

Blue Note Mining Inc.
Financial Statements
December 31, 2009 and 2008

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AUDITORS' REPORT

To the Shareholders of
Blue Note Mining Inc.

We have audited the balance sheets of **Blue Note Mining Inc.** (the "Corporation") as at December 31, 2009 and 2008 and the statements of income (loss) and comprehensive income (loss), shareholders' equity (deficiency) and cash flows for the four month period ended December 31, 2009, the eight month period ended August 31, 2009 and year ended December 31, 2008. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the four month period ended December 31, 2009, the eight month period ended August 31, 2009 and year ended December 31, 2008 in accordance with Canadian generally accepted accounting principles.

The logo for Ernst & Young LLP is written in a black, cursive script. The words "Ernst" and "Young" are connected by an ampersand, and "LLP" follows. The signature is fluid and handwritten in style.

Chartered Accountants

Montréal, Canada
April 14, 2010

¹ CA auditor permit no. 17610

Blue Note Mining Inc.

Balance Sheets

See going concern uncertainty – note 1

	Successor December 31, 2009 \$	Predecessor December 31, 2008 \$
Assets		<i>Restated - note 13</i>
<i>Current assets</i>		
Cash and cash equivalents	572,978	5,430,174
Restricted cash	-	40,000
Sundry receivables (note 4)	504,215	1,627,266
Loan receivable (note 5)	127,500	-
Prepaid expenses	252,232	442,446
Current assets related to discontinued operations (note 13)	-	2,905,755
	1,456,925	10,445,641
Mineral properties and exploration costs (note 6)	7,620,838	5,067,677
Asset held for sale	-	1,000,000
Property and equipment (note 7)	80,190	265,131
Deferred share issue costs	100,000	-
Long-term assets related to discontinued operations (note 13)	-	26,034,601
	9,257,953	42,813,050
Liabilities		
<i>Current liabilities</i>		
Credit facility	-	15,000,000
Accounts payable and accrued liabilities	464,602	3,875,507
Current portion of long-term debt	-	25,000,000
Current liabilities related to discontinued operations (note 13)	-	38,810,485
	464,602	82,685,992
Long-term liabilities and non-controlling interest related to discontinued operations (note 13)	-	10,090,908
	464,602	92,776,900
Shareholders' equity (deficiency)		
Share capital (note 8)	9,327,482	111,135,134
Warrants (note 8)	281,478	2,440,622
Contributed surplus (note 8)	160,025	15,976,153
Deficit	(975,634)	(179,515,759)
	8,793,351	(49,963,850)
	9,257,953	42,813,050

Subsequent events (note 16)

See accompanying notes to the financial statements

On behalf of the board:

Signed: "David Crevier" Director

Signed: "Michael Judson" Director

Blue Note Mining Inc.

Statements of Income (Loss) and Comprehensive Income (Loss)

See going concern uncertainty – note 1

Periods ended	Four months ended December 31, 2009 \$ Successor	Eight months ended August 31, 2009 \$ Predecessor	Twelve months ended December 31, 2008 \$ Predecessor
Revenue			Restated - note 13
Interest income	1,775	14,368	761,950
Depletion and depreciation	17,069	43,663	117,883
Corporate general and administration	950,138	3,505,780	10,431,975
Exploration	7,767	1,710	-
Foreign exchange (gain)	(112)	-	(21,758)
Interest on long-term debt	725	2,022,217	2,750,000
Other interest and financial charges	1,822	11,006	6,111
Accretion expense on long-term debt	-	-	5,787,004
Revaluation of long-term debt	-	-	(2,406,173)
Impairment loss (notes 6)	-	1,457,566	1,918,242
Loss on exercise of convertible debenture	-	-	14,949,161
Loss on disposal of long-lived assets (notes 6 & 7)	-	37,778	-
Gain on disposal of short-term investment	-	(593,726)	-
Change in fair value of embedded derivatives	-	-	(377,038)
	977,409	6,485,994	33,155,407
Loss before income taxes	(975,634)	(6,471,626)	(32,393,457)
Future income taxes recovered	-	-	672,500
Loss from continuing operations	(975,634)	(6,471,626)	(31,720,957)
Gain (loss) from discontinued operations, net of income taxes (note 13)	-	19,288,808	(130,106,459)
Net income (loss) and comprehensive income (loss) for the period	(975,634)	12,817,182	(161,827,416)
Basic and diluted income (loss) per share			
From continuing operations	(0.019)	(0.018)	(0.087)
From discontinuing operations	-	0.053	(0.358)
Net income (loss)	(0.019)	0.035	(0.446)
Weighted average number of common shares outstanding	51,330,584	363,269,313	363,187,387

The calculation of the weighted average number of common shares outstanding, for the Predecessor, does not reflect the share consolidation of 30 for one, as described in note 8.

See accompanying notes to the financial statements

Blue Note Mining Inc.

Statements of Shareholders' Equity (Deficiency)

See going concern uncertainty – note 1

	Share capital \$	Warrants \$	Contributed surplus \$	Retained earning (deficit) \$	Total \$
Balance - December 31, 2007 (Predecessor)	111,597,934	2,440,622	9,427,526	(17,688,344)	105,777,738
Equity issued	900	-	-	-	900
Future income taxes on flow through expenses renounced	(672,500)	-	-	-	(672,500)
Options issued and stock based compensation charged to operations	-	-	847,616	-	847,616
Options forfeited	-	-	(105,191)	-	(105,191)
Broker warrants exercised	208,800	-	(88,800)	-	120,000
Equity component of convertible debenture	-	-	5,895,002	-	5,895,002
Net loss year ended December 31, 2007 (Predecessor)	-	-	-	(161,827,415)	(161,827,415)
Balance, December 31, 2008 (Predecessor)	111,135,134	2,440,622	15,976,153	(179,515,759)	(49,963,850)
Net income from January 1 to August 31, 2009	-	-	-	12,817,182	12,817,182
Stock-based compensation	-	-	134,660	-	134,660
Options forfeited	-	-	(33,719)	-	(33,719)
Balance, August 31, 2009 (Predecessor)	111,135,134	2,440,622	16,077,094	(166,698,577)	(37,045,727)
Plan of reorganization and fresh start adjustments	(102,158,093)	(2,440,622)	(16,077,094)	166,698,577	46,022,768
Balance, August 31, 2009 (Successor)	8,977,041	-	-	-	8,977,041
Equity issued	350,441	-	-	-	350,441
Stock-based compensation	-	-	100,525	-	100,525
Warrants	-	281,478	-	-	281,478
Broker warrants issued	-	-	59,500	-	59,500
Net loss from September 1 to December 31, 2009	-	-	-	(975,634)	(975,634)
Balance, December 31, 2009 (Successor)	9,327,482	281,478	160,025	(975,634)	8,793,351

See accompanying notes to the financial statements

Blue Note Mining Inc.

