

Blue Note Mining Inc.
Interim Consolidated Financial Statements
June 30, 2010
(unaudited)

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UNAUDITED INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Corporation discloses that its auditors have not reviewed the unaudited consolidated financial statements for the six month period ended June 30, 2010.

Blue Note Mining Inc.

Consolidated Balance Sheets (unaudited)

See going concern uncertainty – note 2

	June 30, 2010 \$ Successor	December 31, 2009 \$ Successor
Assets		
<i>Current assets</i>		
Cash and cash equivalents	807,018	572,978
Restricted cash	698,759	-
Marketable securities (note 6)	1,025,116	-
Sundry receivables (note 7)	219,768	631,715
Consideration receivable (note 5)	568,236	-
Prepaid expenses	149,616	252,232
	3,468,513	1,456,925
Reclamation deposits (note 10)	105,177	-
Consideration receivable (note 5)	420,866	-
Mineral properties and exploration costs (note 8)	13,058,376	7,620,838
Property and equipment (note 9)	63,505	80,190
Deferred share issue costs	-	100,000
	17,116,437	9,257,953
Liabilities		
<i>Current liabilities</i>		
Accounts payable and accrued liabilities	506,709	464,602
Advance from joint venture partner	322,723	-
	829,432	464,602
Asset retirement obligation (note 11)	141,825	-
	971,257	464,602
Shareholders' equity		
Share capital (note 12)	17,445,061	9,327,482
Warrants	815,477	281,478
Contributed surplus	561,567	160,025
Deficit	(2,676,925)	(975,634)
	16,145,180	8,793,351
	17,116,437	9,257,953

See accompanying notes to the interim unaudited consolidated financial statements

On behalf of the board:

Signed: "Jean Mayer" Director

Signed: "Leon Methot" Director

Blue Note Mining Inc.

Consolidated Statements of Loss, Comprehensive Loss and Deficit (unaudited)

See going concern uncertainty – note 2

Periods ended June 30,	Three months ended		Six months ended	
	2010	2009	2010	2009
	\$	\$	\$	\$
	Successor	Predecessor	Successor	Predecessor
Revenue				
Interest income	980	3,255	2,415	12,577
Depletion and depreciation	12,082	12,899	24,195	35,128
Corporate general and administration	1,009,919	840,150	2,127,486	2,436,346
Exploration	2,869	-	7,487	-
Foreign exchange (gain) loss	5	-	(48)	-
Interest on long-term debt	449	685,818	1,534	1,367,667
Other interest and financial charges	2,593	1,153	3,352	7,607
Other (income) charges	(21,597)	-	(21,597)	-
Impairment loss	-	1,457,566	-	1,457,566
Realized and unrealized loss (gain) on disposal of marketable securities	248,958	(281,735)	(252,413)	(535,844)
Loss (Gain) on disposal of long-lived assets	(650)	1,235	(650)	26,777
	1,254,628	2,717,086	1,889,346	4,795,247
Income (loss) before income taxes	(1,253,648)	(2,713,831)	(1,886,931)	(4,782,670)
Future income taxes recovered	-	-	185,640	-
Income (loss) from continuing operations	(1,253,648)	(2,713,831)	(1,701,291)	(4,782,670)
Income (loss) from discontinued operations	-	21,222,216	-	19,288,808
Net income (loss) and comprehensive income for the period	(1,253,648)	18,508,385	(1,701,291)	14,506,138
Deficit - beginning of period	(1,423,277)	(183,518,006)	(975,634)	(179,515,759)
Deficit - end of period	(2,676,925)	(165,009,621)	(2,676,925)	(165,009,621)
Basic loss per share and diluted loss per share				
From continuing operations	(0.012)	(0.007)	(0.017)	(0.013)
From discontinued operations	0.000	0.058	0.000	0.053
Net income	(0.012)	0.051	(0.017)	0.040
Weighted average number of common shares outstanding	106,069,437	363,269,313	97,294,839	363,269,313

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

See accompanying notes to the interim unaudited consolidated financial statements

Blue Note Mining Inc.

