

**Blue Note Mining Inc.**  
**Consolidated Financial Statements**  
**December 31, 2010 and 2009**

**Contents**

Independent Auditor's Report

Consolidated financial statements

Balance sheets	4
Statements of income (loss) and comprehensive income (loss)	5
Statements of shareholders' equity (deficiency)	6
Statements of cash flows	7 - 8
Notes to the consolidated financial statements	9 - 37

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of  
**Blue Note Mining Inc.**

We have audited the accompanying consolidated financial statements of Blue Note Mining Inc. (the "Corporation"), which comprise the consolidated balance sheet as at December 31, 2010, and the consolidated statements of income (loss) and comprehensive income (loss), shareholders' equity (deficiency) and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the administrative agent, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2010, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

### *Emphasis of Matter*

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the Corporation incurred a net loss of \$2,852,468 during the year ended December 31, 2010. These conditions, along with other matters, as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Corporation's ability to continue as a going concern.

# Blue Note Mining Inc.

## *Other Matter*

The consolidated financial statements of the Corporation as at December 31, 2009, and for the four month period ended December 31, 2009, and the eight month period ended August 31, 2009, were audited by another auditor who expressed an unmodified opinion on those statements on April 14, 2010.

*Sampson Bégin / Deloitte & Touche P.é.m.c.r.l.<sup>1</sup>*

Montréal, Canada

April 28, 2011

<sup>1</sup>Chartered accountant auditor permit No. 9569

# Blue Note Mining Inc.

## Consolidated Balance Sheets

See going concern uncertainty – note 1

	December 31, 2010 \$ Successor	December 31, 2009 \$ Successor
<b>Assets</b>		
<i>Current assets</i>		
Cash and cash equivalents	2,593,626	572,978
Marketable securities (note 7)	1,020,000	-
Sundry receivables (note 8)	196,735	631,715
Consideration receivable (note 6)	811,591	-
Prepaid expenses	170,111	252,232
	<b>4,792,063</b>	<b>1,456,925</b>
Consideration receivable (note 6)	18,900	-
Prepaid expenses	30,655	-
Reclamation deposits (note 9)	52,589	-
Mineral properties and deferred exploration costs (note 10)	13,478,259	7,620,838
Property and equipment (note 11)	40,789	80,190
Deferred share issue costs	-	100,000
	<b>18,413,255</b>	<b>9,257,953</b>
<b>Liabilities</b>		
<i>Current liabilities</i>		
Accounts payable and accrued liabilities	657,006	464,602
	<b>657,006</b>	<b>464,602</b>
Asset retirement obligation (note 12)	70,913	-
	<b>727,919</b>	<b>464,602</b>
<b>Shareholders' equity</b>		
Share capital (note 13)	19,155,270	9,327,482
Warrants	1,150,298	281,478
Contributed surplus	1,207,870	160,025
Deficit	(3,828,102)	(975,634)
	<b>17,685,336</b>	<b>8,793,351</b>
	<b>18,413,255</b>	<b>9,257,953</b>

Commitments (note 20)

Subsequent events (note 21)

The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the board:

Signed: "David Crevier" Director

Signed: "Leon Methot" Director

# Blue Note Mining Inc.

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

See going concern uncertainty – note 1

Periods ended	Twelve months ended December 31, 2010	Four months ended December 31, 2009	Eight months ended August 31, 2009
	\$ Successor	\$ Successor	\$ Predecessor
<b>Revenue</b>			
Interest income	14,856	1,775	14,368
<b>Expenses</b>			
Depreciation	48,744	17,069	43,663
Corporate general and administration	3,540,343	950,138	3,505,780
Exploration	26,839	7,767	1,710
Foreign exchange (gain) loss	1,761	(112)	-
Interest on long-term debt	2,295	725	2,022,217
Other interest and financial charges	8,491	1,822	11,006
Other (income) charges	(29,203)	-	-
Impairment loss	-	-	1,457,566
Realized and unrealized gain on disposal of marketable securities	(545,656)	-	(593,726)
Loss (gain) on disposal of long-lived assets	(650)	-	37,778
	3,052,964	977,409	6,485,994
<b>Loss before income taxes</b>	<b>(3,038,108)</b>	<b>(975,634)</b>	<b>(6,471,626)</b>
Future income taxes recovered (note 19)	185,640	-	-
<b>Loss from continuing operations</b>	<b>(2,852,468)</b>	<b>(975,634)</b>	<b>(6,471,626)</b>
Income from discontinued operations (note 18)	-	-	19,288,808
<b>Net (loss) income and comprehensive (loss) income for the period</b>	<b>(2,852,468)</b>	<b>(975,634)</b>	<b>12,817,182</b>
Deficit - beginning of period	(975,634)	-	(179,515,759)
<b>Deficit - end of period</b>	<b>(3,828,102)</b>	<b>(975,634)</b>	<b>(166,698,577)</b>
Basic (loss) earnings per share and diluted loss per share (1)			
From continuing operations	(0.027)	(0.019)	(0.018)
From discontinued operations	0.000	0.000	0.053
Net income	(0.027)	(0.019)	0.035
Weighted average number of common shares outstanding	104,300,348	51,330,584	363,269,313

(1) 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 13.

The accompanying notes are an integral part of these consolidated financial statements

# Blue Note Mining Inc.

## Consolidated Statements of Shareholders' Equity (Deficiency)

See going concern uncertainty – note 1

	Share capital	Warrants	Contributed Surplus	Deficit	Total
	\$	\$	\$	\$	\$
Balance - December 31, 2008 - Predecessor	111,135,134	2,440,622	15,976,153	(179,515,759)	(49,963,850)
Stock-based compensation	-	-	134,660	-	134,660
Options forfeited	-	-	(33,719)	-	(33,719)
Net income from January 1 to August 31, 2009	-	-	-	12,817,182	12,817,182
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	-	-	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
Equity issued	10,013,428	-	-	-	10,013,428
Tax effect of flow-through share renunciation	(185,640)	-	-	-	(185,640)
Stock-based compensation	-	-	911,414	-	911,414
Options forfeited	-	-	(60,064)	-	(60,064)
Warrants	-	868,820	19,234	-	888,054
Broker warrants	-	-	177,261	-	177,261
Net loss from January 1 to December 31, 2010	-	-	-	(2,852,468)	(2,852,468)
Balance - December 31, 2010 - Successor	19,155,270	1,150,298	1,207,870	(3,828,102)	17,685,336

The accompanying notes are an integral part of these consolidated financial statements

