



TRUE NORTH GEMS

MANAGEMENT DISCUSSION AND
ANALYSIS

FOR THE THREE MONTH PERIOD ENDED
March 31, 2016

Management's discussion and analysis ("MD&A") provides a review of the performance of True North Gems Inc.'s ("True North" or the "Company") operations and has been prepared on the basis of available information up to May 26, 2016 and should be read in conjunction the unaudited condensed interim consolidated financial statements for the three month period ended March 31, 2016 ("Consolidated Financial Statements") and the audited consolidated financial statements for the year ended December 31, 2015 ("fiscal 2015") and the related notes thereto. The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Company's reporting currency is Canadian dollars and all dollar amounts referred to in this discussion and analysis are expressed in Canadian dollars except where indicated otherwise.

Some of the statements made in this MD&A are forward-looking statements that are subject to risk factors set out in the cautionary note contained herein.

True North's common shares are listed on the TSX Venture Exchange (the "TSX-V") trading symbol – TGX.

Caution on Forward-Looking Statements

The MD&A contains certain forward-looking statements concerning anticipated development in True North's operation in future periods. Forward-looking statements are frequently, but not always identified by words such as "expects", "anticipates", "believes", "intends", "estimates", "potential", "possible" and similar expressions, or statements that events, conditions or results "will", "may", "could" or "should" occur or be achieved. The forward-looking statements are set forth principally under the heading "Outlook" in the MD&A and may include statements regarding exploration results and budgets, mineral resource estimates, work programs, capital expenditures, timelines, strategic plans, market price of gemstones or other statements that are not statement of fact. Forward-looking statements are statements about the future and are inherently uncertain, and actual achievements of True North may differ materially from those reflected in forward-looking statements due to a variety of risks, uncertainties and other factors. True North's forward-looking statements are based on the beliefs, expectations and opinions of management on the date the statements are made, and True North does not assume any obligation to update forward-looking statements if circumstances or management's beliefs, expectations or opinions should change except as required by law. For the reasons set forth above, investors should not place undue reliance on forward-looking statements. Important factors that could cause actual results to differ materially from True North's expectations include uncertainties involved in disputes and litigation, fluctuations in commodity prices and currency exchange rates; uncertainties relating to interpretation of drill results and the geology, continuity and grade of deposits; uncertainty of estimates of capital and operating costs, recovery rates, production estimates and economic return; the need for cooperation of government agencies and native groups in the exploration and development of properties and the issuance of required permits; the need to obtain additional financing to develop properties and uncertainty as to the availability and terms of future financing; the possibility of delay in exploration or development programs or in construction projects and uncertainty in meeting anticipated program milestones; uncertainty as to timely availability of permits and other government approvals and other risks and uncertainties disclosed in other information released by True North from time to time and filed with the appropriate regulatory agencies.

HIGHLIGHTS AND OUTLOOK

AAPPALUTTOQ RUBY AND PINK SAPPHIRE PROJECT – GREENLAND

During the three month period ended March 31, 2016 and to the date of this report, the Company's sole focus has been the continued construction of the processing plant at the Aappaluttoq Ruby and Pink Sapphire project, and related financing activities. Prior to commissioning the processing plant, the Company requires financing for the final capital to complete construction and commissioning of the process plant, as well as working capital to see the Company through to revenue generation.

In order to obtain the necessary financing, amongst other initiatives, the Company has engaged Endeavour Financial Limited ("Endeavour") to provide advisory services. Endeavour is assisting the Company by evaluating various financing options, thereby allowing the Company to advance production and develop the marketing platform.

Q1-2016 Project Milestones

During the current period, the Company continued with construction at the Aappaluttoq mine site, with approximately 90% of the project having been completed. Progress since year end has been focused on construction of the process plant:

- All major steel towers have been put in place, the major pieces of heavy machinery, including the dense media separator, have been installed and all conveyor systems are in place;
- Internal buildings including the offices, lunch room and security room are nearing completion;
- The tailings return pipe has been installed and this work will be finalized when underwater installation can be completed post-thaw;
- The outstanding items which remain are:
 - assembly of the process plant control room
 - completion of process plant wiring and plumbing
 - commissioning of the process plant equipment
 - construction of the secondary cleaning & sorting facility in Nuuk
- The outstanding items at the process plant are expected to take approximately one month prior to the commencement of commissioning. The secondary cleaning & sorting facility is expected to take approximately two months, however the Company expects the facility to be ahead of first production being received from the mine site. These timeframes are dependent upon the Company obtaining adequate financing and the availability of the necessary contractors.