Consolidated Statements of Shareholders' Equity (unaudited)

See going concern uncertainty – note 2

	Share capital		Warrants		Stock options and broker warrants	Contributed Surplus	Deficit	Total
	Number	\$	Number	\$	Number	\$	\$	\$
Balance - December 31, 2008	363,269,313	111,135,134	35,750,000	2,440,622	41,667,833	15,976,153	(179,515,759)	129,551,909
Options issued and stock based compensation charged to operations	-	-	-	-	2,000,000	134,660	-	134,660
Options forfeited	-	-	-	-	(14,682,000)	(33,719)	-	(33,719)
Net income from January 1 to August 31, 2009	-	-	-	-	-	-	12,721,556	12,721,556
Balance - August 31, 2009 - Predecessor	363,269,313	111,135,134	35,750,000	2,440,622	28,985,833	16,077,094	(166,794,203)	129,652,850
Share consolidation 30:1	12,108,981	-	1,191,667	-	966,194	-	-	-
Share issued for restructuring	36,326,935	43,059,815	-	-	-	-	-	43,059,815
Fresh start accounting	(363,269,313)	(145,217,908)	-	(2,440,622)	-	(16,077,094)	166,794,203	3,058,579
Balance - August 31, 2009 - Successor	48,435,916	8,977,041	1,191,667	-	966,194	-	-	8,977,041
Equity issued	3,808,695	350,441	-	-	-	-	-	350,441
Options issued and stock based compensation charged to operations	-	-	-	-	2,900,000	100,525	-	100,525
Warrants	-	-	2,417,028	281,478	-	-	-	281,478
Broker warrants	-	-	-	-	367,139	59,500	-	59,500
Net income from September 1 to December 31, 2009	-	-	-	-	-	-	(975,634)	(975,634)
Balance - December 31, 2009 - Successor	52,244,611	9,327,482	3,608,695	281,478	4,233,333	160,025	(975,634)	8,793,351
Equity issued	52,550,685	7,882,671	-	-	-	-	-	7,882,671
Future income taxes on flow through expenses renounces	-	(185,640)	-	-	-	-	-	(185,640)
Options issued and stock based compensation charged to operations	-	-	-	-	4,500,000	139,910	-	139,910
Warrants	-	-	10,001,904	413,368	-	-	-	413,368
Broker warrants	-	-	-	-	1,666,667	93,333	-	93,333
Net income (loss) from January 1 to March 31, 2010	-	-	-	-	-	-	(447,643)	(447,643)
Balance - March 31, 2010 - Successor	104,795,296	17,024,513	13,610,599	694,846	10,400,000	393,268	(1,423,277)	16,689,350
Equity issued	5,270,308	414,692	-	-	-	-	-	414,692
Future income taxes on flow through expenses renounces	-	-	-	-	-	-	-	-
Options issued and stock based compensation charged to operations	-	-	-	-	2,400,000	135,242	-	135,242
Options forfeited	-	-	-	-	(850,000)	-	-	-
Warrants expired	-	5,856	(325,357)	(5,856)	-	-	-	-
Warrants	-	-	5,270,308	126,487	-	-	-	126,487
Broker warrants	-	-	-	-	1,120,560	33,057	-	33,057
Net income (loss) from April 1 to June 30, 2010	-	-	-	-	-	-	(1,253,648)	(1,253,648)
Balance - June 30, 2010 - Successor	110,065,604	17,445,061	18,555,550	815,477	13,070,560	561,567	(2,676,925)	16,145,180

See accompanying notes to the interim unaudited consolidated financial statements

Blue Note Mining Inc.

Consolidated Statements of Cash Flows (unaudited)

See going concern uncertainty – note 2

Periods ended June 30,	Three months ended		Six months ended	
	2010	2009	2010	2009
	\$	\$	\$	\$
	Successor	Predecessor	Successor	Predecessor
Cash provided from (used for):				
Operating activities				
Net loss	(1,253,648)	(2,713,831)	(1,701,291)	(4,782,670)
Non-cash items:				
Future income taxes recovered	-	-	(185,640)	-
Depreciation of mining & capital assets	12,082	12,899	24,195	35,128
Non-cash stock-based compensation	135,242	50,086	275,152	87,917
Realized and unrealized loss (gain) on marketable securities	248,958	(281,735)	(252,413)	(535,844)
Loss (Gain) on disposal of property and equipment	(650)	1,235	(650)	26,777
Impairment loss	-	1,457,566	-	1,457,566
Net changes in non-cash components of operating working capital (<i>note 13 a</i>)	379,747	1,019,577	221,806	560,917
Cash-flow used by continuing operating activities	(478,269)	(454,203)	(1,618,841)	(3,150,209)
Cash-flow provided by discontinued operating activities	-	9,439	-	31,315
Cash-flow used by operating activities	(478,269)	(444,764)	(1,618,841)	(3,118,894)
Financing activities				
Increase in restricted cash	(698,759)	-	(698,759)	-
Increase in credit facility	-	-	-	-
Proceeds from the issue of equity	574,236	-	1,470,623	-
Cash-flow provided (used) by continuing financing activities	(124,523)	-	771,864	-
Cash-flow used by discontinued financing activities	-	-	-	(40,921)
Cash-flow provided (used) by financing activities	(124,523)	-	771,864	(40,921)

See accompanying notes to the interim unaudited consolidated financial statements

Continued...

