

# Blue Note Mining Inc.

## Management's Discussion and Analysis of Financial Condition and Results of Operations

For the Period ended September 30, 2010

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### Introduction

The following Management's Discussion and Analysis ("MD&A") as at November 19, 2010 of Blue Note Mining Inc. (the "Predecessor" prior to August 31, 2009 or the "Successor" or the "Corporation" subsequent to August 31, 2009) for the three-month and nine-month periods ended September 30, 2010 and the one month period ended September 30, 2009 and the two month and eight month periods ended August 31, 2009 should be read in conjunction with the Corporation's interim financial statements as well as annual audited financial statements dated December 31, 2009. This financial information has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All references made to "Notes" in the MD&A correspond to the Notes to the annual audited financial statements dated December 31, 2009. All dollar amounts reported herein are expressed in Canadian dollars unless specifically stated to the contrary.

Additional information relating to the Corporation is available on SEDAR at [www.sedar.com](http://www.sedar.com)

### Highlights

The third quarter of 2010 was highlighted by the following:

- Completion of a Positive Prefeasibility Study for the Croinor gold project;
- Agreement to acquire 100% of the Croinor gold project;
- Receipt of necessary approval to begin construction at Croinor gold project;
- Completion of first phase of drilling at Croinor, confirming additional potential at depth and near surface;
- Completion of first phase of drilling at Chimo showing extension of previously identified gold mineralization zones; and
- Reduction in direct operating expenses of 59%, when compared with second quarter of 2010.

### Cautionary Note Regarding Forward Looking Information

Certain information contained in this MD&A, including information regarding mining operations, mineral resources and exploration program performance, constitutes forward looking statements within the meaning of Canadian securities legislation. All statements, other than statements of historical fact, are forward-looking statements and are often identified by such words as "believe", "expect", "anticipate", "contemplate", "target", "plan", "intend", "continue", "budget", "estimate", "may", "will", "schedule" and other similar expressions. Readers are cautioned not to place undue reliance on forward-looking statements as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward looking statements involve numerous assumptions, contingencies, known and unknown risks and uncertainties, both general and specific which contribute to the possibility that the predictions, forecasts, projections, and other forward-looking statements will not occur. These assumptions may cause the Corporation's actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. These risks and uncertainties include, among other things, risks related to care and maintenance, the volatility of metal prices, new information regarding recoverable reserves, geological, technical, mining or processing problems, changes in supply and demand, market competition, changes in environmental and other regulations, political changes, and other factors that may be detailed from time to time in the Corporation's SEDAR filings. The Corporation disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise, except to the extent required by applicable law.

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### Plan of Arrangement and Reorganization

As a result of the uneconomic nature of the Predecessor's wholly-owned subsidiary, Blue Note Caribou Mines Inc. ("BNC") operations at commodities prices prevailing in 2008, and the Predecessor's inability to obtain financing given then existing market conditions, BNC sought protection under the Companies' Creditors Arrangement Act ("CCAA") on February 20, 2009. The majority of the operating assets of the Predecessor were held in BNC. BNC filed for bankruptcy on June 30, 2009. As of the date of such 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 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 favour 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 a one for 30 share consolidation of the Corporation's shares. 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 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 and was recorded in these assets and liabilities at the fresh start date which resulted in an increase of the Successor's equity.

The application of fresh start accounting results in the financial statements of the Successor not being comparable to the Predecessor in many respects.

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### Overview of the Corporation

Blue Note is a mineral exploration and mining company with gold and base metal exploration properties located in Quebec, New Brunswick and Ontario. The business mission of the Corporation is to pursue its business plan of acquiring and operating near term producing assets, undervalued mining opportunities or underperforming mining operations with improvement potential. The minerals being targeted by the Corporation are precious metals.

As at September 30, 2010, the Corporation has working capital of \$2,120,863. The Corporation is not currently generating any revenue from its operations and for the three month and nine month periods ended September 30, 2010, the Corporation recorded a loss from continuing operations of \$146,177 and \$1,847,468 respectively, compared to \$173,661 for the month ended September 30, 2009 and \$507,922 for the two months ended August 31, 2009 and \$173,661 for the month ended September 30, 2009 and \$5,290,592 for the eight months ended August 31, 2009, resulting in a deficit of \$2,823,102. The Corporation must secure sufficient funding to maintain its existing operations for exploration programs and general and administration expenses.

In January 2010, all of the outstanding common shares of X-Ore Resources Inc. ("X-ORE") were acquired by 9216-4706 Quebec Inc. ("9216-4706"), a wholly-owned subsidiary of the Corporation. The transaction took the form of an amalgamation between X-ORE and 9216-4706 in exchange for the Corporation's common shares, subject to certain conditions.

The principal objective of the acquisition of X-ORE, completed in January 2010, was the near term production Croinor gold project. The property was then held in a 50/50 joint venture. The Corporation is actively pursuing the development of the Croinor project.

The shareholders of X-ORE received 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.

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

The consideration for the transaction consists of staggered cash payments totalling \$200,000, the

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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, a consideration valued at approximately \$1.5 million over the time period.

With these transactions, the Corporation is better positioned to focus on its Canadian gold and base metal properties. On March 17, 2010, the Corporation closed a private placement generating total gross proceeds of \$1,000,000. On June 8, the Corporation closed a second private placement generating total gross proceeds of \$685,140. These funds will be used mainly, for exploration on new sites in Val-d'Or, Quebec, and also in New Brunswick to maintain the properties.

On July 15, 2010, the Corporation reported positive results from the Prefeasibility Study for the Croinor gold project, confirming the project's robust economics and excellent potential for long term growth through a focused exploration program. The study provides for an underground mining operation using custom milling at a fully permitted milling facility near Val-d'Or and displays significant improvements over the Preliminary Economic Assessment prepared by Golder Associates filed in July 2009 including more than doubling the mine life and production. New Mineral Resource and Mineral Reserve estimates in compliance with National Instrument 43-101 respecting standards of disclosure have been released. Highlights from the study are presented in the following table. The full Prefeasibility Study is available at [www.sedar.com](http://www.sedar.com). All currency in this report is in Canadian dollars unless otherwise noted.