# Blue Note Mining Inc.

## Consolidated Statements of Cash Flows

See going concern uncertainty – note 1

Periods ended	Twelve months ended December 31, 2010 \$ Successor	Four months ended December 31, 2009 \$ Successor	Eight months ended August 31, 2009 \$ Predecessor
<b>Cash provided from (used for):</b>			
<b>Operating activities</b>			
Net loss	(2,852,468)	(975,634)	(6,471,626)
Non-cash items:			
Future income taxes recovered	(185,640)	-	-
Depreciation of property and equipment	48,744	17,069	43,663
Non-cash stock-based compensation	851,350	100,525	100,941
Realized and unrealized gain on disposal of marketable securities	(545,656)	-	(593,726)
Loss (gain) on disposal of property and equipment	(650)	-	37,778
Impairment loss	-	-	1,457,566
Gain in fair value of current assets	-	-	(383,307)
Net changes in non-cash components of operating working capital (note 14)	75,096	478,026	(326,580)
<b>Cash-flow used by continuing operating activities</b>	<b>(2,609,224)</b>	<b>(380,014)</b>	<b>(6,135,291)</b>
<b>Cash-flow used by discontinued operating activities</b>	<b>-</b>	<b>-</b>	<b>(32,440)</b>
<b>Cash-flow used by operating activities</b>	<b>(2,609,224)</b>	<b>(380,014)</b>	<b>(6,167,731)</b>
<b>Financing activities</b>			
Proceeds from the issue of equity	3,535,759	626,419	-
<b>Cash-flow provided by continuing financing activities</b>	<b>3,535,759</b>	<b>626,419</b>	<b>-</b>
<b>Cash-flow provided by financing activities</b>	<b>3,535,759</b>	<b>626,419</b>	<b>-</b>

The accompanying notes are an integral part of these consolidated financial statements

Continued ...

# Blue Note Mining Inc.

## Consolidated Statements of Cash Flows (continued)

See going concern uncertainty – note 1

Periods ended	Twelve months ended December 31, 2010 \$ Successor	Four months ended December 31, 2009 \$ Successor	Eight months ended August 31, 2009 \$ Predecessor
<b>Investing activities</b>			
Decrease in restricted cash	-	40,000	-
Proceeds receivable from sale of marketable securities	1,909,408	-	593,726
Mining properties and deferred exploration costs	(931,970)	(364,821)	(139,020)
Deferred acquisition cost	100,000	(100,000)	-
Proceeds from asset held for sale	-	-	1,000,000
Acquisition of X-Ore Resources (note 4)	21,503	-	-
Disposition (acquisition) of office furniture and equipment	(4,828)	-	1,805
<b>Cash-flow provided (used) by continuing investing activities</b>	<b>1,094,113</b>	<b>(424,821)</b>	<b>1,456,511</b>
<b>Cash-flow provided (used) by investing activities</b>	<b>1,094,113</b>	<b>(424,821)</b>	<b>1,456,511</b>
Net increase (decrease) in cash provided by continued activities	2,020,648	(178,416)	(4,678,780)
Net increase (decrease) in cash and cash equivalents	2,020,648	(178,416)	(4,678,780)
Cash and cash equivalents - beginning of period			
From continuing operations	572,978	751,394	5,430,174
From discontinued operations	-	-	32,440
	572,978	751,394	5,462,614
<b>Cash and cash equivalents - end of period</b>			
From continuing operations	2,593,626	572,978	751,394
From discontinued operations	-	-	-
<b>Represented by:</b>			
Cash	2,383,133	173,066	751,394
Cash equivalents	210,493	399,912	-

The accompanying notes are an integral part of these consolidated financial statements

# Blue Note Mining Inc.

## Notes to the Consolidated Financial Statements

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December 31, 2010

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### 1. Basis of presentation and going concern uncertainty

These consolidated 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, 2010, there is substantial doubt that the Corporation will be able to continue as a going concern without raising additional financial resources. These consolidated financial statements use the same accounting policies and methods used in the preparation of the Successor's 2009 annual audited financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated (see note 2 for the impact of new accounting pronouncements adopted in 2010).

The Corporation is not currently generating any revenue from its operations and for the twelve-month period ended December 31, 2010, the Corporation recorded a loss of \$2,852,468. 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, and amounts realized for assets may be less than amounts reflected in these consolidated financial statements.

These consolidated 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.

### Plan of arrangement and reorganization

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 Quebec, New Brunswick and Ontario. The business of the Corporation is to explore and develop mining projects. The minerals being targeted by the Corporation are precious metals.

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 the 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 18*).

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.

# Blue Note Mining Inc.

## Notes to the Consolidated Financial Statements

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December 31, 2010

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

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 Mining'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 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.

## Notes to the Consolidated Financial Statements

December 31, 2010

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

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

<b>Fresh Start Balance sheet</b>	Predecessor August 31, 2009 \$	Plan of Reorganization \$	Fresh Start Adjustments \$	Successor August 31, 2009 \$
<b>Assets</b>				
<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
<b>Liabilities</b>				
<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
<b>Shareholders' equity (deficiency)</b>				
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.

## Notes to the Consolidated Financial Statements

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December 31, 2010

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### 2. Summary of significant accounting policies

The consolidated financial statements of the Corporation have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). The preparation of the consolidated financial statements in conformity with GAAP 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 in the consolidated financial statements and accompanying notes. 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 recoverability of mineral properties and deferred exploration costs, valuation of asset retirement obligations, valuation of stock-based compensation, the fair value of assets acquired and consideration paid, and the valuation of mining and income taxes. Accordingly, actual results could differ from these estimates. The consolidated 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:

**Consolidated financial statements:** The consolidated financial statements include the accounts of the Corporation and of the Corporation's wholly-owned subsidiary X-Ore Resources Inc. ("X-ORE"). All significant inter-company transactions and balances have been eliminated upon consolidation.

The Corporation's interest in joint venture is accounted for by the proportionate consolidation method.

**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).

**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.

**Marketable securities:** Marketable securities consist primarily of shares of publicly-traded companies and are recorded at fair market value.