Statements of Cash Flows

See going concern uncertainty – note 1

Period ended	Four months ended December 31, 2009	Eight months ended August 31, 2009	Twelve months ended December 31, 2008
	\$	\$	\$
	Successor	Predecessor	Predecessor
Cash provided from (used for):			Restated - note 13
Operating activities			
Loss from continuing operations	(975,634)	(6,471,626)	(31,720,957)
<i>Non-cash items:</i>			
Future income taxes recovered	-	-	(672,500)
Accretion expense for long-term debt	-	-	5,787,004
Depreciation of mineral properties, deferred exploration cost and property and equipment	17,069	43,663	117,883
Gain in fair value of current assets	-	(383,307)	-
Loss (Gain) in fair value of embedded derivative	-	-	(377,038)
Non-cash stock-based compensation (note 8 c)	100,525	100,941	545,257
Gain in fair value on revaluation of debt	-	-	(2,406,173)
Gain on disposal of short-term investment	-	(593,726)	-
Loss on disposal of property and equipment	-	37,778	-
Loss on exercise of convertible debenture	-	-	14,949,161
Impairment loss (notes 6)	-	1,457,566	1,918,242
Net changes in non-cash components of operating working capital (note 9 a)	478,026	(326,580)	(20,791,475)
Cash-flow related to continued operating activities	(380,014)	(6,135,291)	(32,650,596)
Cash-flow related to discontinued operating activities	-	(32,440)	15,815,063
Cash-flow related to operating activities	(380,014)	(6,167,731)	(16,835,533)
Financing activities			
Increase in credit facility	-	-	1,240,156
Proceeds from the issue of common shares (note 8 a)	626,419	-	120,000
Cash-flow related to continued financing activities	626,419	-	1,360,156
Cash-flow related to discontinued financing activities	-	-	(2,181,878)
Cash-flow related to financing activities	626,419	-	(821,722)

Continued...

See accompanying notes to the financial statements

Blue Note Mining Inc.

Statements of Cash Flows

See going concern uncertainty – note 1

Period ended	Four months ended December 31, 2009	Eight months ended August 31, 2009	Twelve months ended December 31, 2008
	\$	\$	\$
	Successor	Predecessor	Predecessor
			Restated - note 13
Investing activities			
Decrease (increase) in restricted cash	40,000	-	(40,000)
Proceeds receivable from sale of short-term investment	-	593,726	75,000
Deferred acquisition costs	(100,000)	-	-
Mineral properties and deferred exploration costs	(364,821)	(139,020)	(2,867,655)
Receipt of government incentives	-	-	647,961
Proceeds from asset held for sale	-	1,000,000	-
Disposition (acquisition) of office furniture and equipment	-	1,805	(10,848)
Cash-flow related to continued investing activities	(424,821)	1,456,511	(2,195,542)
Cash-flow related to discontinued investing activities	-	-	(13,224,810)
Cash-flow related to investing activities	(424,821)	1,456,511	(15,420,352)
Net increase (decrease) in cash provided by continued activities	(178,416)	(4,678,780)	(33,485,982)
Net increase (decrease) in cash provided by discontinued activities	-	-	408,375
Net increase (decrease) in cash and cash equivalents	(178,416)	(4,678,780)	(33,077,607)
Cash and cash equivalents - beginning of period			
From continuing operations	751,394	5,430,174	38,916,156
From discontinued operations	-	32,440	(375,935)
	751,394	5,462,614	38,540,221
Cash and cash equivalents - end of period			
From continuing operations	572,978	751,394	5,430,174
From discontinued operations	-	-	32,440
	572,978	751,394	5,462,614
Represented by:			
Cash	173,066	751,394	635,836
Cash equivalents	399,912	-	4,794,338

See accompanying notes to the financial statements

Blue Note Mining Inc.

Note to the Financial Statements

December 31, 2009

1. Plan of arrangement and reorganization and going concern uncertainty

Blue Note Mining Inc. (the "Predecessor" prior to August 31, 2009 and the "Successor" or the "Corporation" subsequent to August 31, 2009) is a mineral exploration and mining company with gold and base metal exploration properties located in New Brunswick. The business of the Corporation is to pursue its business plan of turning around challenging mining projects and targeting under-valued mining opportunities. The minerals being targeted by the Corporation are gold, silver, zinc, lead and copper.

As a result of the uneconomic nature of the Predecessor's wholly-owned subsidiary, Blue Note Caribou Mines Inc ("BNC") operations at commodities prices prevailing in 2008, and the Predecessor's inability to obtain financing given then existing market conditions, BNC sought protection under the Companies' Creditors Arrangement Act ("CCAA"), on February 20, 2009. The majority of the operating assets of the Predecessor were held in BNC. BNC filed for bankruptcy on June 30, 2009. As of the date of this filing, the Predecessor concluded that it had lost its control over BNC and therefore classified its investment as held-for-trading (see *note 13*).

As a result of the bankruptcy of BNC and the inability to obtain financing under the existing market conditions, the Predecessor decided to seek protection under CCAA on June 12, 2009 (the "Filing Date").

On July 17, 2009, the Predecessor's creditors approved the proposed plan of arrangement and reorganization (the "Plan") submitted to them by the Predecessor under the CCAA. At a meeting held on July 17, 2009, 95% of the votes registered by the Predecessor's creditors were in favor of the Plan. On August 4, 2009, the Quebec Superior Court ratified the Plan effective August 25, 2009 and the Predecessor emerged from protection under CCAA on August 31, 2009.

Under the terms of the Plan, selected creditors received \$2,500,000 in cash and 74.36% of the Successor's outstanding common shares after share consolidation. The creditors were the senior secured note holders (carrying value of \$25 million); the New Brunswick Provincial Holdings (\$15 million); unpaid accrued interest (\$2.5 million) and other trade creditors (\$1.8 million). The selected creditors received a total of 35,131,088 common shares of the Successor representing 74.36% of the total equity. The Plan included a one for 30 share consolidation of Blue Note's shares.

The implementation of the Plan on August 31, 2009 resulted in a substantial realignment of the interests in the Corporation between its existing creditors and shareholders as of August 31, 2009. As a result, the Successor's balance sheet as at August 31, 2009, has been prepared under the provisions of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1625, *Comprehensive Revaluation of Assets and Liabilities* ("fresh start accounting"). Fresh start accounting requires resetting the historical net book value of assets and liabilities to fair value by allocating the entity's reorganization value of \$8,977,041 to its assets and liabilities in a manner consistent with the CICA Handbook Section 1581, *Business Combinations*. The excess reorganization value over the fair value of tangible and identifiable intangible assets and liabilities has been recorded as a reduction to share capital in the balance sheet. Future income taxes, at August 31, 2009 have been determined in accordance with CICA Handbook Section 3465, *Income Taxes*. As a result of applying fresh start accounting, the Predecessor became a new entity for financial reporting purposes. Accordingly, the financial statements of the Successor on or after August 31, 2009 are not comparable to the financial statements of the Predecessor prior to that date.

The Successor has performed an assessment of the fair value of the identifiable assets and liabilities. Management's estimates of fair value are based on independent appraisals and valuations. There are three generally accepted valuation approaches in the mining industry; a) income approach, b) market approach and c) cost approach. The process of determining the fair value of the identifiable assets and liabilities resulted in an adjustment of \$2,962,953 in fair value was recorded in these assets and liabilities at the fresh start date which resulted in an increase of the Successor's equity.

The Predecessor's financial information has been presented to provide additional information for the reader. In reviewing the Predecessor's financial information, the readers are reminded that they do not reflect the effects of the financial reorganization or the application of its accounting described below.

Blue Note Mining Inc.