### HIGHLIGHTS OF JULY 15, 2010 PREFEASIBILITY STUDY

Parameters	Results
Proven & probable mineral reserve	689,829 tonnes at 8.35g/t
Total contained gold reserve	185,260 oz
Mine life (including 14-month preproduction)	5 years
Daily mine production	500 tonnes /day
Gold recovery	97.5%
Annual gold production	39,181 to 45,631 oz
LOM recovered gold	170,556 oz
Average cash operating cost	\$160 / tonne
Average cash operating cost	US\$572/oz
Capital cost (including \$7.4M sustaining/working capital)	\$ 26 million *
Total cost per ounce	US\$715/oz
Total revenue	\$182 million
Total operating cost	\$104 million
Total project cost	\$130 million
Total operating cash flow (before tax & royalties)	\$52.4 million
Net cash flow (pretax after royalties)	\$47.4 million
NPV (pretax @ 7% discount)	\$35.9 million
IRR (pre-tax)	97%
Payback period	25 months
Pre-production period (including 42,000t of production)	14 months

\*Includes capitalized preproduction operating cost net of associated revenue

\*Bloomberg base case consensus forecasts: 2011 to 2015

Gold Price (\$US/oz) 1,178; 1,165; 1,123; 850; 850

Exchange Rate (\$C/\$US) 1.04; 1.06; 1.09; 1.05; 1.05

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### **Agreement to acquire First Gold's interest in Croinor**

On July 17, 2010, Blue Note announced that it had entered into a binding agreement providing for the acquisition by the Corporation of all of First Gold Exploration Inc. ("First Gold") interests in the Croinor gold project located near Val-d'Or, Quebec in order for the Corporation to own 100% of Croinor. The Corporation is making cash payments to First Gold consisting of five non-refundable monthly instalments of \$20,000 until December 31, 2010, and \$2,250,000 to be paid no later than December 31, 2010. The agreement includes the transfer of First Gold's 71% ownership in the Matchi-Manitou property to Blue Note and is subject to TSX Venture Exchange and other regulatory approvals. In addition, the Corporation will issue 17.5 million Blue Note common shares to be held in escrow, for release at a rate of 500,000 shares per month over 35 months from the date of closing. First Gold shall have the right, at its discretion, to maintain a 13.67% equity ownership in the capitalization of Blue Note by participating in future private placements or any business combinations thereof. The 50/50 Croinor joint operatorship shall remain in effect until the date of closing. In the meantime, First Gold is exempted from participating in any further cash calls until such date. First Gold will also have the right to nominate one board member on Blue Note's board of directors.

On September 1, 2010, the Certificate of Authorization was received from the Quebec Department of Sustainable Development, Environment and Parks (MDDEP) for the Croinor gold project allowing for mine development and underground production. The crown pillar stability study and site reclamation plan will be completed by Golder Associates during the 4<sup>th</sup> quarter of 2010.

### **Discontinued Operations – Blue Note Caribou Mines Inc.**

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 the criteria under Canadian GAAP, its control over BNC was lost. Accordingly, the Predecessor's investment in BNC has no longer been consolidated as of 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 unaudited 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.

For further details, refer to note 13 of the Corporation's audited financial statements as of December 31, 2009.

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*In this Management's Discussion and Analysis, only continuing operating activities of the Corporation are included in the analysis of operating results*

### Selected Quarterly Information (unaudited)

	Revenue	Net loss from continuing operations (net income)	Net loss from continuing operations (2) Per common share
	\$	\$	\$
<b>2010</b>			
Third Quarter	936	146,177	0.001
Second Quarter	980	1,253,648	0.012
First Quarter	1,435	447,643	0.005
<b>2009</b>			
Fourth Quarter	1,113	801,974	0.021
One month ended September 30	662	173,661	0.003
Two months ended August 31 (1)	1,791	482,922	0.001
Second Quarter (1)	3,255	3,919,863	0.013
First Quarter (1)	9,322	2,068,840	0.006
<b>2008 (1)</b>			
Fourth Quarter	73,322	11,346,824	0.031
Third Quarter	124,535	17,442,394	0.048
Second Quarter	218,159	(29,617)	-
First Quarter	345,935	2,961,355	0.009

(1): Impact of fresh start accounting is not reflected in this value.

(2): Earnings per share do not reflect the share consolidation at August 31, 2009.

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### Presentation of financial information and combined prior financial results

***Because the Corporation's financial statements reflect fresh start accounting adjustments as of August 31, 2009, and because of the effects of the transactions that became effective pursuant to the Plan, financial information in these and future financial statements will not be comparable to the Corporation's financial information from prior periods.***

### Results of Operations

Periods ended	Three months ended September 30, 2010 \$ Successor	One month ended September 30, 2009 \$ Successor	Two months ended August 31, 2009 \$ Predecessor	Nine months ended September 30, 2010 \$ Successor	One month ended September 30, 2009 \$ Successor	Eight months ended August 31, 2009 \$ Predecessor
Revenues	936	662	1,791	3,351	662	14,368
Direct operating expenses	410,397	172,925	335,571	2,547,920	172,925	2,807,044
Financial charges	3,019	1,398	192,083	7,905	1,398	1,567,358
Impairment charges	-	-	-	-	-	1,457,566
Unrealized and realized loss (gain)	(266,303)	-	(17,941)	(519,366)	-	(527,008)
Consolidated net (loss) from continuing operations	(146,177)	(173,661)	(507,922)	(2,033,108)	(173,661)	(5,290,592)
Future income taxes recovered	-	-	-	185,640	-	-
Discontinued operations	-	-	-	-	-	19,288,808
Net income (loss)	(146,177)	(173,661)	(507,922)	(1,847,468)	(173,661)	13,998,216
Per share consolidated net loss (income) (1)	(0.001)	(0.003)	(0.001)	(0.018)	(0.003)	0.039

(1) Earnings per share do not reflect the share consolidation on August 31, 2009

### Third Quarter Review

For the quarter ended September 30, 2010, the Corporation incurred a consolidated net loss of \$146,177 (\$0.001 per share) compared to a net loss from continuing operations of \$173,661 (\$0.003 per share) for the month ended September 30, 2009 and \$507,922 (\$0.001 per share) for the two months ended August 31, 2009.