Blue Note Mining Inc.

Consolidated Statements of Cash Flows (unaudited) (continued)

See going concern uncertainty – note 2

Periods ended June 30	Three months ended		Six months ended	
	2010	2009	2010	2009
	\$	\$	\$	\$
	Successor	Predecessor	Successor	Predecessor
Investing activities				
Proceeds receivable from sale of short-term investment	132,964	281,733	1,193,412	535,843
Mining properties and deferred exploration costs	(189,572)	(31,677)	(230,903)	(87,221)
Government incentive	-	-	-	27,397
Deferred acquisition cost	-	-	100,000	-
Proceeds from asset held for sale	-	1,000,000	-	1,000,000
Disposition of office furniture and equipment	650	150	(2,995)	1,805
Cash-flow provided (used) by continuing investing activities	(55,958)	1,250,206	1,059,514	1,477,824
Cash-flow used by discontinued investing activities	-	-	-	-
Cash-flow provided (used) by investing activities	(55,958)	-	1,059,514	-
Net increase (decrease) in cash provided by continued activities	(658,750)	796,003	212,537	(1,672,385)
Net increase (decrease) in cash provided by discontinued activities	-	9,439	-	(9,606)
Net increase (decrease) in cash and cash equivalents	(658,750)	805,442	212,537	(1,681,991)
Cash and cash equivalents - beginning of period				
From continuing operations	1,465,768	2,961,787	594,481	5,430,175
From discontinued operations	-	13,393	-	32,438
Cash and cash equivalents - end of period				
From continuing operations	807,018	3,757,790	807,018	3,757,790
From discontinued operations		22,832		22,832
Represented by:				
Cash	807,018	858,710	807,018	858,710
Cash equivalents	-	2,899,080	-	2,899,080

See accompanying notes to the interim unaudited consolidated financial statements

Blue Note Mining Inc.

Note to the Consolidated Financial Statements (unaudited)

June 30, 2010

1. Plan of arrangement and reorganization

Blue Note Mining Inc. (the "Predecessor" prior to August 31, 2009 or 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, Quebec and Ontario with the recent purchase of X-Ore Resources Inc. ("X-ORE"). 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 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.

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 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. Detailed information on the plan of arrangement, the impact of adjustments and fresh start accounting is available in the annual audited financial statements as at December 31, 2009.

Blue Note Mining Inc.

Note to the Consolidated Financial Statements (unaudited)

June 30, 2010

2. Basis of presentation and going concern uncertainty

These unaudited interim consolidated financial statements of the Corporation are prepared in accordance with generally accepted accounting principles in Canada for the presentation of interim financial information. All disclosures required for annual financial statements have not been included in the financial statements and therefore these interim consolidated financial statements should be read in conjunction with the Corporation's 2009 annual consolidated financial statements. These financial statements use the same accounting policies and methods used in the preparation of the Corporation's 2009 annual consolidated financial statements, except for the changes in accounting policies described in Note 3. Interim results may not necessarily be indicative of results anticipated for the year.

The Corporation is not currently generating any revenue from its operations activities and for the six month period ended June 30, 2010, the Corporation recorded a loss of \$1,701,291. 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 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.

3. Change in 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 effect on the unaudited interim consolidated financial statements of the Corporation.

Blue Note Mining Inc.

Note to the Consolidated Financial Statements (unaudited)

June 30, 2010

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 offered 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, 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 is performing 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, some of which are not final. 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 is not fully completed as of the date of issuance of our unaudited consolidated financial statements and the amounts assigned to the assets and liabilities may be adjusted as new or improved information on asset and liability appraisals become available. This may result in an adjustment to our preliminary allocation of fair value of these assets and liabilities at the acquisition date.

This transaction value was estimated 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.