**Mining properties and deferred exploration costs:** The Corporation accounts for mineral properties and deferred exploration expenses in accordance with the CICA Handbook Section 3061, "Property, plant and equipment" ("CICA 3061"), and abstract EIC-174, "Mining Exploration Costs" ("EIC-174"). CICA 3061 provides for the capitalization of the acquisition and exploration expenses of a mineral property where such costs are considered to have the characteristics of property, plant and equipment. EIC-174 provides that a mining enterprise is not precluded from considering exploration expenses to have the characteristics of property, plant and equipment when it has not established resource reserves objectively and therefore does not have a basis for preparing a projection of the estimated future net cash flow from the property. The Corporation capitalizes the acquisition costs of mineral properties and all direct costs relating to exploration on its mineral properties less government grants. These costs will be amortized over the estimated productive lives of the properties upon commencement of production using the unit-of-production method. Options or sales of mineral properties are accounted for by applying the proceeds from such sales to the carrying costs of the property and reducing costs to zero prior to recognizing any gain. Costs related to abandoned projects are written off. Mineral property interests, where future cash flows are not reasonably determinable, are evaluated for impairment based on results of exploration work, management's intentions and determination of the extent to which future exploration programs are warranted and likely to be funded. General exploration costs not related to specific properties and general administrative expenses are charged to operations in the year in which they are incurred.

# Blue Note Mining Inc.

## Notes to the Consolidated Financial Statements

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December 31, 2010

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### 2. Summary of significant accounting policies (continued)

#### *Mining properties and deferred exploration costs (continued)*

Recovery of carrying value is dependent upon future commercial success or proceeds from disposition of the resource interests. It is reasonably possible, based on existing knowledge that changes in future conditions could require a change in the recognized amounts. Although the Corporation has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry norms for the current stage of exploration of such properties, these procedures do not guarantee the Corporation's title. Property may be subject to unregistered prior agreements or inadvertent non-compliance with regulatory requirements.

**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	5 years	Straight-line
Computer equipment	2 to 3 years	Straight-line

**Impairment of long-lived assets:** The Corporation follows the recommendations in CICA Handbook Section 3063, "Impairment of Long-Lived Assets" and the CICA's emerging extract EIC-174, "Mining Exploration Costs." Section 3063 requires that the Corporation review long-lived assets, including mineral properties for impairment. Long-lived assets are assessed for impairment when events and circumstances warrant an assessment. EIC-174 consensus is that a mining enterprise in the development stage is not obliged to conclude that capitalized costs have been impaired due to the absence of a projected estimated future net cash flow from the mining enterprise. Mineral properties in the exploration stage do not have established mineral reserves and a basis for the preparation of a projection of the estimated future net cash flow from the properties does not exist.

However, a mining enterprise is required to consider the conditions in Section 3063 for impairment write-down. The conditions include significant unfavorable economic, legal, regulatory, environmental, political and other factors. In addition, management's development activities towards its planned principal operations are a key factor considered as part of the ongoing assessment of the recoverability of the carrying amount of mineral properties. Whenever events or changes in circumstances indicate that the carrying amount of a mineral property in the exploration stage may be impaired, capitalized costs are written down to the estimated fair value.

It is possible that changes in estimates could occur which may affect the expected recoverability of the Corporation's 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.

**Asset retirement obligation:** The asset retirement obligations relate primarily to site restoration and dismantling of facilities at and near the mining sites in Val D'Or 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 (accrued) 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.

# Blue Note Mining Inc.

## Notes to the Consolidated Financial Statements

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December 31, 2010

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### 2. Summary of significant accounting policies (continued)

**Stock-based compensation:** The Corporation's stock based compensation plan is described in *note 13*. The Corporation applies the fair value method. The fair value method is used to measure the fair value of the options 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 income 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 consolidated 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 depending on their classification as described below. Their classification depends on the purpose, for which the financial instruments were acquired or issued, their characteristics and the Corporation's designation of such instruments. Settlement date accounting is used.

Classification:

Cash and cash equivalents	Held for trading
Marketable securities	Held for trading
Sundry receivables	Loans and receivables
Consideration receivable	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities

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.

## Notes to the Consolidated Financial Statements

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December 31, 2010

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### 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.

***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. Transaction 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.

***Comparative figures:*** The consolidated financial statements dated after August 31, 2009 are not comparable to the Predecessor'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. Comparative figures were audited by another Chartered Accountants firm.

#### ***Adoption of new accounting policies***

##### ***"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 sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011 with early adoption permitted. The Corporation has adopted these standards on January 1, 2010. Section 1582 has been applied to the business combination described in note 4. The adoption of Sections 1601 and 1602 had no retroactive effect on the consolidated financial statements of the Corporation.

# Blue Note Mining Inc.

## Notes to the Consolidated Financial Statements

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December 31, 2010

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### 3. Future accounting changes

#### *“International Financial Reporting Standards”*

In February 2006, the Canadian Accounting Standards Board (“AcSB”) published a strategic plan to transition over a period of five years, Canadian Generally Accepted Principles (“GAAP”) for public enterprises to international financial reporting standards (“IFRS”), as adopted by the International Accounting Standards Board (“IASB”). In March 2008, the timing of the transition was confirmed. In October 2010, the Canadian Securities Administrators (“CSA”) through National Instrument 52-107 Acceptable Accounting Principles and Auditing Standards issued Final Materials that sets out both the accounting principles and auditing standards that must be used by all issuers. The AcSB has incorporated IFRS into the Handbook of the Canadian Institute of Chartered Accountants (the “Handbook”) as Canadian GAAP for publicly accountable enterprises which reflect the changeover in Canada to IFRS.

Blue Note has completed a detailed assessment of the differences between Canadian GAAP and IFRS. The assessment identified that changes were required to accounting systems and business processes mainly related to capitalization of exploration expenses and the application of the facts and circumstances which identify the need to test for impairment of mineral properties. The new standards will also result in a change in the way that the Corporation initially recognizes the fair market value of “flow-through” shares issued as well as a difference in the disclosure of changes in the fair value of equity investments in profit and loss rather than as an element of comprehensive income. IFRS will also result in the reclassification of share issuance costs from an offset against share capital to the deficit.

IFRS will apply to most Canadian publicly accountable enterprises for financial years beginning on or after January 1, 2011. The Corporation will produce its March 31, 2011 interim financial statements in accordance with the revised standards, as well as for the annual report for the financial period ending December 31, 2011.

### 4. Acquisition of X-Ore Resources Inc.

Effective January 19, 2010, all of the outstanding common shares of “X-ORE” were acquired by 9216-4706 Quebec Inc., a wholly-owned subsidiary of the Corporation. The transaction took 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 Corporation granted shareholders of “X-ORE” 0.50 common share of the Corporation for each “X-ORE” common share outstanding for a total of 43,017,349 Corporation common shares. Subject to their terms and conditions, 3,337,142 “X-ORE” warrants and 2,050,000 “X-ORE” stock options were exchanged for warrants and stock options of the Corporation entitling 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 Corporation performed an assessment of the fair value of the identifiable assets and liabilities acquired. 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 was completed as of the date of issuance of our audited consolidated financial statements and the amounts assigned to the assets and liabilities are final.