The Corporation incurred direct operating expenses of \$410,397 in the reporting period, compared to \$172,925 for the month ended September 30, 2009 and \$335,571 for the two months ended August 31, 2009. The decrease of \$98,099 in expenses for the third quarter of 2010 was mainly the result of a decrease in professional fees to \$36,842 compared with \$52,870 for the month ended September 30, 2009 and \$246,242 for the two months ended August 31, 2009 representing a reduction of \$262,270 offset in part by increase in the stock-based compensation to \$45,593 from \$12,549 in the two months ended August 31, 2009 representing an increase of \$33,044. Wages in the third quarter amounted to \$188,104 compared to \$104,497 for the month ended September 30, 2009 and a negative charge of

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\$113,579 (following the reversal for severance of \$336,000) for the two months ended August 31, 2009 representing an increase of \$197,786.

Financial charges amounted to \$3,019 compared to \$1,398 for the month ended September 30, 2009 and \$192,083 for the two months ended August 31, 2009, representing a decrease of \$190,462, mainly due to the restructuring of the notes in 2009.

Unrealized and realized gain amounted to \$266,303. This gain in the third quarter of 2010 resulted from the disposition of marketable securities compared to \$28,941 for the two months ended August 31, 2009. A loss of \$11,000 on disposal of long-lived assets was also included in 2009 figures.

During the period, the Corporation invested \$512,539 in capital expenditures mainly related to the Val-d'Or and New Brunswick gold property development work. This compares to \$99,085 for the month ended September 30, 2009 and \$51,799 for the two months ended August 31, 2009.

As at September 30, 2010, the Corporation had total assets of \$16,641,785 compared to \$9,257,953 at December 31, 2009. The increase is due primarily to the amalgamation with X-ORE of \$7.3 million.

### Reduction in third quarter direct operating expenses compared with second quarter of 2010

Three months ended	September 30,	June 30,	Variance (favorable) unfavorable	
	2010	2010	\$	%
	\$	\$		
Depletion and depreciation	12,236	12,082	154	1%
General & Administration	107,275	189,407	(82,132)	-43%
Wages and benefits	188,104	370,523	(182,419)	-49%
Stock base compensation	45,593	135,242	(89,649)	-66%
Professional fees	36,842	185,706	(148,864)	-80%
Travelling and promotion	39,430	129,046	(89,616)	-69%
Exploration charges	13,888	2,869	11,019	384%
Other income	(32,971)	(21,597)	(11,374)	53%
<b>Direct operating expenses</b>	<b>410,397</b>	<b>1,003,278</b>	<b>(592,881)</b>	<b>-59%</b>

A thorough review of all expenses was recently undertaken, with the objective of reducing or eliminating all unnecessary expenditures, resulting in a substantial reduction of the Corporation's direct operating expenses for the three months ended September 30, 2010 have declined substantially when compared to prior periods.

### Highlights of cost reductions

*General and Administration:* a reduction of \$82,132 (43%) in the third quarter of 2010 compared to second quarter. Telecommunication and IT expenses declined by \$11,428. It should be noted that the second quarter included \$64,001 of printing and postage related to annual mailings to shareholders.

*Wages and benefits:* declined \$182,419 (49%) in the three months ended September 30, 2010 due to reduced headcount and reduced salaries of \$36,000 for those remaining. The second quarter included severance of \$144,931.

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*Stock-based compensation:* a decline of \$89,649 (66%) due mainly to the forfeiture of options of a number of former consultants and former employees.

*Professional fees:* a reduction of \$148,864 (80%) due mainly to reduced reliance of external financial and legal consultants.

*Travelling and promotion:* a savings of \$ 89,616 (69%) due in mainly to \$45,828 reduction international travel and the elimination of the Marketing department.

Overall the reduction in direct operating expenses the third quarter of 2010 amounted to \$592,881 (59%), when compared with second quarter of 2010.

### Year-to-date Review

#### Presentation of financial information and combined prior year financial results

***Because the Corporation's consolidated financial statements reflect fresh start accounting adjustments starting in the third quarter of 2009, and because of the effects of the transactions that became effective pursuant to the Plan, actual year to date financial information are not comparable to the Corporation's financial information from prior periods.***

For the nine months ended September 30, 2010, the Corporation incurred a net loss of \$1,847,468 (\$0.018 per share). For the month ended September 30, 2009, the Corporation incurred a net loss, of \$173,661 (\$0.003 per share) while the Predecessor incurred a net loss from continuing operations of \$5,290,592. Income from discontinued operations created a gain of \$19,288,808 resulting in a net gain, after discontinued operations of \$13,998,216 (\$0.039 per share before share consolidation) in the eight months ended August 31, 2009.

The Corporation incurred direct operating expenses of \$2,547,920 during the nine month ended September 30, 2010. Last year, for the month ending September 30, 2009 the amount was \$172,925 and the Predecessor incurred \$2,807,044 in the eight months ended August 31, 2009. The decrease of \$432,049 in expenses reflects reduced staffing levels, with year-to-date salaries declining to \$844,599 from \$104,497 for September 2009 and \$1,011,101 in the eight months ended August 31, 2009, which represent a saving of \$270,999, professional fees declining from \$553,318 in the nine months of September 30, 2010 from \$52,870 in September 2009 and \$957,076 in the 8 months ended August 31, 2009, which represents a reduction of \$456,628, following the restructuring. These decreases were partially upset by an increase in stock-based compensation charges to \$320,745 during the nine month ended September 30, 2010 compared to \$nil in for September 2009 and \$100,941 in the eight months ended August 31, 2009 representing an increase of \$219,804. Business development expenses during the nine month ended September 30, 2010 amounted to \$327,787 compared to \$17,001 for September 2009 and \$221,136 in the 8 months ended August 31, 2009 representing an increase of \$89,650.