FINANCIAL POSITION

As at March 31, 2016, the Company had current assets of \$290,171 and current liabilities of \$5,558,989 compared to current assets of \$1,295,793 and current liabilities of \$2,351,761 as at December 31, 2015. At March 31, 2016, the Company had a working capital deficit of \$5,268,818 compared to working capital deficit of \$1,055,968 at December 31, 2015. It should be noted that of the current liabilities owing, \$4,006,865 is owed to the Company's partner, the LNS Group, for the Company's share of costs incurred relating to the construction at the Aappaluttoq mine site.

The Company had cash and cash equivalents of \$48,742 at March 31, 2016 compared to \$1,044,907 at December 31, 2015. During the three month period ended March 31, 2016, the Company recorded cash used in operations of \$443,100 compared to cash used in operations of \$404,768 for the comparative period ended March 31, 2015.

Cash used in investing activities during the current period includes \$759,612 being spent on mine construction and development activities and in constructing facilities for the mine. Additionally, the Company spent \$20,505 on its exploration and evaluation assets. Funds of \$28,750 were returned to the Company on the release of a bond that had been held as security in relation to a credit card facility the Company no longer required.

RESULTS OF OPERATIONS

Three month period ended March 31, 2016 compared with three month period ended March 31, 2015

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

| | For the three month period ended | |
|--|----------------------------------|-------------------|
| | 2016 | March 31, 2015 |
| Operating expenses | | |
| Audit and related services | \$ 7,209 | \$ 9,093 |
| Depreciation | 1,900 | 2,258 |
| Directors fees | 21,000 | 41,000 |
| Exploration and evaluation expenditures (recoveries) | 49 | (10,173) |
| Foreign exchange (gain) loss | 671,336 | 30,053 |
| General and administrative | 77,105 | 90,375 |
| Investor relations | 104,724 | 80,855 |
| Legal fees | 4,262 | 3,957 |
| Rent and occupancy costs | 80,168 | 79,505 |
| Salaries | 222,134 | 522,126 |
| Share-based compensation | - | 604,107 |
| Transfer agent and filing fees | 12,100 | 11,068 |
| Travel | 51,677 | 50,950 |
| Operating loss | (1,253,664) | (1,515,174) |
| Other income (expenses) | | |
| Interest and other income | 51 | 582 |
| Borrowing costs | (6,701) | (4,655) |
| Loss before income taxes | (1,260,314) | (1,519,247) |
| Income tax expense | (1,199,778) | (541,248) |
| Net loss for the year | \$ (2,460,092) | \$ (2,060,495) |
| Loss attributable to : | | |
| Shareholders | \$ (1,959,965) | \$ (2,018,893) |
| Non-controlling interest | (500,127) | (41,602) |
| | \$ (2,460,092) | \$ (2,060,495) |
| Loss per share - basic and fully diluted | \$ (0.01) | \$ (0.01) |
| Weighted average number of common shares - basic and fully diluted | 307,485,383 | 297,252,049 |

NET LOSS

The net loss attributable to shareholders for the three month period ended March 31, 2016 amounted to \$1,958,965 compared to a net loss for the comparative period in 2015 of \$2,060,495, representing a decrease in net loss of \$59,928. Included in the current period's results are interest income of \$51 (2015: \$582) and borrowing costs of \$6,701 (2015: \$4,655).

Operating expenses

For the three month period ended March 31, 2016, total operating expenses were \$1,253,664 compared to \$1,515,174 recorded during the same period in 2015 representing a decrease of \$261,510.