Assets acquired	\$
Cash and cash equivalents	21,503
Short term investments	1,137,760
Sundry receivable	21,819
Prepaid expenses	24,386
Reclamation deposits	105,177
Mining properties and deferred exploration costs	5,206,523
Capital Assets	3,865
Assets held for sale	1,558,030
	<u>8,079,063</u>
Liabilities assumed	
Accounts payable and accrued liabilities	(309,928)
Loan payable	(129,275)
Asset retirement obligation	(141,825)
Debenture	(153,001)
	<u>(734,029)</u>
Net value of assets acquired	<u>7,345,034</u>
Consideration paid	
Shares issued by the Corporation	7,312,950
Warrants issued by the Corporation	30,034
Options issued by the Corporation	2,050
	<u>7,345,034</u>

Blue Note Mining Inc.

Note to the Consolidated Financial Statements (unaudited)

June 30, 2010

5. Assets held for sale

On March 18, 2010, the Corporation and Amex Exploration Inc. ("Amex") jointly have entered into a definitive agreement pursuant to which Amex has acquired 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 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 from selling costs of \$7,570, consideration valued at approximately \$1.4 million over the time period as follow:

	\$
Cash received	50,000
Shares received	360,000
Staggered cash	133,562
Staggered shares	846,095
Staggered warrants	9,445
Transactions costs	7,570
Estimated consideration	1,406,672
Received	(417,570)
Estimated receivable	989,102
Less: current portion	568,236
Long term portion	420,866

6. Marketable securities

	June 30, 2010
	\$
	Successor
Rocmec Mining Inc., 300,000 common shares (under escrow)	-
First Gold Exploration Inc., 849,000 common shares	250,455
Gold Hawk Resources Inc., 283,900 common shares	286,739
Amex Exploration Inc., 2,000,000 common shares	360,000
Forest Gate Energy Inc., 1,504,962 common shares	127,922
	1,025,116

Blue Note Mining Inc.

Note to the Consolidated Financial Statements (unaudited)

June 30, 2010

7. Sundry receivables

	June 30, 2010	December 31, 2009
	\$	\$
	Successor	Successor
Commodities taxes receivable	99,274	130,973
Receivable from related party	-	313,242
Others receivables	120,494	60,000
Loan receivable	-	127,500
	219,768	631,715

8. Mineral properties and exploration costs

	Successor - June 30, 2010		
	Mineral properties	Exploration costs	Total
	\$	\$	\$
Mineral and exploration properties	2,346,910	10,711,466	13,058,376
	2,346,910	10,711,466	13,058,376

As a result of the acquisition of X-ORE on January 19, 2010, the Corporation acquired various assets near Val-d'Or, Quebec and Sudbury, Ontario. Included in these assets is the Croinor property, which is held in a joint venture with First Gold Exploration Inc. ("EFG") on 50/50 share participation (see additional information in subsequent event *note 17*).

The Corporation is performing 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, some of which are not final. 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 is not fully completed as of the date of issuance of our unaudited consolidated financial statements and the amounts assigned to the assets and liabilities may be adjusted as new or improved information on asset and liability appraisals become available. This may result in an adjustment to our preliminary allocation of fair value of each property and such adjustments to the recorded fair value of these assets and liabilities at the acquisition date may impact the values ascribed to the Corporation.

Blue Note Mining Inc.

Note to the Consolidated Financial Statements (unaudited)

June 30, 2010

8. Mineral properties and exploration costs (continued)

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

9. Property and equipment

	Successor - June 30, 2010		
	Cost	Accumulated	
		Depreciation	Net
	\$	\$	\$
Office furniture and equipment	94,684	(37,697)	56,987
Computer equipment	15,370	(8,852)	6,518
	110,054	(46,549)	63,505

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

10. Reclamation deposits

As at June 30, 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 Quebec 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.

Blue Note Mining Inc.

Note to the Consolidated Financial Statements (unaudited)

June 30, 2010

11. Asset retirement obligations

As at June 30, 2010, \$105,177 of reclamation deposits had been invested in restricted deposits for future site reclamation obligations. During 2010, there were no additional obligations incurred. The Corporation is currently preparing an updated mine closure plan which will be submitted to the government authorities. Actual costs of \$141,825 are based on Management's estimates which are not final but accepted by the government authorities.

12. 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, 2009 (Successor)	52,244,611	9,327,482
Issued of shares related to Resources X-Ore acquisition (note 4)	43,017,352	7,312,950
Convertible debenture	1,200,000	150,000
Tax effect of 2009 flow-through share renunciations	-	(185,640)
Flow-through shares,	8,333,333	419,721
Balance - March 31, 2010 (Successor)	104,795,296	17,024,513
Warrants expired	-	5,856
Flow-through shares,	5,270,308	414,692
Balance - June 30, 2010 (Successor)	110,065,604	17,445,061

(a) Issues during 2010

On January 26, 2010, a former debenture holder of X-ORE exercised its option of converting the debenture into Blue Note shares. The Corporation issued 1,200,000 common shares at \$0.125 per share for a total consideration of \$150,000.