Financial charges amounted to \$7,905 in the nine month period ended September 30, 2010 compared to \$1,398 in the one month period ended September 30, 2009 and \$1,567,358 in the eight months ended August 31, 2009 reflecting just over 7 months interest on the notes prior to the restructuring which occurred early in August 2009.

The Corporation had unrealized and realized gains of \$519,366 for the nine month period ended September 30, 2010 compared to \$527,008 recorded by the Predecessor for the eight month period ended August 31, 2009 (\$nil in one month period ended September 30, 2009). The unrealized and realized gains on disposal of marketable securities amounted to \$518,716 for the nine month period ended September 30, 2010 compared to \$564,785 recorded by the Predecessor for the eight month period ended August 31, 2009 (\$nil in one month period ended September 30, 2009). Gain on disposal of

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long-lived assets amounted to \$650 for the nine months period ended September 30, 2010, compared to a loss of \$37,777 in the eight months ended August 31, 2009, (nil \$ in September 2009).

### Financial review

#### Industry Trends and Outlook

Global economic conditions affect our capital markets and the markets for our commodities. The credit crisis and global economic weakness resulted in sharp declines in most commodity prices with the notable exception of gold. We have undertaken various initiatives to adapt our cost structure to the rapidly changing economic environment including:

- Reducing corporate staff levels by a further 50% in 2010.
- Reducing the salaries of all remaining employees.
- Focusing on gold exploration and development and reducing expenditures on base metal properties.

The lingering effect of the global recession is expected to continue to cause uncertainty in commodity markets. Under these conditions, we are focusing our efforts on gold exploration and production as the fundamentals for gold appear to be strong.

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

#### Commitments

The Corporation has no significant contractual obligations other than the actual long-term premises leases expiring in January 2012.

The Corporation is committed to spend \$2,385,140 (\$1,034,516 spent as at September 30, 2010) in exploration expenses relating to flow-through financing. Of this, \$700,000 of eligible expenses has to be incurred before December 31, 2010, and the balance of \$1,685,140 of eligible expenses has to be incurred before December 31, 2011.

#### Transactions with Related Parties

The Corporation accepted the proposal by a previously related party (an entity subject to significant influence of the Corporation's former chief executive officer) to cancel a non-interest bearing demand advance payable to the Corporation in exchange for common shares.

#### Outlook

The Corporation's ability to continue as a going concern is dependent on many factors, mostly matters outside the Corporation's control. Accordingly, substantial doubt exists as to whether the Corporation will be able to continue as a going concern. There can be no assurance that the Corporation will be able to recover the amounts currently recorded as long-lived assets.

The fundamentals for gold remain very strong as a number of developed economies adopt further quantitative easing measures in an effort to boost their economic recoveries. These measures will likely allow real interest rates to remain low, which is supportive of gold prices. Likewise, increases in money supply raise the spectre of inflation which is also supportive of gold.

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The Canadian dollar is strengthening against the US dollar as strong commodity prices and Canada's relatively sound fiscal and economic performance attract foreign capital flows. The strengthening of the Canadian dollar will offset some of the benefit of higher gold prices.

### Exploration and Reserve Development

#### Quebec and Ontario properties

The Corporation acquired all of the outstanding common shares of X-ORE in a transaction completed in the first quarter of 2010 in the form of an amalgamation whereby X-ORE is held by Blue Note as a wholly owned subsidiary of the Corporation.

In addition to Croinor, Blue Note, through its subsidiary, X-ORE has a 100% interest in the following gold exploration properties in the Val-d'Or area:

- Chimo – Mining lease nos. 602 and 827 (royalties include 1% NSR to Cambior, 2% NSR to Louvem Mines Inc. and 2% of gross sales to Chimo Gold Mines Ltd.)
- Nova (38 claims; 1% NSR royalty to Cambior)
- Pershing (49 claims)
- Bel-Rive (41 claims)
- Pascalis (43 claims)
- Lac Tavernier (26 claims)
- Belcourt (10 claims)
- Tex-Sol (10 claims)

On July 17, 2010, Blue Note entered into a binding agreement providing for the acquisition by the Corporation of all of First Gold's interests in the Croinor gold project and First Gold's interest in the Matchi-Manitou exploration property. The Corporation, through X-ORE, and First Gold each held a 50% joint venture interest in the Croinor project that includes Mining Lease 862 and nine surrounding claims in the Val-d'Or region of Quebec. A prefeasibility study of the Croinor deposit was completed in July 2010. The Croinor deposit, situated on the mining lease, has a NI 43-101 compliant reserve estimated to contain 185,260 ounces of gold in 689,829 tonnes (proven and probable) grading 8.35 g/t gold. The Corporation holds a 100% interest in 410 claims on the Croinor property that surround the joint venture property. This includes 130 map designated claims (CDCs) that were staked during the quarter. The new claims are contiguous with the Croinor, Pershing and Bel-Rive properties and increase the overall claim holdings in the Croinor area by 5,346 hectares. Royalties on the Croinor project include a 15% of net profit from commercial production on 92 claims and 5% of net income from production on 97 claims payable only after overall property expenditures have been recouped. Other royalties also exist on other claims on the property.

The Corporation also holds an interest in five mining leases (i.e. 6% in 2 claims and 33% in 78 claims) on the Sturgeon Lake property in western Ontario. Inmet Mining Corp. is the operator of the Sturgeon Lake property and has optioned the property to Unitronix Corp.