# Blue Note Mining Inc.

## Notes to the Consolidated Financial Statements

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December 31, 2010

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### 4. Acquisition of X-Ore Resources Inc. (continued)

This transaction was valued at \$7.3 million and was accounted for following the requirements of Section 1582. The transaction was accounted for under the purchase method and the results of operations of "X-ORE" have been included in the consolidated statements of loss, comprehensive loss and deficit as of January 19, 2010.

<b>Assets acquired</b>	<b>\$</b>
Cash and cash equivalents	21,503
Short-term investments	1,137,760
Sundry receivable	23,502
Tax credit receivable	22,756
Prepaid expenses	24,386
Reclamation deposits (note 9)	52,589
Mining properties and deferred exploration costs (note 10)	4,853,982
Property and equipment	3,865
Assets held for sale (note 6)	1,900,491
	<u>8,040,834</u>
<b>Liabilities assumed</b>	
Accounts payable and accrued liabilities	(342,611)
Loan payable	(129,275)
Asset retirement obligation (note 12)	(70,913)
Debenture	(153,001)
	<u>(695,800)</u>
<b>Net value of assets acquired</b>	<u>7,345,034</u>
<b>Consideration paid</b>	
Shares issued by the Corporation (note 13)	7,312,950
Warrants issued by the Corporation	30,034
Options issued by the Corporation	2,050
	<u>7,345,034</u>

### 5. Interest in a joint venture

As a result of the acquisition of "X-ORE," the Corporation has entered into a joint venture agreement with Critical Elements Corporation, a public corporation, (formerly First Gold Exploration Inc. "EFG"), to perform development and exploration expenses on the Croinor property. Each Corporation holds an interest of 50% and "X-ORE" was appointed as operator. In relation with the agreement, all expenses must be incurred by the joint venture and all the profits, costs, expenses, responsibilities, obligations and risks of the joint venture enterprise will be shared in proportion of their respective undivided interest.

# Blue Note Mining Inc.

## Notes to the Consolidated Financial Statements

December 31, 2010

### 6. Assets held for sale

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

The consideration for the transaction consists of staggered cash payments totaling \$200,000, 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" assumed all of X-Ore International and Minerals X-Ore SA de CV obligations and liabilities. The Corporation will receive, net of selling costs of \$5,881, consideration valued at \$1.9 million as follows:

	\$
Cash received	125,000
Shares received	945,000
Staggered cash	69,119
Staggered shares	738,552
Staggered warrants	22,820
Consideration receivable	1,900,491
Received	(1,070,000)
Consideration receivable	830,491
Less: current portion	811,591
Long-term portion	18,900

As of December 31, 2010, staggered consideration receivable was composed of the following:

Date	Staggered cash \$	Staggered shares \$	Staggered warrants \$	Total \$
March 31, 2011	24,000	115,201	96	139,297
June 30, 2011	23,030	110,544	553	134,127
September 30, 2011	22,089	106,027	1,237	129,353
December 31, 2011		406,780	2,034	408,814
<b>Current portion</b>	<b>69,119</b>	<b>738,552</b>	<b>3,920</b>	<b>811,591</b>
<b>Long term protion</b>	<b>-</b>	<b>-</b>	<b>18,900</b>	<b>18,900</b>

# Blue Note Mining Inc.

## Notes to the Consolidated Financial Statements

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December 31, 2010

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### 7. Marketable securities

	December 31, 2010
	\$
	Successor
First Gold Exploration Inc., 200,000 common shares	75,000
Amex Exploration Inc., 3,500,000 common shares	945,000
	<b>1,020,000</b>

### 8. Sundry receivables

	December 31, 2010	December 31, 2009
	\$	\$
	Successor	Successor
Commodity taxes receivable	66,824	130,973
Other receivables	129,911	60,000
Receivable from related party	-	313,242
Loan receivable	-	127,500
	<b>196,735</b>	<b>631,715</b>

### 9. Reclamation deposits

As at December 31, 2010, the Corporation has invested \$105,177 in term deposits in accordance with the current financial guarantee requirements set forth by the *Ministère des Ressources naturelles et de la Faune* of the province of Québec for future site restoration costs at the Croinor mining site. As updated mine closure plans are submitted to and approved by this government body, the related financial guarantee will be adjusted accordingly. The term deposit bears interest at 1.125% (3.5% in 2009), maturing in July 2011.

According to the joint venture agreement, the Corporation has recorded an amount of \$52,589, representing its 50% interest in the Croinor property (*note 5*).

# Blue Note Mining Inc.

## Notes to the Consolidated Financial Statements

December 31, 2010

### 10. Mineral properties and deferred exploration costs

Mineral properties	December 31, 2009	Acquisition (note 4)	Additions	December 31, 2010
	\$	\$	\$	\$
Quebec properties				
Croinor & Pershing	-	1,079,525	141,657	1,221,182
Chimo & Nova	-	11,568	3,929	15,497
Others	-	-	1,244	1,244
	-	<b>1,091,093</b>	<b>146,830</b>	<b>1,237,923</b>
New Brunswick properties				
Williams Brook	313,896	-	74,516	388,412
Others	925,773	-	15,649	941,422
	<b>1,239,669</b>	-	<b>90,165</b>	<b>1,329,834</b>
<b>Total mineral properties</b>	<b>1,239,669</b>	<b>1,091,093</b>	<b>236,995</b>	<b>2,567,757</b>
Deferred exploration costs				
Quebec properties				
Croinor & Pershing	-	3,636,825	417,502	4,054,327
Chimo & Nova	-	126,064	160,204	286,268
Others	-	-	49,744	49,744
	-	<b>3,762,889</b>	<b>627,450</b>	<b>4,390,339</b>
New Brunswick properties				
Williams Brook	1,713,998	-	128,797	1,842,795
Others	4,667,171	-	10,197	4,677,368
	<b>6,381,169</b>	-	<b>138,994</b>	<b>6,520,163</b>
<b>Total deferred exploration costs</b>	<b>6,381,169</b>	<b>3,762,889</b>	<b>766,444</b>	<b>10,910,502</b>
<b>Total</b>	<b>7,620,838</b>	<b>4,853,982</b>	<b>1,003,439</b>	<b>13,478,259</b>

# Blue Note Mining Inc.

## Notes to the Consolidated Financial Statements

December 31, 2010

### 10. Mineral properties and deferred exploration costs (continued)

Mineral properties	December 31, 2008	Additions	Fair value adjustments	December 31, 2009
	\$	\$	\$	\$
New Brunswick properties				
Williams Brook	231,134	82,762	-	313,896
Others	892,243	33,530	-	925,773
Total mineral properties	<b>1,123,377</b>	<b>116,292</b>	-	<b>1,239,669</b>