Note to the Financial Statements

December 31, 2009

1. Plan of arrangement and reorganization and going concern uncertainty (continued)

The following table summarizes the impact of adjustments required to implement the Plan and to reflect the adoption of fresh start accounting:

Fresh Start Balance sheet	Predecessor August 31, 2009 \$	Plan of Reorganization \$	Fresh Start Adjustments \$	Successor August 31, 2009 \$
Assets				
<i>Current assets</i>				
Cash and cash equivalents	3,251,394	(2,500,000)	-	751,394
Restricted cash	40,000	-	-	40,000
Sundry receivable	1,077,103	-	(233,307)	843,796
Prepaid expenses	468,277	-	(150,000)	318,277
	4,836,774	(2,500,000)	(383,307)	1,953,467
Mineral properties and deferred exploration costs	3,749,131	-	3,441,886	7,191,017
Property and equipment	192,885	-	(95,626)	97,259
	8,778,790	(2,500,000)	2,962,953	9,241,743
Liabilities				
<i>Current liabilities</i>				
Credit facility	15,000,000	(15,000,000)	-	-
Accounts payable and accrued liabilities	4,618,483	(4,353,781)	-	264,702
Current portion of note indenture	25,000,000	(25,000,000)	-	-
	44,618,483	(44,353,781)	-	264,702
Shareholders' equity (deficiency)				
Share capital	111,135,134	43,059,815	(145,217,908)	8,977,041
Warrants	2,440,622	-	(2,440,622)	-
Contributed surplus	16,077,094	-	(16,077,094)	-
Retained earnings (deficit)	(165,492,543)	(1,206,034)	166,698,577	-
	(35,839,693)	41,853,781	2,962,953	8,977,041
	8,778,790	(2,500,000)	2,962,953	9,241,743

Fresh Start Adjustments:

- **Current assets:**
A fresh start adjustment of \$383,307 was recorded to reduce the historical cost to the estimated fair values.
- **Mineral properties and deferred exploration costs:**
A fresh start adjustment of \$3,441,886 was recorded to increase the historical cost to estimated fair values, based on an independent appraisal.
- **Property and equipment:**
A fresh start adjustment of \$95,626 was recorded to reduce the historical cost to the estimated fair values.
- **Shareholders' equity (deficiency):**
Adopting fresh start accounting results in a new reporting entity with no retained earnings or deficit. All Predecessor share capital has been eliminated and replaced by the new equity structure of the Successor. The fresh start adjustments include the reduction in fair value of Predecessor share capital, warrants, contributed surplus, deficit, as well as a reduction to the Successor share capital as a result of the reorganization value over the fair value of the identifiable assets and liabilities stemming from fresh start accounting.

Blue Note Mining Inc.

Note to the Financial Statements

December 31, 2009

1. Plan of arrangement and reorganization and going concern uncertainty (continued)

These financial statements of the Corporation have been prepared by the management on a going concern basis, which assumes the Corporation will continue its operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the ordinary course of business. The use of these principles may not be appropriate because as of December 31, 2009, there is substantial doubt that the Corporation will be able to continue as a going concern without raising additional financial resources. These financial statements use the same accounting policies and methods used in the preparation of the Predecessor's 2008 annual consolidated financial statements with the exception of the fair value adjustments applied under fresh start accounting and changes in accounting policies described in *note 3*.

The Corporation is not currently generating any revenue from its operations activities and for the four months period ended December 31, 2009, the Corporation recorded a loss of \$975,634. The Corporation must secure sufficient funding to maintain its existing operations for exploration programs and general and administration expenses.

Management is seeking financing through the issuance of new equity instruments to continue its activities, but there can be no assurance it will be able to do so in the future. Without new funding being available, the Corporation could be unable to continue its operations. If the Corporation is unable to obtain additional financing, management may be required to curtail the Corporation's operations.

These financial statements do not give effect to any adjustments to the amount and classification for assets and liabilities that may be necessary should the Corporation be unable to continue as a going concern. Such adjustments could be material.

2. Summary of significant accounting policies

The financial statements of the Corporation have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The financial statements have, in management's opinion, been properly prepared using careful judgement within reasonable limits of materiality and within the framework of the accounting policies summarized below:

Foreign currency translation: Foreign currency denominated monetary assets and liabilities are translated at exchange rate prevailing at the year end; foreign currency denominated revenues and expenses are translated at average rates of exchange prevailing during the year. Exchange gains and losses arising on the translation of the accounts are included in the statements of income (loss) and comprehensive income (loss).

Revenue recognition: Revenues from the sale of zinc and lead are recognized and are recorded at market prices when title transfers and the rights and obligations of ownership pass to the customer. The Corporation's concentrate is sold under pricing arrangements where final prices are determined by quoted market prices in a period subsequent to the date of sale ("quotational pricing"). The Company records these revenues provisionally at the time of sale based on forward prices for the expected month of final settlement. Any adjustment to the amounts receivable for each shipment at the settlement date, caused either by final pricing or assay results, are adjusted through revenue at the time of determination. Price changes for shipments which are awaiting final pricing at year end could have a material effect on future revenues.

Cash and cash equivalents: The Corporation considers currency on hand and demand deposits with financial institutions to be cash. The Corporation considers all highly liquid investments with Canadian financial institutions and purchased with a maturity of three months or less to be cash equivalents. Due to the short-term, liquid and minimal risk related to changes in fair value, the Corporation has classified cash equivalents as held for trading.

Blue Note Mining Inc.

Note to the Financial Statements

December 31, 2009

2. Summary of significant accounting policies (continued)

Short-term investments: Short-term investments consist primarily of cash deposits with financial institutions with remaining maturities greater than 90 days at acquisition, but less than one year.

Inventories: Concentrate inventory and ore stock piles are valued at the lower of cost and net realizable value. Cost represents the average cost and includes direct labour, material costs, mine-site overhead expenses, royalties and depletion. Supplies inventory is valued at the lower of average cost and net realizable value. Supplies inventory, classified as capital in nature, are recorded at cost and are amortized when put into use according to the accounting policy for the category of mining properties and deferred exploration costs to which they relate.

Mining properties and deferred exploration costs: Mining properties and deferred exploration costs are recorded at cost, less government grants. Costs of exploration and related capital assets on existing projects are deferred until production commences. Mining properties and deferred exploration costs are depleted over the estimated economic life of the project if successful, on a units-of-production basis, based on expected tonnes of proven and probable reserves to be mined, and written off or down to its estimated net realizable value if a project is unsuccessful or is economically unfeasible. Option payments received are applied against the related mining properties and deferred exploration costs.

Property and equipment: Office furniture and equipment are recorded at cost, less any related government assistance. Depreciation is calculated over the estimated useful lives of the related assets using the following rates and methods:

	Rate	Method
Office furniture and equipment	20%	Straight-line
Computer equipment	30%	Straight-line
Leasehold improvements	Term of lease	Straight-line

Impairment of long-lived assets: The Corporation reviews and evaluates the carrying value of its long-lived assets including its mining properties and deferred exploration properties for impairment when events or circumstances indicate that the carrying amounts of related assets may not be recoverable. If the total estimated future cash flows on an undiscounted basis are less than the carrying amount of the asset, an impairment loss is measured and assets are written down to fair value, which is normally the discounted value of future cash flows. Assumptions underlying future cash flow estimates are subject to risks and uncertainties. It is possible that changes in estimates could occur which may affect the expected recoverability of the Corporation investments in mining properties.

Flow through common shares: Proceeds received upon the issue of common shares that transfer the mineral exploration expense deductions to investors are credited to the share capital and the related exploration costs are charged to deferred exploration costs. The Corporation renounces tax deductions relating to resource expenditures that are financed by the issuance of flow through shares for the benefit of its shareholders, as permitted by the tax legislation. The tax impact related to the renouncement is recorded at the date that the Corporation files the renouncement documents with the tax authorities.

Deferred acquisition costs: Costs related to the future acquisition of mining properties are deferred until the acquisition is finalized and expensed if the acquisition does not occur. The deferred costs consist primarily of legal and due diligence fees. There have been no such deferred acquisition costs at December 31, 2008.

Blue Note Mining Inc.