Significant factors that contributed to the variances are discussed below:

Foreign exchange loss

Foreign exchange loss of \$671,336 in the current period was mainly a result of the strengthening DKK relative to the US dollar, which resulted in a loss on foreign denominated liabilities. In Q1-2015, currency exchange rates were relatively stable and there were less DKK denominated liabilities in the US dollar functional subsidiary.

Salaries

Salaries decreased by \$299,992 to \$222,134 in Q1-2016 from \$522,126 for the comparative period in 2015. During the prior period, a bonus payable to the CEO (\$285,842) and a retroactive pay increase was approved (\$60,000); accordingly, the amounts were accrued. There were no similar amounts in the current period.

Share-based compensation

No stock options were granted in Q1-2016, whereas in the prior period a compensation expense of \$620,084 was charged to operations.

Income tax expense

The income tax expenses recorded in the current and prior three month periods are primarily a result of the recognition of deferred tax liabilities with respects to differences between accounting values and tax values under Greenland tax laws, most significantly due to the tax treatment of capitalized mine construction and development costs.

Non-controlling interest

The loss associated with non-controlling interest in the current period was due to the ownership of TNGG by the LNS Group (17.0%) and Greenland Venture (7.6%). In Q1-2015, LNS Group held 7.0% and Greenland Venture 0.6%.

At March 31, 2016, the Company held an ownership interest of 75.4% in TNGG (March 31, 2015: 92.4%).

CAPITAL EXPENDITURES

(Information extracted from the Company's audited Consolidated Financial Statements)

For the three month period ended March 31, 2016, the Company spent \$780,117 (2015: \$1,124,579) on capital projects. Capital expenditures are as follows:

| | For the three month period ended March 31, | |
|--|--|---------------------|
| | 2016 | 2015 |
| Exploration and evaluation assets | | |
| Exploration and evaluation expenditures - Greenland, net of non cash expenditures of \$158,778 (2015: \$130,912) | \$ 20,505 | \$ 26,099 |
| Property, plant and equipment | | |
| Mine construction and development costs, net of non-cash items totaling \$730,447 (2015: \$1,853,906) | \$ 677,283 | \$ 286,545 |
| Property, plant and equipment additions, net of non-cash items totaling \$1,450,749 (2015: nil) | 82,329 | 811,935 |
| Total property, plant and equipment | \$ 759,612 | \$ 1,098,480 |

SUMMARY OF QUARTERLY RESULTS – UNAUDITED

The following table details the Company's unaudited quarterly results:

| Quarter Ended | Net revenues | Net income (loss) attributable to shareholders* | Net income (loss) attributable to non-controlling interests* | Net income (loss)* | Loss per share - basic & diluted |
|---------------|--------------|---|--|--------------------|----------------------------------|
| | \$'s | \$'s | \$'s | \$'s | \$'s |
| 31-Mar-16 | - | (1,958,965) | (501,127) | (2,460,092) | \$ (0.01) |
| 31-Dec-15 | - | (611,083) | (68,516) | (679,599) | \$ (0.00) |
| 30-Sep-15 | - | (314,467) | (27,032) | (341,499) | \$ (0.00) |
| 30-Jun-15 | - | (734,379) | (31,687) | (766,066) | \$ (0.00) |
| 31-Mar-15 | - | (2,018,892) | (41,602) | (2,060,494) | \$ (0.01) |
| 31-Dec-14 | - | (919,915) | (20,009) | (939,924) | (0.00) |
| 30-Sep-14 | - | (215,404) | (650) | (216,054) | (0.00) |
| 30-Jun-14 | - | (128,611) | (719) | (129,330) | (0.00) |

*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 has been carrying out mine development and exploration activities in Greenland and Canada. The Company's exploration activities have been seasonal in nature and programs tend to start late spring and end early fall.