  

Deferred exploration costs	December 31, 2008	Additions	Fair value adjustments	December 31, 2009
	\$	\$	\$	\$
New Brunswick properties				
Williams Brook	552,975	420,164	740,859	1,713,998
Others	3,391,325	32,385	1,243,461	4,667,171
Total deferred exploration costs	<b>3,944,300</b>	<b>452,549</b>	<b>1,984,320</b>	<b>6,381,169</b>
Total	<b>5,067,677</b>	<b>568,841</b>	<b>1,984,320</b>	<b>7,620,838</b>

As of August 31, 2009, the Predecessor adjusted the mineral and deferred exploration properties to the fair value which was based on independent appraisals and evaluations by \$3,441,886, as required by fresh start accounting. Prior to the application of fresh start accounting, the Predecessor recorded an impairment loss of \$1,457,566 related to base metal properties. Net adjustments amounted to \$1,984,320.

### 11. Property and equipment

	December 31, 2010			December 31, 2009		
	Cost	Accumulated Depreciation	Net	Cost	Accumulated Depreciation	Net
	\$	\$	\$	\$	\$	\$
Office furniture and equipment	93,963	(56,060)	37,903	84,884	(11,200)	73,684
Computer	11,584	(8,698)	2,886	12,375	(5,869)	6,506
	<b>105,547</b>	<b>(64,758)</b>	<b>40,789</b>	<b>97,259</b>	<b>(17,069)</b>	<b>80,190</b>

# Blue Note Mining Inc.

## Notes to the Consolidated Financial Statements

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December 31, 2010

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### 11. Property and equipment (continued)

During the year, the Corporation disposed of office furniture and computer equipment for an amount of \$650 which resulted into a net gain of \$650. The Corporation also purchased computer equipment for an amount of \$4,828.

Prior to the application of fresh start accounting, in August 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 property and equipment, as required by fresh start accounting.

### 12. Asset retirement obligations

The Corporation's asset retirement obligations consist primarily of costs associated with mine reclamation and closure activities at the Croinor property, following the acquisition of "X-ORE." In determining the estimated costs, the Corporation considers such factors as changes in laws and regulations and requirements under existing permits. Based on the actual exploration program, there were no additional obligations incurred during the year. Since there is no mining activity, actual costs of \$141,825 are based on Management's estimates which are not final but accepted by the government authorities. An amount of \$105,177 has been set aside as reclamation deposits.

According to the joint venture agreement, the Corporation recorded an asset retirement obligation of \$70,913, representing its 50% interest in the Croinor property (*note 5*).

The Corporation is currently preparing an updated mine closure plan which will be submitted to the government authorities in 2011.

# Blue Note Mining Inc.

## Notes to the Consolidated Financial Statements

December 31, 2010

### 13. 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	
	Number	\$
Balance - December 31, 2008 - Predecessor	363,269,313	111,135,134
Balance - August 31, 2009 - Predecessor	363,269,313	111,135,134
Share consolidation 30:1	12,108,982	-
Shares issued for restructuring	36,326,935	43,059,815
Fresh start accounting	(363,269,313)	(145,217,908)
Balance - August 31, 2009 - Successor	48,435,917	8,977,041
Flow-through shares issued	3,500,000	293,919
Shares issued related to Brandy Brook property	108,695	16,522
Shares issued related to William Brook property	200,000	40,000
<b>Balance - December 31, 2009 - Successor</b>	<b>52,244,612</b>	<b>9,327,482</b>
<b>Shares issued related to X-Ore Resources acquisition (note 4)</b>	<b>43,017,349</b>	<b>7,312,950</b>
<b>Convertible debenture</b>	<b>1,200,000</b>	<b>150,000</b>
<b>Tax effect of 2009 flow-through share renunciations</b>	<b>-</b>	<b>(185,640)</b>
<b>Flow-through shares issued</b>	<b>23,121,973</b>	<b>2,119,307</b>
<b>Equity issued</b>	<b>7,254,166</b>	<b>381,171</b>
<b>Shares issued related to William Brook property</b>	<b>384,615</b>	<b>50,000</b>
<b>Balance - December 31, 2010 - Successor</b>	<b>127,222,715</b>	<b>19,155,270</b>

#### (a) Issues during 2010

On January 26, 2010, a former debenture holder of "X-ORE" exercised its option to convert the debenture into Corporation shares. The Corporation issued 1,200,000 common shares at \$0.125 each for a total consideration of \$150,000.

On March 16, 2010, the Corporation closed a private placement of 8,333,332 flow-through units at \$0.12 per unit. Each unit is composed of one common share and one warrant, which entitles the holder to acquire one common share at \$0.25 over a period of two years. In connection with the issuance of these units, the Corporation incurred a cost of \$103,613 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 per share over a period of two years. The issue generated total gross proceeds of \$1,000,000 and net proceeds of \$896,387. The proceeds were allocated between the components based on their estimated fair values, as follows; \$419,721 to share capital; \$383,333 to warrant account; and, \$93,333 to broker warrants.

The fair value of warrants issued in March 2010, was estimated at \$0.046, calculated using 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 105% and no forecasted dividends.

# Blue Note Mining Inc.

## Notes to the Consolidated Financial Statements

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December 31, 2010

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### 13. Shareholders' equity (continued)

#### (a) Issues during 2010 (continued)

On June 8, 2010, the Corporation closed a private placement of 5,270,307 flow-through units at \$0.13 per unit. Each unit is composed of one common share and one warrant, which entitles the holder to acquire one common shares at \$0.25 over a period of two years. In connection with the issuance of these units, the Corporation incurred a cost of \$110,904 and issued 527,030 broker warrants to the agent to acquire 527,030 common shares at \$0.13 per share and 527,030 broker warrants to the agent to acquire 527,030 common shares at \$0.25 per share over a period of two years. The issue generated total gross proceeds of \$685,140 and net proceeds of \$574,236. The proceeds were allocated between the components based on their estimated fair values, as follows; \$416,654 to share capital; \$126,487 to warrant account; and, \$31,095 to broker warrants.

The fair value of warrants issued in June 2010, was estimated at \$0.024, calculated using the Black-Scholes pricing model with the following assumptions: estimated weighted average duration of 2 years,, risk free interest rate of 2.51%, forecasted volatility of 105% and no forecasted dividends.