Note to the Financial Statements

December 31, 2009

2. Summary of significant accounting policies (continued)

Asset retirement obligation: The asset retirement obligations relate primarily to site restoration and dismantling of facilities at and near the mining sites in Caribou and Restigouche upon their closure based on the mining plan. The fair value of the future asset retirement obligations is recognized in the year in which they are incurred when a reasonable estimate of the fair value can be made. The fair value of the obligations was determined as the sum of the estimated discounted future cash flows of the legal obligations associated with the future retirement of these mining assets. These asset retirement costs are capitalized as part of the cost of the mining properties. The liability is increased over time (accreted) using the interest rate that was applied in the initial measurement of fair value and the asset is amortized over the estimated life of the related asset. The amount of the liability is subject to re-measurement at each reporting period due to changes in the expected amount and/or timing of the obligation settlement.

Stock-based compensation: The Corporation has a stock option compensation plan which is described in *note 8*. The Corporation applies the fair value method. The fair value is measured at the grant date using the Black-Scholes option pricing model. The fair value of options issued to employees, officers and directors are generally recognized as an expense over the vesting period with a corresponding increase to contributed surplus. The fair value of stock-based compensation issued to consultants is generally recognized as an expense at the earlier of the vesting date or over the period over which the services are performed with a corresponding increase to contributed surplus. Any consideration paid by employees, officers and directors on exercise of stock options or purchase of stock is credited to share capital.

Share issue expenses: Share capital is presented net of share issue expenses.

Net income (loss) per share: The basic net income (loss) per share is calculated using the weighted average number of common shares outstanding during the year. The diluted net income (loss) per share is calculated based on the weighted average number of common shares outstanding during the year, plus the effects if any, of dilutive common share equivalents such as options. This method requires that the diluted net loss per share be calculated using the treasury stock method, as if all common share equivalents had been exercised at the beginning of the reporting period, or period of issuance, as the case may be, and that the funds obtained thereby were used to purchase common shares of the Corporation at the volume weighted average trading price of the common shares during the year.

Future income taxes: The Corporation uses the liability method of tax allocation to account for income taxes. Future income taxes are recognized for the future income tax consequences attributable to differences between the financial statement carrying values and their respective income tax basis. Future income tax assets and liabilities are measured using substantively enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities due to a change in tax rates is included in income in the period in which the change occurs. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized.

Financial instruments, recognition and measurement: All financial assets are classified as held for trading, held-to-maturity investments, loans and receivables or available-for-sale. All financial liabilities are classified as held for trading or other financial liabilities. All financial instruments are recorded initially on the balance sheet at fair value. After initial recognition, the financial instruments should be measured at their fair values, except for held-to-maturity investments, loans and receivables and other financial liabilities, which should be measured at amortized cost using the effective interest method.

Blue Note Mining Inc.

Note to the Financial Statements

December 31, 2009

2. Summary of significant accounting policies (continued)

Financial instruments, recognition and measurement (continued):

The effective interest related to the financial assets and liabilities and the gain or loss arising from a change in the fair value of a financial asset or financial liability classified as held for trading are included in net loss for the year in which they arise. If a financial asset is classified as available-for-sale, the gain or loss is recognized in other comprehensive income until the financial asset is derecognized and cumulative gain or loss is then recognized in net loss, or if there has been a loss in value of such investment that is other than a temporary decline, the investment should be written down and the impairment loss should be recognized in net loss.

Under certain conditions, an embedded derivative is separated from host contracts and accounted for as a derivative that is classified as held-for-trading.

An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

There is an embedded derivative in the Corporation's *accounts receivable – trade* resulting from quotational pricing. The Corporation does not separate this embedded derivative from the related accounts receivable, but rather, accounts for trade accounts receivable as held-for-trading and accounts for changes in the fair value of unsettled accounts receivables with reference to forward London Metal Exchange (“LME”) (“London Metal Exchange”) rates for the remaining quotational period through gains or losses recorded in revenue and adjustments to the amount receivable.

Financing costs and transaction fees: Financing costs associated with the issuance of debt are deferred, recorded as a reduction of the carrying value of the related debt, and amortized over the term of the related debt using the effective interest method. Transactions costs, such as legal fees, that are directly attributable to the acquisition or issuance of financial assets or liabilities follow the same accounting treatment as financing costs.

Use of estimates: The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the recorded amounts of assets and liabilities, disclosure of contingent assets and liabilities and the recorded amounts of related revenue and expenses. Significant areas requiring the use of management estimates relate to the useful life of assets for amortization and depletion purposes and for the valuation of their residual value and net recoverable amount, the calculation of asset retirement obligations, the calculation of stock-based compensation and mining and income taxes. Accordingly, actual results could differ from these estimates.

Comparative figures: Certain comparative figures have been reclassified to conform to the presentation of the current period. The financial statements on or after August 31, 2009 are not comparable to the Corporation's financial statements prior to that date. In addition, the operating results for the four months ended December 31, 2009 and the eight months ended August 31, 2009 are not necessarily indicative of the operating results of the entire year.

3. Changes in accounting policies

“Credit Risk and the Fair Value of Financial Assets and Financial Liabilities”,

On January 1, 2009, the Corporation adopted Emerging Issues Committee (“EIC”) EIC-173 which provides guidance on how to take into account its own credit risk and counterparty credit risk in determining the fair value of financial assets and financial liabilities, including derivative instruments. The adoption of EIC-173 had no significant impact on the Corporation's financial statements.

Blue Note Mining Inc.

Note to the Financial Statements

December 31, 2009

3. Changes in accounting policies (continued)

“Mining Exploration Costs”

On January 1, 2009, the Corporation adopted EIC-174 which clarifies guidance related to capitalization of exploration costs and impairment of capitalized costs. During the eight month period ended August 31, 2009, the Predecessor had indicator that a significant adverse change in the business climate incurred and therefore the carrying amount of long-lived asset may not be recoverable and that a test for impairment is required. The adoption of EIC-174 had significant impact on the Predecessor’s financial statements as disclose on note 6.

“Financial instruments – Disclosures”

In May 2009, the CICA amended Section 3862, “Financial Instruments” – Disclosures, to improve disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require that all financial instruments recognized at fair value on the Balance Sheet must be classified in three fair value hierarchy levels, which are as follow:

Level 1: valuation based on quoted prices observed in active markets for identical assets or liabilities;

Level 2: valuation techniques based on inputs other than quote prices in active markets that are either directly or indirectly observable;

Level 3: valuation techniques with significant unobservable market inputs.

The results of the application of these new standards are included in note 11.

Recent accounting pronouncements

“Business combinations, Consolidated financial statements and Non-controlling interests”

In January 2009, the Accounting Standards Board issued 3 new accounting standards: Section 1582 “Business Combinations”; Section 1601 “Consolidated Financial Statements”; and Section 1602 “Non-Controlling Interests”. These new sections harmonize significant aspects of Canadian accounting standards with the International Financial Reporting Standards (“IFRS”) that will be mandated for entities with fiscal years beginning on or after January 1, 2011. The Corporation does not expect the adoption of these standards to have a significant impact on their financial statements. The Corporation will adopt these standards on January 1, 2010 in connection with the transaction in note 16.

4. Sundry receivables

	Successor December 31, 2009 \$	Predecessor December 31, 2008 \$
Commodity taxes receivable	130,973	320,633
Receivable from related party	313,242	259,526
Other receivables	60,000	297,107
Loan receivable	-	750,000
	504,215	1,627,266

The related party is an entity subject to significant influence of the Corporation’s chief executive officer. The advance does not bear interest and is due on demand.

Blue Note Mining Inc.

Note to the Financial Statements

December 31, 2009

5. Loan receivable

Loan receivable from X-ORE Resources Inc ("X-ORE") bears interest at 12% per year and is due on demand.