Factors that can cause significant fluctuations in the Company's quarterly results are the timing of stock option grants, foreign exchange gains (losses), salaries and income taxes (refer to table below). The Company's properties have not yet achieved commercial production.

| Quarter Ended | Share-based compensation \$ | Foreign exchange losses (gains) \$ | Salaries \$ | Income tax expense (recovery) \$ |
|---------------|-----------------------------|------------------------------------|-------------|----------------------------------|
| 31-Mar-16 | - | 671,336 | 222,134 | 1,199,778 |
| 31-Dec-15 | 15,977 | (265,515) | 269,157 | 289,533 |
| 30-Sep-15 | - | (311,597) | 103,653 | 146,029 |
| 30-Jun-15 | - | 36,621 | 99,655 | 188,787 |
| 31-Mar-15 | 604,107 | 30,053 | 457,068 | 541,248 |
| 31-Dec-14 | - | (34,595) | 167,342 | 297,780 |
| 30-Sep-14 | - | (45,792) | 45,000 | 13,000 |
| 30-Jun-14 | - | (43,324) | 45,000 | (65,390) |

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2016, the Company had cash and cash equivalents (collectively referred to as “cash”) of \$48,742 and a working capital deficiency of \$5,268,818.

Based on the financial position at March 31, 2016, the Company’s available funds are not considered adequate to meet requirements for the next twelve months based on budgeted and committed expenditures for operations, mine development, project commissioning and project exploration. To meet expenditure requirements, the Company is dependent upon its ability to access financial resources through the issuance of securities, sale of the Company’s investments, or obtaining debt financing. There can be no assurances that the Company will be successful in accessing these financial resources.

CAPITAL RESOURCES

To date, the Company has been successful in meeting its capital requirements through the completion of equity placements, debt financings and investment sales. The Company may be impacted by any negative trends in market conditions. Trends affecting the Company’s liquidity are dictated by the demands on financial resources created by the advancing nature of the Company’s mine construction assets and the Company’s ability to access the financial resources required to meet these demands. As the exploration and evaluation assets advance from exploration to mine development, more capital is required that apply pressure to the Company’s financial resources, which result in a steady drain to the Company’s liquidity.

In acquiring the required capital to finance the Company’s contributing assets for completion of the Aappaluttoq Ruby and Pink Sapphire mine, capital will be generated from a combination of accessing equity markets, sales of the Company’s investments, arranging loan facilities and revenues generated from sales of gemstones prior to commencement of commercial production.

Trends that affect the market generally, and the perception of the Company within the marketplace, can affect the Company’s ability to access capital in both a positive and negative way. Trends in this general market are defined by fluctuations in the global economy and the demand for metals and commodity prices. Trends in the perception of the Company in the resource marketplace will be affected by general trends in the resource equity markets, the Company’s performance in creating shareholder value and in demonstrating the ability to manage the Company’s affairs and achieve mandated objectives.

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

As of March 31, 2016, the Company is \$2,204,356 in debt. The debt consists of a DKK 1,000,000 (\$198,300) bank overdraft owed to the Bank of Greenland, and a loan agreement with Greenland Venture. The principal amount outstanding is DKK 7,909,255 (approximately C\$1.6 million at prevailing exchange rates). The loan bears interest at a rate of 2% per month, and the principal and accrued interest is repayable on July 31, 2017. The Company has unconditionally and irrevocably guaranteed repayment to Greenland Venture of the loan principal, accrued interest, and any costs and expenses payable in connection with the loan.

As of March 31, 2016, the Company has no long-term contractual agreements to acquire mineral properties. To maintain the exploration licences in good standing, the Company is required to meet minimum expenditure levels, as prescribed by the Mineral Licence and Safety Authority (“MLSA”) annually, as set out in the table below:

| Licences | Licence Renewal Date | 2016 Exploration Obligation | | Surplus Expenditures - December 31, 2015 | |
|--------------------------------|----------------------|-----------------------------|------------|--|--------------|
| | | DKK | CAD | DKK | CAD |
| Exploration Licences | | | | | |
| Fiskenaesset - Licence 2008/46 | December 31, 2015 | - | \$ - | 14,935,681 | \$ 2,961,725 |
| Qaqqatsiaq - Licence 2008/01 | December 31, 2017 | - | \$ - | 918,318 | \$ 182,101 |
| Manitsog - Licence 2014/47 | December 31, 2018 | 832,040 | \$ 167,574 | 571,498 | \$ 113,327 |

Surplus expenditures on the exploration licences may be carried forward and credited against the calculated exploration commitment in future years, which is subject to confirmation by the Mineral Licencing and Safety Authority (“MLSA”).

