples at three separate locations with assays up to 6.02% Total Rare Earth Oxides + Yttrium (**TREO**) and 2.52% Niobium Oxide (**Nb2O5**) associated within skarn and an altered felsic dyke swarm. Subsequent to the reporting of earlier assay results, seven samples were selected and subjected to quantitative phase analysis using the Rietveld method on X-ray powder diffraction data (**Rietveld P-XRD**). Mineral phase identification and quantification showed lower detection limits of 0.3 modal percent.

The Rietveld method results have identified the following minerals which are believed to contain the majority of the rare earth elements and niobium, reported by modal percent in each sample: allanite-(Ce) (up to 16.6%), zircon (up to 10.8%), fersmite (up to 1.9%), baddeleyite (up to 1.3%), hydroxylapatite (up to 1.2%), columbite (up to 0.6%), monazite-(Ce) (up to 0.5%), tazheranite (up to 0.4%), and xenotime-(Y) (up to 0.3%). Fersmite and columbite are the niobium enriched minerals.

The seven rocks are described as follows, based on their whole rock mineralogy:

- Guano Prospect: diopside-quartz-allanite (zircon-actinolite) *skarn*;
- Guano Prospect: quartz-kfeldspar-zircon-allanite (fluorite-actinolite-almandine) *altered felsic dyke;*
- Guano Prospect: quartz-calcite-muscovite (zircon-ankerite) *altered felsic dyke*;
- Guano Prospect: andradite-quartz-actinolite-allanite (diopside-zircon) *skarn*;
- Guano Prospect: quartz-kfeldspar-actinolite-plagioclase (diopside-zircon) *altered felsic dyke*;
- Guano Prospect: quartz-calcite-muscovite–dolomite *altered felsic dyke;*
- Shark Bowl: albite-quartz-muscovite-ankerite (magnetite) *altered syenite.*

The results of this mineralogical evaluation and hence the identification of some of the minerals are preliminary in nature. Further work is recommended and required on the True Blue property to establish a full appreciation of the average REE and niobium content of the three different REE occurrences discovered to date on the property.

The Rietveld XRD samples were prepared and analyzed by the Department of Earth and Ocean Sciences at the University of British Columbia. The samples were reduced to the optimum grain-size range for quantitative X-ray analysis by grinding under ethanol in a vibratory McCrone Micronising Mill. Step-scan X-ray powder-diffraction data were collected with CoKa radiation on a Bruker D8 Focus Bragg-Brentano diffractometer.

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:

i. 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;
ii. 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,
iii. 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.

SELECTED ANNUAL INFORMATION

	2009 $	2008 $	2007 $
Revenues	-	-	-
Net loss	(2,352,417)	(3,006,186)	(3,607,400)
Net loss per share - basic and diluted	(0.03)	(0.04)	(0.06)
Cash dividends	-	-	-
Total assets	20,299,821	19,706,392	19,971,884
Long term liability	505,055	505,055	500,055
Shareholders' equity	19,029,787	17,866,381	18,837,820
Share capital	33,307,080	31,056,761	29,627,760
Warrants	1,229,757	855,471	891,595
Contributed surplus	3,091,453	2,200,235	1,568,227
Deficit	(18,598,503)	(16,246,086)	(13,239,900)
Accumulated other comprehensive loss	-	-	(9,862)

FINANCIAL POSITION

As at December 31, 2009, the Company had current assets of $325,497 and current liabilities of $764,979 compared to current assets of $214,239 and current liabilities of $1,334,956 as at December 31, 2008. At December 31, 2009, the Company had a working capital deficit of $439,482 compared to working capital deficit of $1,120,717 at December 31, 2008.