A diamond drill program was completed at Croinor in August with seven holes totaling 2,067 meters completed during the quarter. The program planned to extend the current reserves / resources. Positive results obtained from the drilling indicate that reserves will be increased. A bore hole induced polarization survey was completed in August to further define drill targets in and around the Croinor deposit. Preliminary results of the survey indicate target areas for drill testing exist to the east, west and at depth from the main part of the Croinor deposit.

# Blue Note Mining Inc.

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The drill program consisting of 1,037 meters in three holes was completed at the past producing Chimo mine to test gold mineralized zones identified in diamond drilling by previous operators. Detailed compilation of other gold projects in the Val-d'Or region is in progress to determine future work programs.

During the quarter ended September 30, 2010, the Corporation incurred \$439,640 in exploration activities, mainly on the Croinor and Chimo projects in the Val-d'Or area.

### **New Brunswick properties**

The Corporation holds 1,882 mineral claims in the area of the Williams Brook Property in northern New Brunswick that were staked following the intersection of encouraging gold mineralization in diamond drilling on the Williams Brook Property and includes the following claim groups:

- Williams Brook (claim #4660 – 112 claims)
- Williams Brook Extension (claim #5495 – 218 claims)
- Williams Brook South (claim #5499 – 114 claims)
- Nine Mile Brook (claim #5493 – 228 claims)
- Upsalquitch Forks (claim #5500 – 255 claims)
- Cravens Gulch (claim #5502 – 256 claims)
- McDougall's Brook (claim #5503 – 256 claims)
- Popelogan (claim #5504 – 243 claims)
- Northwest Upsalquitch (claim #5505 – 256 claims)
- Bubar Brook (claim #5506 – 56 claims)
- Jerry Ferguson Brook Property (claim #5557 - 32 claims),
- Caribou Mountain Property (claim #5589 - 32 claims),

In 2010, the Southeast Upsalquitch property (claim # 5723) and Lagacy Bridge (claim #5735) were staked. With the exception of the Bubar Brook property that is located 25 km south of the Williams Brook Property, the above claims are collectively referred to as the Upsalquitch Project that covers 421 sq km surrounding the Williams Brook property.

In addition, the Corporation holds the following option:

- Rocky Turn (base metals) in the Armstrong project area

The Corporation has acquired a 100% interest in the following properties in the Armstrong project area:

- Brandy Brook and Bear Creek (4201) that are subject to a 2% NSR royalty, and, Roller, Roller West, Roller 4 and Middle River properties (base metals), subject to a 1.5% NSR.

The Corporation holds the following exploration properties situated near Bathurst, New Brunswick:

- Armstrong (base metals; includes claim block nos. 1796, 5041, 5042, 5043, 5292, 2611 and 4503).
- California Lake (silver)
- Canoe Landing Lake (polymetallic deposit)
- McMaster (base metals; includes claim block nos. 1794, 4970, 5263, and 5262)
- Orvan Brook (base metals)
- Rio Road (gold)
- Restigouche (base metals; Claim Block 1802)
- Wildcat Brook (base metals)

# Blue Note Mining Inc.

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During the quarter ended September 30, 2010, the Corporation incurred \$15,255 (\$124,085 for the month ended September 30, 2009 and \$51,799 for the two months ended August 31, 2009) in exploration activities, in New Brunswick, mainly on the Regional Gold projects.

### Liquidity and Financing

As at September 30, 2010, the Corporation had cash and cash equivalents of approximately \$0.4 million, which represents a decrease of \$0.2 million from December 31, 2009. In addition, the Corporation had marketable securities valued at \$0.9 million, up from nil at December 31, 2009. The Corporation used, as of September 30, 2010, \$2.5 million for its operations. This was financed through issue of equity, for \$1.6 million, and by disposal of marketable securities, for \$1.6 million. The remaining \$0.7 million was invested in the Val-d'Or properties.

The Corporation is not currently generating any revenues. The Corporation must secure sufficient funding from external sources such as the sale of equity or the sale of assets, to maintain its existing operations, for exploration programs, capital expenditure programs, and general and administration expenses.

In March 2010, the Corporation sold to Amex all of the outstanding shares of X-Ore International Inc., the Corporation's subsidiary that held mining assets and conducted exploration activities in Mexico through its subsidiary Minerale X-Ore SA de CV. Partial cash payments of \$25,000 were received in April, July and October 2010.

The Corporation no longer has a bank operating credit facility.

### Outstanding Share Data

As of November 19, 2010, the Corporation had 110,450,219 outstanding common shares. Also, the Corporation had 10,973,333 options, 3,420,726 broker warrants and 17,812,334 share purchases warrants potentially convertible into 32,206,393 common shares in the future, which are potentially dilutive.

### Critical Accounting Estimates

In preparing financial statements, management has to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Based on historical experience, current conditions and expert advice, management makes assumptions that are believed to be reasonable under the circumstances. These estimates and assumptions form the basis for judgments about the carrying value of assets and liabilities and reported amounts for revenues and expenses. Different assumptions would result in different estimates and actual results may differ materially from results based on these estimates. These estimates and assumptions are also affected by management's application of accounting policies. Critical accounting policies and estimates are those that affect the financial statements materially and involve a significant level of judgment by management. The financial statements have, in management's opinion, been properly prepared using careful judgement within reasonable limits of materiality and within the framework of the accounting policies summarized below:

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

# Blue Note Mining Inc.

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For the Period ended September 30, 2010

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

**Stock-based compensation:** The Corporation has a stock option compensation plan which is described in note 8 of the financial statement as of December 31, 2009. The Corporation applies the fair value method. The fair value is measured at the grant date using the Black-Scholes option pricing model. The fair value of options issued to employees, officers and directors are generally recognized as an expense over the vesting period with a corresponding increase to contributed surplus. The fair value of stock-based compensation issued to consultants is generally recognized as an expense at the earlier of the vesting date or over the period over which the services are performed with a corresponding increase to contributed surplus. Any consideration paid by employees, officers and directors on exercise of stock options or purchase of stock is credited to share capital

**Business combination:** The Corporation has purchased all outstanding common shares of X-ORE Resources Inc. which is described in note 4 of the unaudited interim financial statement as of September 30, 2010. 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. 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 implied assumptions subject to risks and uncertainties 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.