On March 16, 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 cost of \$103,613 and issued 833,333 broker warrants to the agent to acquire 833,333 common shares at \$0.12 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 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, was estimated at \$0.046, calculated using Black-Scholes pricing model with the following assumptions: estimated weighted average duration of 2 years for these warrants, risk free interest rate of 2.34%, forecasted volatility of 105% and no forecasted dividend.

On June 8, 2010, the Corporation closed a private placement of 5,270,308 flow-through units at \$0.13 per unit each composed of 5,270,308 common shares and 5,270,308 warrants to acquire 5,270,308 common shares at \$0.25 over a period of two years. In connection with the issuance of these units, the Corporation incurred cost of \$110,904 and issued 560,280 broker warrants to the agent to acquire 560,280 common shares at \$0.13 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 as follows; \$414,692 to share capital; \$126,487 to warrant account; and, \$33,057 to broker warrants.

Blue Note Mining Inc.

Note to the Consolidated Financial Statements (unaudited)

June 30, 2010

12. Shareholders' equity (continued)

(a) Issues during 2010 (continued)

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

(b) Stock option plan

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

Period ended June 30,	2010 - Successor		2009 - Predecessor	
	Number of options	Weighted Average Exercise Price \$	Number of options	Weighted Average Exercise Price \$
Balance – beginning of period	3,533,333	1.14	31,682,000	0.22
Options granted under stock option plan	4,500,000	0.23	2,000,000	0.05
Options forfeited	-	-	(8,620,000)	0.19
Balance – March 31	8,033,333	0.63	25,062,000	0.21
Options granted under stock option plan	2,400,000	0.11	-	-
Options forfeited	(850,000)	0.37	-	-
Balance – June 30	9,583,333	0.52	25,062,000	0.21

The number of options outstanding, for the Predecessor, does not reflect the share consolidation of 30 for one.

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

	Three months ended June 30		Six months ended June 30	
	2010 \$ Successor	2009 \$ Predecessor	2010 \$ Successor	2009 \$ Predecessor
Directors, management and employee compensation	128,105	49,783	267,096	87,614
Consultant compensation	7,137	303	8,056	303
Total charged to income	135,242	50,086	275,152	87,917

Stock based compensation is included in corporate general and administration expenses (quarter and the six months ended June 30, 2009 - \$50,086 and \$87,917 respectively).

Blue Note Mining Inc.

Note to the Consolidated Financial Statements (unaudited)

June 30, 2010

12. Shareholders' equity (continued)

(b) Stock option plan (continued)

As at June 30, 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
205,000	205,000	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
313,333	310,667	1.50	Dec-13
66,667	50,000	1.50	Mar-14
2,900,000	1,450,000	0.16	Oct-14
3,500,000	875,000	0.19	Jan-15
2,400,000	600,000	0.11	Apr-15
9,583,333	3,689,000	0.52	

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

	January 1, 2010 to June 30, 2010	January 1, 2009 to June 30, 2009
Risk-free interest rate	2.34% to 2.59%	1.63%
Expected life (years)	5	5
Expected volatility	105%	260%
Expected dividend yield	nil	nil
Weighted average grant date fair value; post consolidation	\$0.085	\$0.010

Blue Note Mining Inc.

Note to the Consolidated Financial Statements (unaudited)

June 30, 2010

12. Shareholders' equity (continued)

(c) Broker warrants and units

Period ended June 30,	2010 - Successor		2009 - Predecessor	
	Granted	Weighted Average Exercise Price \$	Granted	Weighted Average Exercise Price \$
Balance – beginning of year	700,000	0.23	9,985,833	0.62
Broker w arrants issued upon exercise of broker units	1,666,667	0.19	-	-
Balance – March 31	2,366,667	0.20	9,985,833	0.62
Broker w arrants issued upon exercise of broker units	1,120,560	0.04	-	-
Balance – June 30	3,487,227	0.14	9,985,833	0.62

The number of broker warrants outstanding, for the Predecessor, does not reflect the share consolidation of 30 for one.