Capital (share capital and warrants) as at December 31, 2009 was $34,536,837 compared to $31,912,232 as at December 31, 2008. During the fiscal year ended December 31, 2009, True North raised additional capital of $3,361,200 from the issue of 33,612,000 shares and 33,612,000 warrants. Agents were issued 475,123 warrants. The capital raising costs for this placement amounted to $316,901 (shares - $226,253/warrants -$90,649). In addition, the Company issued 925,676 shares to satisfy its obligation pursuant to the terms of the Option Agreement on the Greenland property and 7,953,645 warrants expired resulting in the fair value of these instruments of $528,654 being credited to contributed surplus.

RESULTS OF OPERATIONS

	Three month period ended December 31,		Twelve month period ended December 31,	
	2009	2008	2009	2008
Expenses				
Amortization	$ 5,317	$ 10,952	$ 32,455	$ 41,989
Audit fees	22,300	31,000	20,461	33,141
Consulting and corporate development fees	72,450	(28,597)	322,520	303,734
Corporate financial services fees	-	-	20,000	-
Corporate secretarial and accounting fees	19,650	58,875	81,721	130,694
Directors fees	11,000	9,000	44,000	36,000
General and administrative	25,927	65,978	127,210	181,880
Investor/shareholder relations	19,413	30,482	95,604	313,064
Legal fees	3,004	5,562	10,389	19,571
Rent and occupancy costs	15,161	20,894	57,881	66,121
Salaries and employee benefits	24,227	19,369	77,545	90,514
Stock-based compensation	(58,709)	-	302,226	194,647
Transfer agent and filing fees	2,607	2,199	32,879	27,503
Travel	7,240	34,486	52,372	124,356
	169,587	260,200	1,277,263	1,563,214
Loss before under noted items	(169,587)	(260,200)	(1,277,263)	(1,563,214)
Foreign exchange gain (loss)	11,900	(26,218)	32,675	(74,233)
Gain (loss) on sale of available-for-sale investments	-	1,175	8,919	(11,113)
Impairment of available -for-sale investments	-	(111,865)	-	(111,865)
Interest income	(297)	(247)	2,448	75,411
Loss on sale of equipment	-	-	(148)	-
Write off of mineral properties	(1,119,048)	(1,419,484)	(1,119,048)	(1,419,484)
.				
Loss before recovery of future income tax	(1,277,032)	(1,816,839)	(2,352,417)	(3,104,498)
Recovery of future income tax	-	98,312	-	98,312
Loss for period	$ (1,277,032)	$ (1,718,527)	$ (2,352,417)	$ (3,006,186)
Loss per share - basic and fully diluted	$ (0.01)	$ (0.02)	$ (0.03)	$ (0.04)
Weighted average number of common shares	109,399,090	75,980,423	92,940,416	69,232,208

NET LOSS

The net loss for the quarter ended December 31, 2009 was $1,277,032 compared to a net loss of $1,718,527 for the quarter ended December 31, 2008 representing a decrease of $441,495. Included in the current quarter results are a foreign exchange gain of $11,900, interest income adjustment of $297 and a write off of mineral properties amounting to $1,119,048 related to the Tsa da Glisza property. The net loss for the year ended December 31, 2009 amounted to $2,352,417 or $0.03 per share compared to a net loss for the year ended December 31, 2008 of $3,006,186 or $0.04 per share representing a decrease of $653,769. Included in the current year's results are a foreign exchange gain of $32,675, a gain on the sale of available-for-sale investments of $8,919, interest income of $2,448, loss on sale of equipment of $148 and a write down of mineral properties of $1,119,048. Management reviewed the carrying value of each of its properties and determined that the Tsa da Glisza property should be written down to a nominal value of $1. Management does not intend to conduct further exploration on the project and is uncertain as to the amount, if any, which may be recovered on eventual sale of this project.