On November 3, 2010, 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 fifth year in exchange for consideration of \$10,000 cash and the issuance of 384,615 Corporation common shares, with a stated value of \$50,000, which are subject to a statutory four-month hold period expiring March 19, 2011. As part of the consideration paid on the transaction, the Corporation issued 384,615 common shares at \$0.13 per share.

On December 22, 2010, the Corporation closed a private placement of 9,518,334 flow-through units at \$0.15 per unit each composed of one common share for gross proceeds of \$1,427,750 and 7,254,166 units at \$0.12 per unit, for gross proceeds of \$870,500, each unit being composed of one common share and one warrant which entitles the holder to acquire one common share at \$0.25 over a period of two years. In connection with the issuance of these units, the Corporation incurred a cost of \$233,114 and issued 1,174,075 broker warrants to the agent to acquire 1,174,075 common shares at \$0.20 per share over a period of two years. The issue generated total gross proceeds of the \$2,298,250 and net proceeds of \$2,065,136. The proceeds were allocated between the components based on their estimated fair values, as follows: \$1,664,103 to share capital; \$348,200 to warrant account; and, \$52,833 to broker warrants.

The fair value of warrants issued in December 2010, was estimated at \$0.048, calculated using Black-Scholes pricing model with the following assumptions: estimated weighted average duration of 2 years, risk free interest rate of 2.86%, forecasted volatility of 109% and no forecasted dividends.

#### (b) 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 between the components based on their estimated fair values, as follows: \$16,522 to share capital; \$8,478 to warrants.

# Blue Note Mining Inc.

## Notes to the Consolidated Financial Statements

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December 31, 2010

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### 13. Shareholders' equity (continued)

#### (b) Issues during 2009 (continued)

On September 18, 2009, the Corporation closed a private placement of 3,500,000 flow-through units at \$0.20 per unit. Each unit is composed of one common share and one warrant, which entitles the holder to acquire one common share at \$0.26 over a period of two years. In connection with the issuance of these units, the Corporation incurred a 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 between the components based on their estimated fair values, 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 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 dividends.

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 were 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.

#### (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 for death, termination of employment, etc. The Corporation is authorized to issue a maximum of 12,722,272 common shares under the Plan, which represents 10% of the outstanding common shares.

# Blue Note Mining Inc.

## Notes to the Consolidated Financial Statements

December 31, 2010

### 13. Shareholders' equity (continued)

#### (c) Stock option plan (continued)

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

Years ended December 31,	2010		2009	
	Granted	Weighted Average Exercise Price \$	Granted	Weighted Average Exercise Price \$
<b>Balance – beginning of the year</b>	<b>3,533,333</b>	<b>1.14</b>	31,682,000	0.22
Options granted under stock option plan			2,000,000	0.05
Options forfeited			(14,682,000)	0.23
<b>Balance – August 31 - Predecessor</b>			<b>19,000,000</b>	<b>0.19</b>
Share consolidation 30:1			633,333	5.63
Options granted under stock option plan	<b>9,425,000</b>	<b>0.17</b>	2,900,000	0.16
Options forfeited	<b>(1,985,000)</b>	<b>0.28</b>		
<b>Balance – end of year - Successor</b>	<b>10,973,333</b>	<b>0.46</b>	<b>3,533,333</b>	<b>1.14</b>

As at December 31, 2010, 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
200,000	200,000	11.70	Jun-11
100,000	100,000	0.46	Dec-11
25,000	25,000	16.80	Nov-12
50,000	50,000	0.20	Jan-13
308,333	308,333	1.50	Dec-13
66,667	66,667	1.50	Mar-14
2,525,000	1,893,750	0.16	Oct-14
3,125,000	1,562,500	0.19	Jan-15
2,050,000	1,025,000	0.11	Apr-15
2,500,000	625,000	0.12	Oct-15
<b>10,973,333</b>	<b>5,879,583</b>	<b>0.46</b>	

# Blue Note Mining Inc.

## Notes to the Consolidated Financial Statements

December 31, 2010

### 13. Shareholders' equity (continued)

#### (c) Stock option plan (continued)

The following amounts were recorded as stock-based compensation and credited to contributed surplus:

Period ended	Twelve months ended	Four months ended	Eight months ended
	December 31, 2010	December 31, 2009	August 31, 2009
	\$	\$	\$
	Successor	Successor	Predecessor
Directors, management and employee compensation	851,350	94,450	100,941
Consultant compensation	-	6,075	-
<b>Total charged to earnings</b>	<b>851,350</b>	<b>100,525</b>	<b>100,941</b>

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

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, 2010	December 31, 2009
	Successor	Successor
Risk-free interest rate	1.79% to 2.59%	1.63% to 2.61%
Expected life (years)	2 to 5	2 to 5
Expected volatility	105% to 109%	84% to 260%
Expected dividend yield	nil	nil
<b>Weighted average grant date fair value; post consolidation</b>	<b>\$0.113</b>	<b>\$0.068</b>

#### (d) Broker warrants and units

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

Years ended December 31,	2010		2009	
	Granted	Weighted Average Exercise Price \$	Granted	Weighted Average Exercise Price \$
<b>Balance - beginning of year</b>	<b>700,000</b>	<b>0.23</b>	9,985,833	0.62
<b>Balance – August 31 - Predecessor</b>			9,985,833	0.62
Consolidation 30:1			332,861	18.74
Broker warrants issued	3,961,301	0.19	700,000	0.23
Broker warrants expired	(66,500)	0.19	(332,861)	18.74
<b>Balance – end of year - Successor</b>	<b>4,594,801</b>	<b>0.20</b>	<b>700,000</b>	<b>0.23</b>

# Blue Note Mining Inc.

## Notes to the Consolidated Financial Statements

December 31, 2010

### 13. Shareholders' equity (continued)

#### (d) Broker warrants and units (continued)

As at December 31, 2010, the Corporation had the following broker warrants outstanding:

Granted	Exercisable	Weighted average exercise price \$	Expiry date
700,000	700,000	0.23	Sep-11
1,666,666	1,666,666	0.19	Mar-12
1,054,060	1,054,060	0.19	Jun-12
1,174,075	-	0.20	Dec-12
<b>4,594,801</b>	<b>3,420,726</b>	<b>0.20</b>	

#### (e) Share purchase warrants

Years ended December 31,	2010		2009	
	Granted	Weighted Average Exercise Price \$	Granted	Weighted Average Exercise Price \$
<b>Balance – beginning of year</b>	<b>3,608,695</b>	<b>0.26</b>	35,750,000	0.67
<b>Balance – August 31 - Predecessor</b>			35,750,000	0.67
Share consolidation 30:1			1,191,667	20.10
Share purchase warrants expired	(1,068,571)	0.02	(1,191,667)	20.10
Share purchase warrants issued	22,526,376	0.25	3,608,695	0.26
<b>Balance – end of year - Successor</b>	<b>25,066,500</b>	<b>0.25</b>	3,608,695	0.26