6. Mineral properties and exploration costs

	Successor - December 31, 2009		
	Mineral properties	Exploration costs	Total
	\$	\$	\$
Mineral and exploration properties	1,239,669	6,381,169	7,620,838
	1,239,669	6,381,169	7,620,838

As of August 31, 2009, the Predecessor adjusted the mineral and exploration properties to the fair value which was based on independent appraisals and evaluations by \$3,441,886, as required by fresh start accounting (note 1).

Prior to the application of fresh start accounting, the Predecessor recorded an impairment loss of \$1,457,566 related to base metal properties.

Prior to the application of fresh start accounting, the Predecessor disposed of a "SAG Mill" for an amount of \$1,000,000 equivalent to the book value of the asset. An additional value of \$11,000, representing spare parts, was added to the equipment and therefore recorded as loss on disposal of long-lived assets. This asset was classified as an Asset held for sale.

	Predecessor - December 31, 2008			
	Mineral Properties	Exploration Costs	Grants	Total
	\$	\$	\$	\$
Mineral and exploration properties	1,123,377	4,592,261	(647,961)	5,067,677
	1,123,377	4,592,261	(647,961)	5,067,677

Blue Note Mining Inc.

Note to the Financial Statements

December 31, 2009

7. Property and equipment

	Successor - December 31, 2009		
	Cost	Accumulated	
			Depreciation
	\$	\$	\$
Office furniture and equipment	84,884	(11,200)	73,684
Computer equipment	12,375	(5,869)	6,506
	97,259	(17,069)	80,190

Prior to the application of fresh start accounting, 2009, the Predecessor disposed of office furniture and computer equipment for an amount of \$1,805 which resulted into a net loss of \$26,778.

As of August 31, 2009, the Predecessor also recorded an impairment loss of \$95,626 related to the property and equipment, as required by fresh start accounting (note 1).

	Predecessor - December 31, 2008		
	Cost	Accumulated	
			Depreciation
	\$	\$	\$
Office furniture and equipment	293,473	(106,506)	186,967
Computer equipment	131,533	(61,532)	70,001
Leasehold improvements	8,163	-	8,163
	433,169	(168,038)	265,131

Blue Note Mining Inc.

Note to the Financial Statements

December 31, 2009

8. Shareholders' equity

The Corporation is incorporated under the provisions of the Canada Business Corporations Act.

Authorized: An unlimited number of common and preferred shares with no par value.

	Share capital		Warrants		Stock options and broker warrants	Contributed Surplus	Total
	Number	\$	Number	\$	Number	\$	\$
Balance - December 31, 2007	362,854,313	111,597,934	35,750,000	2,440,622	43,765,758	9,427,526	123,466,082
Equity issued (b)	15,000	900					900
Future income taxes on flow through expenses renounces (b)		(672,500)					(672,500)
Options issued and stock based compensation charged to operations (c)					17,540,000	847,616	847,616
Options forfeited (c)					(7,550,000)	(105,191)	(105,191)
Broker warrants exercised (c)	400,000	208,800			(400,000)	(88,800)	120,000
Broker warrants expired (d)					(11,687,925)		-
Equity component of convertible debenture						5,895,002	5,895,002
Balance - December 31, 2008	363,269,313	111,135,134	35,750,000	2,440,622	41,667,833	15,976,153	129,551,909
Options issued and stock based compensation charged to operations (c)					2,000,000	134,660	134,660
Options forfeited (c)					(14,682,000)	(33,719)	(33,719)
Balance - August 31, 2009 - Predecessor	363,269,313	111,135,134	35,750,000	2,440,622	28,985,833	16,077,094	129,652,850
Share consolidation 30:1	12,108,981	-	1,191,667	-	966,194	-	-
Share issued for restructuring (a)	36,326,935	43,059,815					43,059,815
Fresh start accounting	(363,269,313)	(145,217,908)		(2,440,622)		(16,077,094)	(163,735,624)
Balance - August 31, 2009 - Successor	48,435,916	8,977,041	1,191,667	-	966,194	-	8,977,041
Equity issued (a)	3,808,695	350,441					350,441
Options issued and stock based compensation charged to operations (b)					2,900,000	100,525	100,525
Warrants (a)			2,417,028	281,478			281,478
Broker warrants (a)					367,139	59,500	59,500
Balance - December 31, 2009 - Successor	52,244,611	9,327,482	3,608,695	281,478	4,233,333	160,025	9,768,985
Deficit							(975,634)
Total Shareholders' equity							8,793,351

Blue Note Mining Inc.

Note to the Financial Statements

December 31, 2009

8. Shareholders' equity (continued)

(a) Issues during 2009

On July 17, 2009, the Predecessor's creditors approved the Plan submitted to them under the CCAA. Under the terms of the Plan, the creditors received 74.36% of the Successor's outstanding common shares post-restructuring (35,131,088 shares). Management of the Predecessor, registered as creditors, have temporarily renounced to their shares distribution until the share issuance was approved by the Predecessor shareholders. On October 21, 2009, approval was obtained and therefore 1,195,847 shares were issued. The Plan also provided for a one for 30 share consolidation.

On September 14, 2009, the Corporation acquired a 100% interest in the Brandy Brook property, located in Gloucester County, New Brunswick. As part of the consideration paid on the transaction, the Corporation issued 108,695 common shares and 108,695 warrants, which could be exercised, to acquire 108,695 common shares at \$0.23 per share over a period of two years. The proceeds were allocated as follows: \$16,522 to share capital; \$8,478 to warrants.

On September 18, 2009, the Corporation closed a private placement of 3,500,000 flow-through units at \$0.20 per unit each composed of 3,500,000 common shares and 3,500,000 warrants to acquire 3,500,000 common shares at \$0.26 over a period of two years. In connection with the issuance of these units, the Corporation incurred cost of \$73,581 and issued 350,000 broker warrants to the agent to acquire 350,000 common shares at \$0.20 per share and 350,000 broker warrants to the agent to acquire 350,000 common shares at \$0.26 per share over a period of two years. The issue generated total gross proceeds of \$700,000 and net proceeds of \$626,419. The proceeds were allocated as follows; \$293,919 to share capital; \$273,000 to warrant account; and, \$59,500 to broker warrants.

The fair value of warrants issued in September, was estimated at \$0.078 each and calculated using a Black-Scholes pricing model with the following assumptions: estimated weighted average duration of 2 years risk free interest rate of 2.34%, forecasted volatility of 84% and no forecasted dividend.

On October 22, 2009, the Corporation announced that it is maintaining its option to acquire a 100% interest in the Williams Brook gold property' located in northern New Brunswick. The Corporation maintained its option on Williams Brook for a fourth year for consideration of \$30,000 cash and the issuance of 200,000 Corporation common shares, with a stated value of \$40,000, which are subject to a statutory four-month hold period expiring February 17, 2010. As part of the consideration paid on the transaction, the Corporation issued 200,000 common shares at \$0.20 per share.

(b) Issues during 2008

The Corporation has recorded an additional share issue cost of \$672,500 to account for the future tax cost of the exploration costs it has renounced in March 2008 on the flow through shares issued in 2007. The amount has been charged to share capital.

A total of 400,000 brokers' warrants were exercised for gross proceeds of \$120,000 resulting in the issue of 400,000 common shares.

As part of an agreement to acquire 100% undivided interest in an exploration property, the Corporation issued 15,000 shares with a stated value of \$900.

Blue Note Mining Inc.