**Consideration receivable:** The Corporation has sold the subsidiary that holds mining assets and conducts exploration activities in Mexico through its subsidiary Minerale X-Ore SA de CV. The consideration for the transaction consists of a mix of staggered cash payments, warrants and common shares of the seller's over a 24 months period. Assumptions underlying future cash flow estimates are subject to risks and uncertainties. The fair value of the warrant portion is measured at the grant date using the Black-Scholes warrant pricing model. The fair value of the common shares portion is measured at the grant date using the Black-Scholes option pricing model. Assumptions requested by using these models are subject to risks and uncertainties. It is possible that changes in estimates could occur which may affect the expected consideration receivable.

### **New Accounting Standards Issued**

*"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.

## Management's Discussion and Analysis of Financial Condition and Results of Operations

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### **International financial reporting standards conversion plan**

The Corporation is in the process of converting its basis of accounting from Canadian GAAP to IFRS with the first IFRS compliant statements to be released for the quarter ended March 31, 2011. The transition date of January 1, 2010 will require, for the purpose of comparatives, the Corporation's balance sheets as at December 31, 2009 and December 31, 2010 and the interim and annual statements of income and cash flows for 2010, to be converted from Canadian GAAP to an IFRS basis. Management established an IFRS group in 2009 that continues to report regularly to the Audit Committee and Board of Directors to ensure a smooth transition to IFRS. The Audit Committee is overseeing the IFRS project, and hold Management accountable for a successful transition.

To comply with the Canadian Securities Administrators (CSA) Staff Notice 52-320, "Disclosure of Expected Changes in Accounting Policies Relating to Changeover to IFRS", we have structured our IFRS conversion plan to incorporate six key elements, specifically:

- i) accounting policies and financial statement preparation, including choices among policies permitted under IFRS, and implementation decisions such as whether certain changes will be applied retrospectively or prospectively;
- ii) information technology and data systems;
- iii) internal control over financial reporting;
- iv) disclosure controls and procedures including investor relations and external communications plans;
- v) training requirements and communications, and;
- vi) business activities, such as foreign currency activities, as well as other matters that may be influenced by Canadian GAAP measures.

In 2009, we identified the differences between IFRS and our current accounting policies and we continue to assess the impact of these differences as well as the various accounting policy alternatives offered pursuant to IFRS.

The table that follows provides a summary of the key elements, their status and the timing of the IFRS changeover plan. At this time, we cannot quantify the impact, which may be material that the future adoption of IFRS will have on our financial statements. Additional information will be provided as we move towards the changeover date.

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### Key Elements and Timing of Changeover Plan to IFRS (as required by CSA Staff Notice 52-320)

	SELECTED KEY ACTIVITIES	MILESTONES/DEADLINES	PROGRESS TO DATE
<b>Accounting policies and financial statement preparation</b>	Identify differences between IFRS and Canadian GAAP	Assessment and quantification of the significant effects of the changeover to be completed by approximately the third quarter of 2010	As of September 30, 2010, no material change to our Canadian GAAP current accounting policy choices is expected for reporting under IFRS in our first interim financial statements to be issued on March 31, 2011
	Select IFRS 1 accounting policy choices		
	Select ongoing IFRS policies	Final selection of accounting policy choices by the changeover date	
	Quantify the effects of IFRS 1 disclosures for 2010 financial statements		Further changes to IFRS are being monitored
<b>Information technology and data systems</b>	Prepare financial statements and related note disclosures to comply with IFRS		
	Identify and address IFRS differences that require changes to financial systems	Changes to significant systems and parallel record-keeping completed in time for the third quarter of 2010	As of September 30, 2010, no material change to our IT systems is required for transition to IFRS. Accounting software will be updated to latest GAAP and IFRS versions available and any IFRS changes at this point will be tracked separately.
<b>Internal control over financial reporting (ICFR)</b>	Evaluate and select methods to address need for parallel record-keeping of IFRS and Canadian GAAP during 2010 for comparatives and budget and planning purposes in 2011		No significant system impacts have been identified
	Revise existing internal control processes and procedures to address significant changes to existing accounting policies and practices, including the need for parallel record-keeping during 2010	Changes completed by the third quarter of 2010  Conduct management evaluation of new or revised controls throughout 2010	As of September 30, 2010, no significant changes in ICFR are expected for the transition to IFRS. Designing solutions to address IFRS differences to permit implementation of necessary internal controls
<b>Disclosure controls and procedures (DC&amp;P)</b>	Design and implement internal controls with respect to one-time changeover adjustments and related communications	Update the Chief Executive Officer/Chief Financial Officer certification process by the fourth quarter of 2010	
	For changes to accounting policies and practices identified, assess the DC&P design and effectiveness implications	Consistent with ICFR deadlines. See ICFR above	MD&A disclosures have begun
<b>Training and Communication</b>	Provide training to project team members, affected employees and management	Timely training provided to align with work under changeover – training completed by mid-2010	Training for employees and resources directly engaged in the changeover is occurring throughout the project
	Communicate progress of changeover plan to internal and external stakeholders	Timely communication of effects of changeover with Audit Committee of the Board of Directors on a regular basis up to changeover in 2011	Updates are provided to the Audit Committee and are ongoing on a regular basis
<b>Business activities</b>	Identify impact of changeover on contractual arrangements, including collaboration and supplier agreements, financial covenants and employee compensation plans	Changes completed by the third quarter of 2010	As of September 30, 2010, the IFRS transition has not given rise to any significant impact on current business activities.
	Make any required changes to arrangements and plans		No material impacts have been identified to date

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### **Off-Balance Sheet Arrangements**

The Corporation does not have any off-balance sheet arrangements.