As at December 31, 2010, the Corporation had the following share purchase warrants outstanding:

Granted	Exercisable	Weighted average exercise price \$	Expiry date
600,000	600,000	0.20	Jul-11
108,695	108,695	0.23	Sep-11
3,500,000	3,500,000	0.26	Sep-11
8,333,332	8,333,332	0.25	Mar-12
5,270,307	5,270,307	0.25	Jun-12
7,254,166	-	0.25	Dec-12
<b>25,066,500</b>	<b>17,812,334</b>	<b>0.25</b>	

# Blue Note Mining Inc.

## Notes to the Consolidated Financial Statements

December 31, 2010

### 14. Supplemental disclosures of expenses and cash flow information

Period ended	Twelve months ended December 31, 2010	Four months ended December 31, 2009	Eight months ended August 31, 2009
	\$ Successor	\$ Successor	\$ Predecessor
<b>Change in non-cash working capital items:</b>			
<b>Decrease (increase) in:</b>			
Sundry receivable	50,971	212,081	783,470
Prepaid expenses	75,853	66,045	124,169
Consideration received	75,000	-	-
Advance to subsidiary	-	-	2,376,586
<b>Increase (decrease) in:</b>			
Accounts payable and accrued liabilities	(126,728)	199,900	(3,610,805)
	<b>75,096</b>	<b>478,026</b>	<b>(326,580)</b>
<b>Non-cash items:</b>			
Fair value of shares issued for mineral properties	50,000	65,000	-
Fair value of shares issued for convertible debenture	150,000	-	-
Commons shares of public company received in settlement of a receivable from a related party	300,992	-	-
Commons shares of public company received as consideration from disposal of mining assets	945,000	-	-
<b>Supplemental information:</b>			
Interest paid	2,295	725	1,195,381
Interest received	14,856	1,775	14,368
Mining tax received	18,756	-	-

### 15. 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.

The Corporation's capital management objectives, evaluation measures and targets have remained unchanged over the periods presented. The Corporation manages the capital structure and makes adjustments depending on economic conditions.

The Corporation is subject to regulatory requirements related to the use of funds obtained by flow-through shares financing. These funds have to be incurred for eligible exploration expenses. The Corporation has respected these regulatory requirements.

# Blue Note Mining Inc.

## Notes to the Consolidated Financial Statements

December 31, 2010

### 16. 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 2* to these consolidated 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, 2010, the classification of the financial instruments, as well as their carrying values and fair values, are shown in the table below:

	Held for trading	Loans and receivables	Other financial liabilities	Total carrying value and fair value	Fair value hierarchy level
	\$	\$	\$	\$	
<b>Financial assets</b>					
Cash and cash equivalents	2,593,626	-	-	<b>2,593,626</b>	Level 1
Marketable securities	1,020,000	-	-	<b>1,020,000</b>	Level 2
Sundry receivables (1)	-	129,911	-	<b>129,911</b>	
Consideration receivable	-	830,491	-	<b>830,491</b>	
	<b>3,613,626</b>	<b>960,402</b>	<b>-</b>	<b>4,574,028</b>	
<b>Financial liabilities</b>					
Account payable and accrued liabilities	-	-	657,006	<b>657,006</b>	

<sup>†</sup> Excluding taxes receivable

The Corporation 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 for 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, 2010 and 2009 the fair value of cash and cash equivalents equals 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.
- **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.

# Blue Note Mining Inc.

## Notes to the Consolidated Financial Statements

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December 31, 2010

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### 16. Financial instruments and risk management (continued)

#### *Fair value hierarchy*

Financial instruments recognized at fair value on the consolidated balance sheet must classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurement. The fair value hierarchy levels are as follows:

Level 1: quoted prices (unadjusted) observed in active markets for identical assets or liabilities;

Level 2: valuation techniques based on inputs other than quoted prices included in level 1, that are either directly or indirectly observable;

Level 3: valuation techniques with significant unobservable market inputs.

#### ***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, 2010 and 2009.

#### *[i] Credit risk*

The Corporation's financial assets are cash and cash equivalents, restricted cash, sundry receivables, consideration receivable and reclamation deposits. The Corporation's maximum exposure to credit risk of as at December 31, 2010 and 2009 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. Financial instruments included in sundry receivable, consist of taxes receivable from government authorities and receivable from non-related corporations. The majority of these receivables were received in February 2011. Also included in financial instruments, are consideration receivable from a non-related corporation following the disposal of properties. At this point, the Corporation has received the majority of payments and management believes that the credit risk with respect of this transaction is minimal.

#### *[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 *note 1*, as at December 31, 2010 and 2009, 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*

##### *Securities price risk*

The Corporation holds investments in certain public securities for which price fluctuations can affect the Corporation's earnings. The Corporation classifies these investments as held for trading where price volatility is reflected in earnings.

# Blue Note Mining Inc.

## Notes to the Consolidated Financial Statements

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December 31, 2010

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### 16. Financial instruments and risk management (continued)

#### *Commodity price risk*

Future revenues will be 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 is not currently generating any revenues and therefore is not exposed to commodity price.

#### *Foreign currency exchange risk*

The Corporation's foreign exchange risk arises primarily with respect to the US dollar. The Corporation is not currently generating any revenues and therefore is not exposed to foreign exchange risk as commodity prices 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, 2010, an amount of US\$ nil (2009 – US\$ 11,720) is included in accounts payable.

Based on the aforementioned net exposure as at December 31, 2010 and 2009, and assuming that all other variables remain constant, one cent rise or fall in the Canadian dollar against the other currencies would not have a significant impact on the net earnings of the Corporation.

#### *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, 2010 and 2009, with other variables unchanged, a 1% change in the variable interest rates would have an insignificant impact on the net loss of the Corporation.

### 17. 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-month period ended August 31, 2009, 100% of zinc sales included in the discontinued operations were made to a Canadian customer, no lead sales occurred.