EXPENSES

For the quarter ended December 31, 2009, total expenses were $169,587 compared to $260,200 recorded during the same period in 2008, representing a decrease of $90,613 or 35%. For the year ended December 31, 2009, total expenses were $1,277,263 compared to $1,563,214 recorded during the same period in 2008. Included in expenses is a charge of $302,226 (2008 - $194,647) for stock-based compensation. After adjustment for stock-based compensation, expenses totalled $975,037 for the year ended December 31, 2009 compared to $1,368,567 for the year ended December 31, 2008 representing a decrease of $393,530 or 29%. Significant factors that contributed to the variances are discussed below.

Consulting fees and corporate development fees

Consulting and corporate development fees were $322,520 in the year ended December 31, 2009 compared to $303,734 reported in the same period of 2008 representing an increase of 6%. Fees included in this account represent charges for management services.

Corporate secretarial and accounting services fees

For the quarter ended December 31, 2009, corporate secretarial and accounting services fees were $19,650 compared to $58,875 for the quarter ended December 31, 2008. The corporate secretarial and accounting fees were $81,721 for the year ended December 31, 2009 compared to $130,694 for the comparative period representing a decrease of $48,973. The decrease is reflective of reduced corporate activity and a contract for accounting services not being renewed in the current financial year due to financial constraints.

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 $44,000 has been recorded as paid to directors in the year ended December 31, 2009 compared to $36,000 reported in the same period of 2008.

General and administration

For the quarter ended December 31, 2009, general and administrative expenses were $25,927 compared to $65,978 for the quarter ended December 31, 2008. General and administration charges were $127,210 for the current year ended December 31, 2009 compared to $181,880 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, 2009, investor relations expenses were $19,413 compared to $30,482 for the quarter ended December 31, 2008. Investor relations charges were $95,604 for the year ended December 31, 2009 compared to $313,064 for the comparative period. In the first quarter of 2008, True North launched its rebranding program; including new logo, brochures, website, presentations, etc. to reflect its focus on the Fiskenaesset project. Additionally, the decrease in spending in the current year is reflective of the economic conditions and limited financial resources.

Rent and occupancy costs
For the quarter ended December 31, 2009, rent and occupancy costs were $15,161 compared to $20,894 for the quarter ended December 31, 2008. Rent and occupancy for the year ended December 31, 2009 was $57,881 compared to $66,121 for the comparative period. Additional space in the leased premises has been sublet resulting in a decrease in rental expense in the current financial year.

Travel
For the quarter ended December 31, 2009, travel expenses were $7,240 compared to $34,486 for the quarter ended December 31, 2008, a decrease of $27,246. Travel charges were $52,372 for the year ended December 31, 2009 compared to $124,356 for the comparative period. Financial constraints in the current financial year resulted in the decision to reduce travel to the extent possible. In the prior comparative period, extensive travel was done 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, 2009, the Company spent $1,459,847 (2008-$5,655,830) on its capital spending program. Capital expenditures by project and category are as follows:

	Year ended December 31, 2009	2008
Acquisition*		
Greenland Property - Ruby	$ 116,335	$ -
Baffin Island Property - Sapphire	-	658
	116,335	658
Exploration**		
Greenland Property - Ruby	1,301,590	5,216,319
Baffin Island Property - Sapphire	25,715	392,078
Tsa da Glisza Property - Emerald	(6,527)	43,127
Bandito Property (Yukon) - Nickel	22,734	3,648
	1,343,512	5,655,172
Total capital expenditures	$ 1,459,847	$ 5,655,830

* - excludes shares issued for mineral properties of $78,750 (2008-$50,000).

** - excludes advances of $6,859 (2008-$2,554), proceeds from sale of equipment of $17,010 (2008-$Nil) & stock-based compensaton $46,660 (2008-$74,420)

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-09	-	(1,277,032)	(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)
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)

* 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 December 31, 2009, the Company had cash of $244,029 and a working capital deficiency of $439,482. 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 December 31, 2009 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.

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 fiscal year ended December 31, 2009, the Company incurred a net loss and utilized funds in operations totalling $2,352,417 and $1,302,460 respectively. The accumulated deficit at December 31, 2009 is $18,598,503. 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.