(d) Share purchase warrants

Period ended June 30,	2010 - Successor		2009 - Predecessor	
	Granted	Weighted Average Exercise Price \$	Granted	Weighted Average Exercise Price \$
Balance – beginning of year	3,608,695	0.26	35,750,000	0.67
Share purchase w arrants	10,001,904	0.24	-	-
Balance – March 31	13,610,599	0.25	35,750,000	0.67
Share purchase w arrants expired	(325,357)	0.02	-	-
Share purchase w arrants	5,270,308	0.02	-	-
Balance – June 30	18,555,550	0.19	35,750,000	0.67

The number of share purchase warrants outstanding, for the Predecessor, does not reflect the share consolidation of 30 for one.

Blue Note Mining Inc.

Note to the Consolidated Financial Statements (unaudited)

June 30, 2010

13. Supplemental disclosures of expenses and cash flow information

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

	Three months ended June 30,		Six months ended June 30,	
	2010 \$ Successor	2009 \$ Predecessor	2010 \$ Successor	2009 \$ Predecessor
Decrease (Increase) in:				
Sundry receivable	(20,717)	(205,091)	14,901	426,842
Consideration receivable	25,000	-	25,000	-
Prepaid expenses	54,083	222,053	127,004	(53,160)
Advance to subsidiary	-	302,853	-	(671,753)
Increase (decrease) in:				
Accounts payable and accrued liabilities	(1,342)	699,762	(267,822)	858,988
Advance from joint venture partner	322,723	-	322,723	-
	379,747	1,019,577	221,806	560,917

(b) Interest paid and received

	Three months ended June 30,		Six months ended June 30,	
	2010 \$ Successor	2009 \$ Predecessor	2010 \$ Successor	2009 \$ Predecessor
Interest paid	449	-	1,540	150,541
Interest received	980	3,255	2,415	12,577

Blue Note Mining Inc.

Note to the Consolidated Financial Statements (unaudited)

June 30, 2010

14. 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 and long-term debt, in the definition of capital as follow:

	June 30, 2010	December 31, 2009
	\$	\$
	Successor	Predecessor
Shareholder' equity	16,145,180	8,793,351
Long-term debt, including current portion	141,825	-
	16,287,005	8,793,351

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 Consolidated Financial Statements (unaudited)

June 30, 2010

15. 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 the annual audited financial statements as at December 31, 2009, describe how the categories of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognized.

As at June 30, 2010, the classification of the financial instruments, as well as their carrying values and fair values, are shown in the table below:

Period ended	Held for trading	Loans and receivables	Other financial liabilities	Total carrying value and fair value	
				June 30, 2010	December 31, 2009
	\$	\$	\$	\$	\$
Financial assets					
Cash and cash equivalents	807,018	-	-	807,018	572,978
Restricted cash	698,759	-	-	698,759	-
Marketable securities	1,025,116	-	-	1,025,116	-
Sundry receivables (1)	-	97,738	-	97,738	500,741
Consideration receivable	-	568,236	-	568,236	-
	2,530,893	665,974	-	3,196,867	1,073,719
Financial liabilities					
Account payable and accrued liabilities (2)	-	-	506,709	506,709	464,602
Advance from joint venture partner	-	-	322,723	322,723	-
	-	-	829,432	829,432	464,602

¹ Excluding taxes receivable

² Excluding trade payables related to sales and capital taxes.

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 June 30, 2010 and December 31, 2009 the fair value of cash and cash equivalents and approximates their carrying value.
- **Loans and receivables:** The carrying amount of the sundry receivables and consideration 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.

Note to the Consolidated Financial Statements (unaudited)

June 30, 2010

16. 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 unaudited consolidated financial statements of the Predecessor.

As of June 30, 2009, immediately prior to deconsolidation, the Predecessor's unaudited consolidated 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.

Detailed information on the discontinued operations is available in the annual audited financial statements as at December 31, 2009.

17. Subsequent event

On July 19, 2010, the Corporation and First Gold Exploration Inc. ("EFG") entered into a binding agreement for the acquisition by X-ORE, a wholly-owned subsidiary of Blue Note, of all of EFG interests and title held in the Croinor gold project (remaining 50% interest), and all interests and title held in the Matchi-Manitou property, which represent a 71% interest.

The consideration payable under this acquisition consists of \$2,350,000 cash less staggered cash payments totaling \$100,000, the issuance, in escrow, of 17,500,000 Blue Note common shares to be released from escrow on a monthly basis from the closing date of the transaction during a thirty-five (35) month period. At this point in time, the Corporation is performing an assessment of the fair value of the identifiable assets and liabilities acquired. This transaction value is estimated by management at approximately \$4 million, subject to final appraisal at the acquisition date.