# Blue Note Mining Inc.

## Notes to the Consolidated Financial Statements

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December 31, 2010

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### 18. 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)
	\$
<b>Revenue</b>	<b>386,806</b>
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
	<b>22,527,904</b>
<b>Loss before undernoted items</b>	<b>(22,141,098)</b>
Non-controlling interest	3,992,042
	<b>(18,149,056)</b>
<b>Net gain recognized upon deconsolidation</b>	<b>37,437,864</b>
<b>Earnings from discontinued operations</b>	<b>19,288,808</b>

# Blue Note Mining Inc.

## Notes to the Consolidated Financial Statements

December 31, 2010

### 18. 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 \$
<b>Current assets</b>		
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
	<b>1,047,872</b>	<b>2,905,755</b>
<b>Long-term assets</b>		
Reclamation deposits	11,028,439	10,996,423
Mining properties and deferred exploration costs	-	15,038,178
	<b>11,028,439</b>	<b>26,034,601</b>
<b>Current liabilities</b>		
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)
	<b>(183,344,329)</b>	<b>(38,810,485)</b>
<b>Long-term</b>		
Capital lease obligations	(19,141)	(29,293)
Asset retirement obligation	(9,554,822)	(9,274,009)
	<b>(9,573,963)</b>	<b>(9,303,302)</b>
<b>Non-controlling interest</b>	<b>26,178,446</b>	<b>(787,606)</b>
		<b>(10,090,908)</b>
<b>Net asset deficiency</b>	<b>(154,663,535)</b>	
Net gain on reversal of deficiency	154,663,535	
Loss on investment in BNC	(117,225,671)	
<b>Net gain recognized upon deconsolidation</b>	<b>37,437,864</b>	

# Blue Note Mining Inc.

## Notes to the Consolidated Financial Statements

December 31, 2010

### 19. Tax losses and other expenses to carry forward

Years ended December 31,	2010 \$	2009 \$
Income (loss) before income taxes	(3,038,108)	11,841,548
Statutory tax rates	29.90%	30.96%
Income taxes (recovery) at statutory rates	(908,394)	3,665,940
Permanent differences	147,578	131,364
Income tax rate change and other	(163,401)	931,263
Change in valuation allowance	738,577	(4,728,567)
<b>Income taxes (recovery)</b>	<b>(185,640)</b>	-

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

	2010 \$	2009 \$
Future income tax assets		
Share issue costs	436,917	1,165,528
Non-capital losses carried forward	4,802,737	2,418,699
R&D expenses carry forward	-	48,003
	<b>5,239,654</b>	<b>3,632,230</b>
Future income tax liabilities		
Flow through shares	-	(185,648)
Canadian exploration and development costs	(2,038,719)	(1,967,650)
Capital assets	(8,851)	(21,267)
	<b>3,192,084</b>	<b>1,457,665</b>
Less: Valuation allowance	<b>(3,192,084)</b>	<b>(1,457,665)</b>
	<b>-</b>	<b>-</b>

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

Expiry date	Federal \$	Quebec \$
2014	511,481	511,481
2015	540,407	540,407
2026	517,657	517,657
2027	652,546	652,546
2028	569,407	569,407
2029	9,571,844	9,571,844
2030	5,291,141	5,291,141
	<b>17,654,483</b>	<b>17,654,483</b>

# Blue Note Mining Inc.

## Notes to the Consolidated Financial Statements

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December 31, 2010

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

Non-capital losses carried forward of \$17,654,483 for federal and Quebec purposes were recognized as a component of net future income tax assets at \$4,803,000 (2009 - \$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 \$3,487,000 (2009 - \$197,000). The expenditure pools can be carried forward indefinitely to be applied against income of future years.

### 20. Commitments

The Corporation has entered into long-term premises leases totaling \$181,686 expiring from 2011 to 2012. Minimum lease payments for the next years are \$181,516 in 2011 and \$170 in 2012.

The Corporation is subject to pay royalties on some properties from 1% to 10% if such properties are brought into commercial production.

The Corporation is committed, under an option agreement, to acquire 100% of the Rocky Turn property, located in New Brunswick. The Corporation will issue monthly instalments of \$750, until July 2012.

The Corporation is committed, under an option agreement, to acquire 100% of the William Brook property, located in New Brunswick. The Corporation will issue, two (2) instalments of \$25,000 each, on May 2011 and November 2011.

During 2010, under the terms of flow-through agreements, the Corporation issued 23,121,973 flow-through shares and was required to spend \$3,112,890 on qualifying exploration expenditures. As at December 31, 2010 the amount of \$523,381 had been spent, the balance of \$2,589,509 must be incurred before December 31, 2011.

During 2009, under the terms of flow-through agreements, the Corporation issued 5,111,111 flow-through shares and was required to spend \$700,000 on qualifying exploration expenditures before December 31, 2010. The Corporation met this requirement.

In July 2010, the Corporation and "EFG" entered into an agreement for the acquisition, by the Corporation, of the remaining interest in the Croinor property (50%) and all of the "EFG" interest held in the Matchi-Manitou property, which represents a 71% interest. The consideration payable for the transaction will be staggered cash payments totalling \$100,000. In addition, at the closing of the transaction, the Corporation will pay \$2,250,000 in cash and the issuance of 17,500,000 common shares of the Corporation, to be released from escrow on a monthly basis from the closing date of the transaction over a thirty-five (35) month period. The transaction is conditional on the implementation of sufficient funding by the Corporation.

On December 24, 2010, the Corporation and "EFG" agreed to extend the term of the agreement to March 31, 2011 in consideration of an additional payment of \$25,000. As at December 31, 2010, the Corporation had met its commitment for the entire amount of \$125,000.

# Blue Note Mining Inc.

## Notes to the Consolidated Financial Statements

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December 31, 2010

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### 21. Subsequent events

On January 21, 2011, the Corporation closed a private placement of 2,333,333 flow-through units at \$0.15 per unit each composed of one common share for gross proceeds of \$350,000 and 720,000 units at \$0.12 per unit, for a gross proceed of \$86,400, each unit being composed of one common share and one warrant which entitles the holder to acquire one common share at \$0.25 over a period of two years. In connection with the issuance of these units, the Corporation incurred costs of \$7,554. The issue generated total gross proceeds of \$436,400 and net proceeds of \$428,846. The proceeds were allocated between the components based on their estimated fair values, as follows; \$394,286 to share capital; and \$34,560 to warrant account.

The fair value of warrants issued in January 2011, was estimated at \$0.048, calculated using Black-Scholes pricing model with the following assumptions: estimated weighted average duration of 2 years, risk free interest rate of 2.86%, forecasted volatility of 109% and no forecasted dividends.

On March 29, 2011, the Corporation and "EFG" agreed to extend the original binding agreement announced on July 19, 2010 (note 20) to May 31, 2011 in consideration of an additional payment of \$10,000. As of April 18, 2011, the Corporation had met its commitment for the entire amount of \$135,000.