Note to the Financial Statements

December 31, 2009

8. Shareholders' equity (continued)

(c) Stock option plan

The Corporation has a stock option plan (the "Plan") authorizing the Board of Directors to grant options to directors, officers, employees and other persons providing services to the Corporation to acquire common shares of the Corporation at a price computed by reference to the closing market price of the shares of the Corporation on the business day before the Corporation notifies the stock exchanges of the grant of the option. The number of shares which may be granted to any one person shall not exceed 5% (2% for other persons) of the Corporation's outstanding common shares over a twelve month period. The options will vest 18 months from the date of the grant and expire within 5 years, as determined by the board, with exceptions to death, employment, etc. The Corporation is authorized to issue a maximum of 5,224,461 common shares under the Plan, which represents 10% of the outstanding common shares.

The activity under the stock option plan, and information concerning outstanding and exercisable options, is as follows:

	2009		2008	
	Granted	Weighted Average Exercise Price \$	Granted	Weighted Average Exercise Price \$
Balance – beginning of the year	31,682,000	0.22	21,692,000	0.42
Options granted under stock option plan	2,000,000	0.05	17,540,000	0.07
Options forfeited	(14,682,000)	0.23	(7,550,000)	0.46
Balance – August 31 - Predecessor	19,000,000	0.19		
Share consolidation 30:1	633,333	5.63		
Options granted under stock option plan	2,900,000	0.16		
Balance – December 31 - Successor	3,533,333	1.14	31,682,000	0.22

The following amounts were recorded as stock-based compensation and credited to contributed surplus for options vesting in the period:

Period ended	Four months ended December 31, 2009	Eight months ended August 31, 2009	Twelve months ended December 31, 2008
	\$	\$	\$
Directors, management and employee compensation	94,450	100,941	534,579
Consultant compensation	6,075	-	10,678
Total charged to earnings	100,525	100,941	545,257

Stock based compensation is included in corporate general and administration expenses.

Blue Note Mining Inc.

Note to the Financial Statements

December 31, 2009

8. Shareholders' equity (continued)

(c) Stock option plan (continued)

As at December 31, 2009, the outstanding options, as issued under the stock option plan to directors, management, employees and consultants for the purchase of one common share per option, are as follows:

Granted	Exercisable	Weighted average Exercise price \$	Expiry date
23,333	23,333	7.50	Jan-11
205,000	205,000	11.70	Jun-11
25,000	25,000	16.80	Nov-12
313,333	233,000	1.50	Dec-13
66,667	33,333	1.50	Mar-14
2,900,000	725,000	0.16	Oct-14
3,533,333	1,244,667	1.14	

The fair values of stock options granted during the period were estimated at their respective grant dates using the Black-Scholes pricing model using the following assumptions:

	December 31, 2009 Successor	December 31, 2008 Predecessor
Risk-free interest rate	1.63% to 2.61%	1.77% to 3.02%
Expected life (years)	2 to 5	2 to 5
Expected volatility	84% to 260%	67% to 198%
Expected dividend yield	nil	nil
Weighted average grant date fair value; post consolidation	\$0.068	\$0.031

Blue Note Mining Inc.

Note to the Financial Statements

December 31, 2009

8. Shareholders' equity (continued)

(d) Broker warrants and units

The activity and information concerning outstanding and exercisable broker warrants and units are as follows:

Years ended December 31,	2009		2008	
	Granted	Weighted Average Exercise Price \$	Granted	Weighted Average Exercise Price \$
Balance - beginning of year, Predecessor	9,985,833	0.62	22,073,758	0.45
Consolidation 30:1	332,861	18.74		
Successor				
Broker w arrants issued upon exercise of broker units	700,000	0.23		
Exercised	-	0.00	(400,000)	0.30
Expired	(332,861)	18.74	(11,687,925)	0.30
Balance – end of year, Successor	700,000	0.23	9,985,833	0.62

As at December 31, 2009, the Corporation had the following broker warrants outstanding:

Broker warrants and units description	Granted	Exercisable	Weighted average exercise price \$	Expiry Date
Warrant to purchase a share at \$0.20 to \$0.26	700,000	700,000	0.23	Sep-11

(e) Share purchase warrants

As at December 31, 2009, the Corporation has 3,608,695 (The balance of 35,750,000 warrants in 2008 all expired during 2009) share purchase warrants outstanding entitling the holders to acquire common shares at an exercise price of \$0.26 until their expiration in September 2011.

Blue Note Mining Inc.

Note to the Financial Statements

December 31, 2009

9. Supplemental disclosures of expenses and cash flow information

(a) Net changes in non-cash components of operating working capital

Period ended	Four months ended December 31, 2009	Eight months ended August 31, 2009	Twelve months ended December 31, 2008
	\$	\$	\$
	Successor	Predecessor	Predecessor
Decrease (increase) in:			
Sundry receivable	339,581	783,470	(908,645)
Loan receivable	(127,500)	-	-
Prepaid expenses	66,045	124,169	(45,439)
Advance to subsidiary	-	2,376,586	(21,777,936)
Increase (decrease) in:			
Account payable and accrued liabilities	199,900	(3,610,805)	1,940,545
	478,026	(326,580)	(20,791,475)
Non-cash item:			
Fair value of shares issued for mineral properties	65,000	-	-

(b) Interest paid and received

Period ended	Four months ended December 31, 2009	Eight months ended August 31, 2009	Twelve months ended December 31, 2008
	\$	\$	\$
	Successor	Predecessor	Predecessor
Interest paid	725	1,195,381	2,750,000
Interest received	1,775	14,368	885,412

Blue Note Mining Inc.

Note to the Financial Statements

December 31, 2009

10. Capital disclosure

The Corporation's objectives when managing capital are to safeguard the Corporation's ability to continue as a going concern in order to pursue the development of its properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Corporation manages its capital structure and makes adjustments to it in response to changes in general industry conditions and its mining and exploration assets. The Corporation may choose to issue equity or debt, revise its capital expenditure program, and/or sell assets. Access to equity markets is currently very limited due to recent weakening of the global economy and low commodity prices.

The Corporation's capital management objectives, evaluation measures and targets have remained unchanged over the periods presented.

In the management of capital, the Corporation includes shareholders' equity (deficiency) and long-term debt, in the definition of capital as follow:

	December 31, 2009 \$ Successor	December 31, 2008 \$ Predecessor
Shareholder' equity (deficiency)	8,793,351	(49,963,850)
Long-term debt, including current portion	-	25,000,000
	8,793,351	(24,963,850)

There are no externally imposed capital requirements. The Corporation manages the capital structure and makes adjustments depending on economic conditions.

Blue Note Mining Inc.

Note to the Financial Statements

December 31, 2009

11. Financial instruments and risk management

Financial assets and financial liabilities are measured on an ongoing basis at fair value or amortized cost. The disclosures in the “Financial Instruments – Recognition and Measurement” section of *note 3* to these financial statements describe how the categories of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognized.

As at December 31, 2009, the classification of the financial instruments, as well as their carrying values and fair values, are shown in the table below:

Years ended December 31,	Held for trading	Loans and receivables	Other financial liabilities	Total carrying value and fair value	
	\$	\$	\$	2009 \$	2008 \$
Financial assets					
Cash and cash equivalents	572,978	-	-	572,978	5,430,174
Restricted cash	-	-	-	-	40,000
Account receivable - trade	-	-	-	-	-
Sundry receivables (1)	-	373,241	-	373,241	1,306,633
Loan receivable	-	127,500	-	127,500	-
Short-term assets related to discontinued operations (1)	-	-	-	-	516,630
	572,978	500,741	-	1,073,719	7,293,437
Financial liabilities					
Account payable and accrued liabilities (2)	-	-	464,602	464,602	3,875,507
Account payable and accrued liabilities - Zinc and Lead sales	-	-	-	-	-
Credit facility	-	-	-	-	15,000,000
Long-term debt - current portion	-	-	-	-	25,000,000
Short-term liabilities related to discontinued operations (2 & 3)	-	-	-	-	33,547,588
	-	-	464,602	464,602	77,423,095

¹ Excluding taxes receivable

² Excluding trade payables related to zinc and lead sales, sales and capital taxes.