TRANSACTIONS WITH RELATED PARTIES

Key management personnel are those persons that have the authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly. Key management personnel include the Company’s directors and members of the senior management group.

For the three month period ended March 31, 2016, key management personnel charged \$227,614 in fees for services rendered, of which \$186,715 was charged to operations and \$40,449 to property, plant and equipment. These transactions were in the normal course of business recorded at their exchange amounts, which was established and agreed to by the related parties.

William Anderson, Robert Boyd, Peter Friedmann, David Parsons, John Ryder, Andrew Lee Smith and Raymond Simpson are Independent Directors of the Company. During the three month period ended March 31, 2016, \$21,000 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.

At March 31, 2016, there is a balance due to key management personnel of \$506,734 for compensation, which is included in accounts payable and accrued liabilities.

PROPOSED TRANSACTIONS

As of May 26, 2016, the Company has no proposed material transactions.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant are disclosed in Note 4 in the Company’s audited Consolidated Financial Statements for the year ended December 31, 2015.

ACCOUNTING POLICIES

The Company has applied IFRS, as disclosed in Note 3 to the annual consolidated financial statements, and applicable to enterprises in the resource sector, which are applied on a consistent basis.

INTERNAL CONTROL OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS AND PROCEDURES

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

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

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

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

ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE

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

OUTSTANDING SHARE DATA

At March 31, 2016, True North had 307,485,383 common shares, 980,656 warrants and 18,950,000 options issued and outstanding.

At the date of this report, True North had 307,485,383 common shares, 813,989 warrants and 18,950,000 options issued and outstanding.

RISK FACTORS

Financial capability and additional financing

The Company relies on equity or debt financings to fund its activities. While it has been successful in raising funds in the past, there is no guarantee that adequate funds will be available in the future and/or on terms acceptable by the Company. The Company has cash and cash equivalents of \$48,742 at March 31, 2016. Based on the financial position at March 31, 2016, available funds are not considered adequate to meet requirements for the next twelve months based on budgeted expenditures for operations, mine development and project exploration. A discussion of risk factors particular to the financial instruments is presented in Note 17 of the Consolidated Financial Statements for the three month period ended March 31, 2016.

Mine construction and start-up of new mine

The Company's decision to commence construction at the Aappaluttoq Ruby and Pink Sapphire deposit was based upon the Pre-Feasibility Study ("PFS"), National Instrument 43-101 Technical Report. There is no guarantee that construction will be completed as scheduled, when production will begin or that financial results will be consistent with the PFS. Failure to complete construction on schedule, commence production when planned or if financial results and associated sales of product are not consistent with the PFS, it could have a material adverse impact on the Company's ability to generate revenue and cash flow in the future to fund operations.

Exploration risk

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

Environmental risk

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. Environmental hazards may exist on the properties on which the Company is seeking an interest, which are unknown to the Company at present and which may have been caused by previous or existing owners or operators of the properties. The Company may become liable for such environmental hazards caused by previous owners and operators of the properties even where it has attempted to contractually limit its liability. Government approvals and permits are currently, and may in the future, be required and obtained in connection with the Company's operations.

Political policy risk

Substantially all of the Company's assets are located in Greenland. As such, the Company's is subject to political, economic, and other uncertainties, including, but not limited to, the uncertainty of negotiating with foreign governments, expropriation of property without fair compensation, adverse determination or rulings by governmental authorities, changes in mining policies or in the personnel administering them, currency fluctuations, disputes between various levels of authorities, arbitrating and enforcing claims against entities that may claim sovereignty, authorities claiming jurisdiction, royalty and government take increases and other risks arising out of foreign governmental sovereignty over the areas in which the Company's operations are conducted. The Company's operations may be adversely affected by changes in government policies and legislation and other factors which are not within the control of the Company.