### **RISK FACTORS**

#### **Lack of Source of Income**

Blue Note is not generating income from operations. Blue Note may therefore be dependent on raising funds through the issuance of securities, sale of assets, or attracting joint venture partners in order to finance further property acquisitions, undertake exploration and development of its mineral properties and meet general and administrative expenses. There is no assurance that Blue Note will be successful in raising the required capital in the future.

#### **Financing Risks**

Additional funding may be required to complete the funding of the proposed or future exploration, development and operational programs on Blue Note's properties and to conduct any other exploration programs. Additional funds will be required for the development of an economic mineral body and to place it in commercial production. The only sources of future funds presently available to Blue Note are the sale of equity or debt capital, government funding or the offering by Blue Note of an interest in its properties to be earned by another party carrying out their exploration or development. There is no assurance that any such funds will be available for operations. Failure to obtain additional financing, if required, on a timely basis, could cause Blue Note to reduce or delay its proposed operations.

#### **Uncertainty in the Estimation of Mineral Reserves and Resources**

There is a degree of uncertainty to the calculation of mineral reserves and mineral resources and corresponding grades being mined or dedicated to future production. Until mineral reserves or mineral resources are actually mined and processed, the quantity of mineral resources and mineral reserve grades must be considered as estimates only. In addition, the quantity of mineral reserves and mineral resources may vary depending on, among other things, metal prices. Any material change in quantity of mineral reserves, mineral resources, grade or stripping ratio may affect the economic viability of the Corporation's properties. In addition, there can be no assurance that metal recoveries in small scale laboratory tests will be duplicated under on-site conditions or during production. The evaluation of the mineral resources and reserves may include inferred mineral resources that are considered not to be defined in sufficient detail to have the economic consideration applied to them that would enable them to be categorized as mineral reserves. Furthermore, Blue Note has not conducted any geochemical or drill hole sampling, has not implemented any QAIQC procedures and may be relying on past studies completed by previous owners. Therefore, there is currently no certainty that the economic analysis proposed will be achieved. Fluctuation in base or precious metals prices, results of drilling, metallurgical testing and production and the evaluation of mine plans and any other new information regarding recoverable reserves subsequent to the date of any estimate may require revision of such estimate. The volume and grade of reserves mined and processed and recovery rates may not be the same as currently anticipated. Any material reductions in estimates of mineral reserves and mineral resources, or of Blue Note's ability to extract these mineral reserves, could have a materially adverse effect on Blue Note's results of operations and financial condition.

#### **Uncertainty Relating to Inferred Mineral Resources**

There is a risk that the inferred mineral resources cannot be converted into mineral reserves as the ability to assess geological continuity is not sufficient to demonstrate economic viability. Due to the uncertainty which may attach to inferred mineral resources, there is no assurance that inferred mineral resources will be upgraded to resources with sufficient geological continuity to constitute proven and probable mineral reserves as a result of continued exploration.

# Blue Note Mining Inc.

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### **Fluctuating Mineral Prices**

The mining industry is heavily dependent upon the market price of the metals or minerals being mined. There is no assurance that, even if commercial quantities of mineral resources are discovered, a profitable market will exist for their sale. There can be no assurance that mineral prices will be such that the Corporation's properties can be mined at a profit. Factors beyond the control of the Corporation may affect the marketability of any minerals discovered. The prices of many base and precious metals have experienced volatile and significant price movements over short periods of time, and are affected by numerous factors beyond the control of the Corporation.

### **Insurance and Uninsured Risks**

Blue Note's business is subject to a number of risks and hazards generally, including adverse environmental conditions, industrial accidents, labour disputes, unusual or unexpected geological conditions, ground or slope failures, cave-ins, changes in the regulatory environment and natural phenomena such as inclement weather conditions, floods and earthquakes. Such occurrences could result in damage to mineral properties or production facilities, personal injury or death, environmental damage to Blue Note's properties or the properties of others, delays in development or mining, monetary losses and possible legal liability. Although Blue Note maintains insurance to protect against certain risks in such amounts as it considers reasonable, its insurance will not cover all the potential risks associated with its operations. Blue Note may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to Blue Note or to other companies in the mining industry on acceptable terms. Blue Note might also become subject to liability for pollution or other hazards which may not be insured against or which Blue Note may elect not to insure against because of premium costs or other reasons. Losses from these events may cause Blue Note to incur significant costs that could have a materially adverse effect upon its financial performance and results of operations.

### **Dilution**

Issuances of additional securities under financings or debt restructurings will result in dilution of the equity interests of persons who are currently shareholders or who become shareholders of Blue Note.

### **Exploration and Development**

Many of the properties in which Blue Note has an interest are in the exploration stages only and are without an economic mineral deposit. Development of Blue Note's mineral properties will only follow upon obtaining satisfactory exploration results, if any. Mineral exploration and development involves a high degree of risk and few properties, which are explored, are ultimately developed into producing mines. There is no assurance that Blue Note's mineral exploration and development activities will result in any discoveries of commercial mineral deposits. The long-term profitability of Blue Note's operations will be in part directly related to the cost and success of its exploration programs, which may be affected by a number of factors beyond Blue Note's control.

### **Operations and Exploration**

Mineral exploration involves many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Operations in which Blue Note has a direct or indirect interest will be subject to all the hazards and risks normally incidental to exploration, development and production of mineral bearing ores, any of which could result in work stoppages, damage to property, and possible environmental damage.

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### **Marketing**

There is no assurance that even if commercial quantities of minerals are discovered, a ready market will exist for their sale. Factors beyond the control of Blue Note may affect the marketability of any minerals discovered. These factors include market fluctuations, the proximity and capacity of commercial markets and processing equipment, government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in Blue Note not receiving an adequate return on invested capital or issuing its investment capital.