³ Typically, invoices are paid provisionally and settled based partially on LME rates in the month of settlement. If the fair value of the related commodity has declined, the Corporation can be required to repay a portion of the provisional payment received from customers.

The Corporation has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies. The Company has determined the estimated fair value of its financial instruments based on appropriate valuation methodologies. The estimated fair value amounts can be affected by the use of different assumptions or methodologies. The methods and assumptions used to estimate the fair value of financial instruments are described below:

- Held of trading: The cash equivalents have been measured using the fair value determined by reference using inputs other than Level 1 quoted prices for which all significant inputs are observable, either directly or indirectly [Level 2]. At December 31, 2009 and 2008 the fair value of cash and cash equivalents and approximates their carrying value.

- Loans and receivables: The carrying amount of the sundry receivables and loan receivable is a reasonable approximation of their fair value due to the short-term nature of these financial assets.

Blue Note Mining Inc.

Note to the Financial Statements

December 31, 2009

11. Financial instruments and risk management (continued)

- Other financial liabilities: The carrying value of the accounts payable and accrued liabilities is a reasonable approximation of their fair value due to the short-term nature of these financial liabilities.

Risk management of financial instruments

The Corporation is exposed to various risks arising from financial instruments. The following analysis provides a measurement of risks as at December 31, 2009 and 2008.

[i] Credit risk

The Corporation's financial assets are cash and cash equivalents, restricted cash, accounts receivable – trade and sundry receivables. The Corporation's maximum exposure to credit risk of as at December 31, 2009 and 2008, is the carrying value of its financial assets. The Corporation manages credit risk by maintaining bank accounts with reputable banks and financial institutions and investing only in highly liquid securities that are traded on active markets and are capable of prompt liquidation. Cash and cash equivalents, and restricted cash are held with two Canadian Chartered Banks and the risk of default is considered to be remote.

The Corporation is exposed to credit risk from customers. The Corporation provides credit to its clients in the normal course of operations. As oppose to year ended 2008, where revenue was from zinc and lead sales and were from established mining and processing firms, there is no income in year ended 2009. As at December 31, 2008 trade receivables are from two customers and approximately 30% were past due but not impaired.

[ii] Liquidity risk

The Corporation is exposed to the risk of being unable to honour its financial commitments by the deadlines set out under the terms of such commitments. As described in *notes 1*, as at December 31, 2009 and 2008, the Corporation has significant liquidity risk. All of the Corporation's financial liabilities are due within one year.

The management objective is to maintain sufficient cash to ensure that the Corporation has at its disposal sufficient sources of financing such as private financing. The Corporation also establishes budget and liquidity forecasts to ensure that it has at its disposal sufficient funds to meet its financial obligations. Obtaining additional funds make it possible for the Corporation to continue its operations and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future.

[iii] Market risk

Commodity price risk

Unlike 2008, the Corporation is actually not exposed to commodities price fluctuation (such as zinc and lead) since there is no commercial operation. This represents a major change from the previous year when the Corporation was commercially active in 2008. Operations were highly correlated to the minerals market price. To the extent that prices increase over time, asset values increase and cash flows improve; conversely, declines in the prices directly impact value and cash flows negatively. The Corporation does not use derivative contracts to manage its exposure to fluctuations in commodity prices.

Blue Note Mining Inc.

Note to the Financial Statements

December 31, 2009

11. Financial instruments and risk management (continued)

Foreign currency exchange risk

The Corporation's foreign exchange risk arises primarily with respect to the US dollar. The Corporation's revenue is exposed to foreign exchange risk as commodity sales are denominated in US dollars. The majority of operating expenses are payable in Canadian dollars.

Foreign currency exchange risk arises because the amount of foreign currency cash and cash equivalents, receivables or payables will vary in Canadian dollar terms due to changes in foreign exchange rates. The Corporation does not use derivative instruments to reduce its exposure to foreign exchange fluctuations. At December 31, 2009, an amount of US\$ 11,720 (2008 – US\$ 2,851,276 all in discontinued operations) is included in accounts payable and an amount of US\$ nil (2008 – US\$ 397,529 all in discontinued operations) is included in accounts receivable - trade.

Based on the aforementioned net exposure as at December 31, 2009, and assuming that all other variables remain constant, one cent rise or fall in the Canadian dollar against the other currencies would have an insignificant impact on the net loss on the Corporation, (2008 - \$24,500).

Interest rate risk

Financial instruments that potentially subject the Corporation to significant cash flow interest rate risk are financial assets with variable interest rates. The Corporation has no financial assets with this risk.

Financial assets and financial liabilities that bear interest at fixed rates are subject to fair value interest rate risk. The Corporation's cash equivalents are the only financial assets bearing fixed interest rates. The risk that the Corporation will realize a loss as a result of a decline in the fair value of its cash equivalents is limited because these investments are very short-term in duration and although classified as held-for-trading, are generally held to maturity. The Corporation does not believe that the results of operations or cash flows would be affected to any significant degree by a sudden change in market interest rates relative to fixed interest rates on the cash equivalents, owing to their relative short-term nature.

As at December 31, 2009 and 2008, with other variables unchanged, a 1% change in the variable interest rates would have an insignificant impact on the net loss of the Corporation.

12. Segmented information

The Corporation has only one reportable segment. All of the Corporation's long-lived assets and operations are in one geographic location, Canada, and relate to mining development and exploration.

During the eight months period ended August 31, 2009, 100% of Zinc sales included in the discontinued operations were made to a Canadian customer no lead sales incurred.

During the year ended December 31, 2008, 99% of Zinc sales are to three (3) European customers and 100% of lead sales are to one Canadian customer.

Blue Note Mining Inc.

Note to the Financial Statements

December 31, 2009

13. Discontinued operations

On June 30, 2009, BNC filed for bankruptcy, and the Court appointed monitor, PricewaterhouseCoopers Inc. started liquidation of BNC assets. As of that date, the Predecessor concluded that, based on Canadian GAAP, it had lost its control over BNC. Accordingly, the Predecessor's investment in BNC has no longer been consolidated beginning June 30, 2009. The Predecessor's investment in BNC was classified as held-for-trading and its carrying value was valued at zero. BNC activities were also considered as "Discontinued Operations" in the audited financial statements of the Predecessor.

As of June 30, 2009, immediately prior to deconsolidation, the Predecessor's audited balance sheet included a net assets deficiency of \$154,663,535 represented by the excess of the liabilities and non-controlling interest over BNC assets.

The net assets deficiency and the accumulated comprehensive loss of BNC were reversed upon deconsolidation on June 30, 2009, generating a net gain of \$37,437,864.

The following table provides results of the BNC discontinued operations for the six month period ended June 30, 2009:

Period ended June 30, 2009	(6 months)
	\$
Revenue	386,806
Direct operating expenses	7,021,465
Exploration	39,276
Foreign exchange loss (gain)	(84,097)
Interest on capital leases	2,304
Other interest and financial charges	262,120
Accretion expense of asset retirement obligation	280,813
Investment and other income	(32,155)
Impairment loss	15,038,178
	22,527,904
Loss before undernoted items	(22,141,098)
Non-controlling interest	3,992,042
	(18,149,056)
Net gain recognized upon deconsolidation	37,437,864
Earnings from discontinued operations	19,288,808

Blue Note Mining Inc.