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, 2009, 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 $432,540 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 Fiskenaesset Licence was obtained by the Company satisfying all the terms of an option agreement with Brereton Engineering and Developments Ltd. ("Brereton"). Ongoing commitments from the option agreement include cash payments of $50,000 (paid) and issue of $50,000 worth of shares from treasury annually for each year (issued January 6, 2010) the Company maintains the exploration licence. Once an exploitation (mining) permit is obtained the Company is required to make a one time cash payment of $500,000 and issue $500,000 worth of shares from treasury.

As of December 31, 2009, 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 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.

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

Nick Houghton was Vice-President of Product Development and Marketing up to February 3, 2010 and a Director of the Company and provides services to True North through Cadiam Investments Ltd.

David S. Parsons was True North's CFO up to February 3, 2010 and provides services to the Company.

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

Gregory Fekete was Corporate Secretary of the Company up to July 24, 2009 and provided services to True North through Gregory Fekete Professional Corp.

William Anderson, Robert Boyd, Martin Irving and John Ryder are Independent Directors of True North. Mr. Irving was appointed to the Board of Directors on August 31, 2009. During the fiscal year ended December 31, 2009, $44,000 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, 2009, directors and officers charged $379,908 in fees for services rendered, of which $367,758 was charged to operations and $12,150 to mineral properties. These transactions were entered into on a normal commercial basis.

CHANGES TO DIRECTORS AND OFFICERS POST YEAR END

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

PROPOSED TRANSACTIONS

As of December 31, 2009, 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 AND WARRANTS

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

INCOME TAXES

The determination of income and other tax liabilities requires interpretation of complex laws and regulations. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded by management.

FINANCIAL INSTRUMENTS

Designation and fair value

True North has classified its cash and cash equivalents as held-for-trading and investments as available-for-sale. Amounts receivable are classified as loans and receivables. Accounts payable, accrued charges and loans payable are classified as other liabilities. At December 31, 2009 and 2008 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.

Changes in Accounting Policies

Effective January 1, 2009, the Company has adopted the guidelines governed by the following Sections of the Canadian Institute of Chartered Accountants ("CICA") Handbook:

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. Adoption of this new standard had no impact on the Company's financial statements.

ACCOUNTING BY MINING ENTERPRISES FOR EXPLORATION COSTS

In March 2009, the CICA issued EIC Abstract 174, Mining Exploration Costs ("EIC-174"), which supersedes EIC-126, Accounting by Mining Enterprises for Exploration Costs. The publication of EIC-174 covers all guidance in EIC-126 and provides additional guidance for mining exploration enterprises in circumstances where a test for impairment is required. EIC-174 is applicable for the Company's interim and annual financial statements issued after March 27, 2009. Adoption of this new standard had no impact on the Company's financial statements.

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.

During 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 performing a 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. True North has not completed its analysis of the impact on adoption of IFRS, as the standard is still an Exposure Draft and we are uncertain of changes that may be made before adoption date.

Under Canadian GAAP, mineral property impairment testing is performed on a two step test. The first step is to determine if there is an impairment loss by using an undiscounted cash flow analysis. If that analysis identifies an impairment loss, the loss is measured as the amount by which the carrying value exceeds fair value. The fair value is often based on discounted cash flows. Under IFRS, assets are tested for impairment using a one-step process based on discounted cash flows. IFRS also allows the reversal of impairment charges from previous years if the fair value exceeds the carrying value of long-lived assets.

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 still considering 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's analysis discussed above.

True North will track 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 December 31, 2009, True North had 113,966,133 common shares, 46,245,466 warrants and 8,675,000 options issued and outstanding.

As at the date of this report, True North had 114,537,562 common shares, 46,245,466 warrants and 9,575,000 options issued and outstanding.

RISK FACTORS

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

Caution on Forward-Looking Statements

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