### **Shortage of Equipment and Materials**

Blue Note uses a variety of raw materials in its business, including explosives, ground control supplies, diesel fuel and gasoline, propane, mill reagents and grinding media, as well as a wide variety of mining equipment. If any of these materials or equipment are unavailable, or if the prices of any of these materials or equipment increase significantly, the Corporation's production and financial performance could be negatively impacted.

### **Environmental, Health and Safety Regulations**

All phases of Blue Note's operations are subject to federal, provincial and local laws relating to the protection of the environment, including laws regulating removal of natural resources from the ground and the discharge of materials into the environment. Mining operations are also subject to federal, provincial and local laws and regulations which seek to maintain health and safety standards by regulating the design and use of mining methods and equipment. Various permits from government bodies are required for mining operations to be conducted; no assurance can be given that such permits will be received. No assurance can be given that environmental standards imposed by federal, provincial or local authorities will not be changed or that any such changes would not have materially adverse effects on Blue Note's activities. Moreover, compliance with such laws may cause substantial delays or require capital outlays in excess of those anticipated, thus causing an adverse effect on Blue Note. Additionally, Blue Note may be subject to liability for pollution or other environmental damages, which it may not insure against.

### **Operating Hazards and Risks**

Hazards such as environmental hazards, industrial accidents, floods, fires, explosions, adverse weather conditions (including extreme winter weather), metal losses, unusual or unexpected geological formations and other conditions are involved in mineral exploration and development. Blue Note may become subject to liability for pollution, environmental contamination, cave-ins or hazards against which it cannot insure or against which it may elect not to insure. The payment of such liabilities may have a materially adverse effect on Blue Note's financial position. Although Blue Note maintains liability insurance in an amount which it considers adequate, the nature of these risks is such that liabilities might exceed policy limits, the liabilities and hazards might not be insurable or Blue Note may not elect to insure itself against such liabilities due to high premium costs or other reasons, in which event Blue Note could incur significant costs that could have a materially adverse effect upon its financial position.

### **Management**

The success of Blue Note's business is largely dependent upon the efforts of a small management team. The loss of any key member could be detrimental to Blue Note if a suitable replacement could not be found at a comparable compensation level. Blue Note has not obtained key-man life insurance with respect to these individuals.

### **Nature of the Securities**

The purchase of Blue Note securities will involve a high degree of risk and should be undertaken only by investors whose financial resources are sufficient to enable them to assume such risks and who have no need for immediate liquidity in their investment. Blue Note securities should not be purchased by persons who cannot afford the possibility of the loss of their entire investment. Furthermore, an investment in Blue Note securities should not constitute a major portion of an investor's portfolio.

# Blue Note Mining Inc.

## Management's Discussion and Analysis of Financial Condition and Results of Operations

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### **Permits and Licenses**

The operations of Blue Note will require licenses and permits from various governmental authorities. Blue Note believes it will be able to obtain in the future all necessary licenses and permits to carry on the activities which it intends to conduct, and that it intends to comply in all material respects with the terms of such licenses and permits. There can be no guarantee, however, that Blue Note will be able to obtain and maintain, at all times, all necessary licenses and permits required to undertake its proposed exploration and development or to place its properties into commercial production and to operate mining facilities thereon. In the event of commercial production, the cost of compliance with changes in governmental regulations has the potential to reduce the profitability of operations or preclude the economic development of the property.

### **Title Matters**

The acquisition of title to mineral properties is a very detailed and time-consuming process. Title to and the area of mineral properties may be disputed. There is no guarantee of title to any of Blue Note's properties. Blue Note's properties may be subject to prior unregistered agreements or transfers and title may be affected by undetected defects. Blue Note's properties may also be subject to prior unregistered agreements of transfer or aboriginal land claims, and title may be affected by undetected defects.

### **Possible Volatility of Stock Price**

The market price of Blue Note's securities can be subject to wide fluctuations in response to factors such as actual or anticipated variations in Blue Note's results of operations, changes in financial estimates by securities analysts, general market conditions and other factors. Market fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations may adversely affect the market price of Blue Note's securities.

### **The Mining Industry is Extremely Competitive**

The resource industry is intensely competitive in all of its phases, and Blue Note competes with many companies that possess greater financial resources and technical facilities. Competition could adversely affect Blue Note's ability to acquire suitable new producing properties or prospects for exploration in the future. Competition could also affect Blue Note's ability to raise financing to fund the exploration and development of its properties or to hire qualified personnel.

### **Business Partners**

Blue Note's business and technology systems and platforms depend on products and services provided by third parties including contractors, surveyors, consultants, etc. If there is any interruption or other disruption to the products or services provided by third parties, Blue Note's business may be adversely affected and may be unable to fund adequate replacement products or services on a timely basis or at all.

### **Conflicts of Interest**

Certain directors and officers of Blue Note are also directors, officers, or shareholders of other companies that are similarly engaged in the business of acquiring, developing, and exploiting natural resource properties. Such associations may give rise to conflicts of interest from time to time. The directors of Blue Note are required by law to act honestly and in good faith with a view to the best interests of Blue Note and to disclose any interest which they may have in any project or opportunity of Blue Note. If a conflict of interest arises at a meeting of the Board, any director in conflict will disclose his or her interest and abstain from voting on such matter. In determining whether or not Blue Note will participate in any project or opportunity, the directors will primarily consider the degree of risk to which Blue Note may be exposed and its financial position at the time.

# Blue Note Mining Inc. Management's Discussion and Analysis of Financial Condition and Results of Operations

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Readers are encouraged to read and consider the risk factors, which are incorporated in this MD&A, and additional information regarding the Corporation, the SEDAR website at [www.sedar.com](http://www.sedar.com).

*Signed: "Léon Méthot"*

Léon Méthot

Chairman and Chief Executive Officer

*Signed: "Robert Therriault"*

Robert Therriault

Vice president and CFO