Note to the Financial Statements

December 31, 2009

13. Discontinued operations (continued)

The following table provides information on the assets and liabilities related to the BNC discontinued operations:

As at:	June 30 2009 \$	December 31 2008 \$
Current assets		
Cash and cash equivalents	22,832	32,440
Accounts receivable	846,976	484,190
Sundry receivable	31,177	412,105
Inventories	-	1,379,250
Prepaid expenses	146,887	597,770
	1,047,872	2,905,755
Long-term assets		
Reclamation deposits	11,028,439	10,996,423
Mining properties and deferred exploration costs	-	15,038,178
	11,028,439	26,034,601
Current liabilities		
Accounts payable and accrued liabilities	(27,300,249)	(26,171,590)
Loan payable to parent company	(143,403,937)	-
Current portion of capital lease obligations	(5,140,143)	(5,138,895)
Current portion of long-term debt	(7,500,000)	(7,500,000)
	(183,344,329)	(38,810,485)
Long-term		
Capital lease obligations	(19,141)	(29,293)
Asset retirement obligation	(9,554,822)	(9,274,009)
	(9,573,963)	(9,303,302)
Non-controlling interest	26,178,446	(787,606)
		(10,090,908)
Net asset deficiency	(154,663,535)	
Net gain on reversal of deficiency	154,663,535	
Loss on investment in BNC	(117,225,671)	
Net gain recognized upon deconsolidation	37,437,864	

Blue Note Mining Inc.

Note to the Financial Statements

December 31, 2009

14. Tax losses and other expenses to carry forward

Years ended December 31,	2009 \$	2008 \$
Loss before income taxes	11,841,548	(29,643,456)
Statutory tax rates	30.96%	31.00%
Income taxes (recovery) at statutory rates	3,665,940	(9,189,471)
Non deductible expenses	131,364	4,019,891
Income tax rate change and other	931,263	980,767
Change in valuation allowance	(4,728,567)	3,516,313
Income taxes (recovery) at effective rates	-	(672,500)

The components of the net future income tax assets and liabilities as at December 31 were as follows:

	2009 \$	2008 \$
Future income tax assets		
Share issue costs	1,165,528	1,867,561
Capital assets	-	176,000
Non-capital losses carried forward	2,418,699	4,215,800
R&D expenses carry forward	48,003	1,074,553
	<u>3,632,230</u>	<u>7,333,914</u>
Future income tax liabilities		
Flow through shares	(185,648)	(1,017,993)
Canadian exploration and development costs	(1,967,650)	(129,690)
Capital assets	(21,267)	-
	<u>1,457,665</u>	<u>6,186,231</u>
Less: Valuation allowance	<u>(1,457,665)</u>	<u>(6,186,231)</u>
	<u>-</u>	<u>-</u>

The Corporation has non-capital losses carried forward that may be available for tax purposes. The losses expire as follows:

Expiry date	Federal \$	Quebec \$
2029	9,119,876	9,119,876

Blue Note Mining Inc.

Note to the Financial Statements

December 31, 2009

14. Tax losses and other expenses to carry forward (continued)

Non-capital losses carried forward of \$9,119,876 for federal and Quebec purposes were recognized as a component of net future income tax assets at \$2,419,000 using the respective future enacted tax rates applicable to the Corporation.

In addition, the Corporation has accumulated Canadian Exploration and Development Expenses for income tax purposes of approximately \$197,000 (2008- \$259,000). The expenditure pools can be carried forward indefinitely to be applied against income of future years.

The Corporation has approximately \$5 million of non-refundable investment tax credits for Canadian Federal tax purposes that are available to reduce taxable income in future years and expire between 2026 and 2029.

As at December 31, 2009, the Corporation capital loss carryforwards for income tax purposes in Canada of \$130,664,000 which can be carried forward indefinitely.

15. Commitments

The Corporation has entered into long-term premises leases totaling \$353,137 expiring from 2010 to 2012. Minimum lease payments for the next years are \$183,038 in 2010, \$169,929 in 2011 and \$170 in 2012.

The Corporation is committed to spend \$700,000 (\$371,966 spent at year end) in exploration expenses relating to flow-through financing completed in September 2009. These expenses have to be incurred before December 31, 2010.

16. Subsequent events

On November 30, 2009, the Corporation and X-Ore Resources ("X-ORE") jointly announced that they had entered into a definitive pre-amalgamation agreement pursuant to which the Corporation has agreed to acquire all of the outstanding common shares of X-ORE. The transaction will take the form of an amalgamation between X-ORE and a wholly-owned subsidiary of the Corporation in exchange for the Corporation's common shares, subject to certain conditions. The Board of Directors of X-ORE has unanimously approved the transaction and had recommended that X-ORE shareholders vote in favor of the transaction.

The Corporation has agreed to offer shareholders of X-ORE; 0.50 of the Corporation common share for each X-ORE common share outstanding for a total of 43,017,352 Corporation common shares. Subject to their terms and conditions and/or to their holders' consent, 3,337,142 X-ORE warrants and 2,050,000 X-ORE stock options shall be exchanged for warrants and stock options of the Corporation that shall entitle the holder thereof to receive upon their exercise such number of the Corporation common shares based upon the exchange ratio, in lieu of common shares of X-ORE.

The consideration under the transaction is valued at \$7.5 million using closing prices of the Corporation common shares, on January 19, 2010. As a consequence of the transaction, the existing shareholders of X-ORE owned 45.16% of the common shares of the Corporation and the existing shareholders of the Corporation owned 54.84% of the common shares of the Corporation.

Effective January 19, 2009, X-ORE and 9216-4706 Quebec Inc., a wholly-owned subsidiary of the Corporation, received the formal approval for the amalgamation. This transaction will be accounted following the Section 1582 "Business Combinations".

Blue Note Mining Inc.

Note to the Financial Statements

December 31, 2009

16. Subsequent events (continued)

On March 17, 2010, the Corporation closed a private placement of 8,333,333 flow-through units at \$0.12 per unit each composed of 8,333,333 common shares and 8,333,333 warrants to acquire 8,333,333 common shares at \$0.25 over a period of two years. In connection with the issuance of these units, the Corporation incurred costs of \$103,612 and issued 833,333 broker warrants to the agent to acquire 833,333 common shares at \$0.12 per share and 833,333 broker warrants to the agent to acquire 833,333 common shares at \$0.25 over a period of two years. The issue generated total gross proceeds of \$1,000,000 and net proceeds of \$896,388. The proceeds were allocated as follows; \$419,722 to share capital; \$383,333 to warrant account; and, \$93,333 to broker warrants.

The fair value of warrants issued in March, was estimated at \$0.046 each and calculated using a Black-Scholes pricing model with the following assumptions: estimated weighted average duration of 2 years for these warrants, risk free interest rate of 2.46%, forecasted volatility of 104.8% and no forecasted dividend.

Proceed of this private placement will be used as a financing facility for exploration on the recently acquired Croinor and Chimo properties.

On March 18, 2010, the Corporation and Amex Exploration Inc. ("Amex") jointly announce that they have entered into a definitive agreement pursuant to which Amex has agreed to acquire all of outstanding shares of X-Ore International Inc., the subsidiary that holds mining assets and conducts exploration activities in Mexico through its subsidiary Minerales X-Ore SA de CV.

The consideration for the Transaction will be staggered cash payments totaling \$200,000 and the issuance of 7,000,000 Amex common shares and 1,000,000 common share purchase warrants of Amex to be exercisable over a period of 24 months following their issuance. In addition, Amex has agreed to assume all of X-Ore International and Minerals X-Ore SA de CV obligations and liabilities. The Corporation will receive consideration valued at approximately \$2.2 million over the time period.