

Blue Note Mining Inc.
Condensed Interim Consolidated Financial Statements
June 30, 2011
(unaudited)

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UNAUDITED CONDENSED INTERIM CONSOLIDATED 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 condensed interim consolidated financial statements for the three and six months period ended June 30, 2011.

Blue Note Mining Inc.

Consolidated Statements of Financial Position (unaudited) - in Canadian dollars

See going concern uncertainty – note 2

	June 30, 2011 \$	December 31, 2010 \$ (note 4)	January 1, 2010 \$ (note 4)
Assets			
<i>Current assets</i>			
Cash and cash equivalents (note 11)	-	-	256,088
Marketable securities (note 8)	1,089,500	1,020,000	-
Sundry receivable (note 9)	157,002	196,735	631,715
Consideration receivable (note 7)	581,019	811,591	-
Prepaid expenses	117,521	170,111	252,232
	1,945,042	2,198,437	1,140,035
<i>Other non-current assets</i>			
Other non-current assets	37,666	49,555	-
Reclamation deposits (note 10)	52,589	52,589	-
Funds reserved for exploration (note 11)	1,417,839	2,593,626	316,890
Mineral properties (note 12)	2,632,479	2,567,757	1,239,669
Deferred exploration costs (note 12)	12,694,608	10,910,502	6,381,169
Property and equipment (note 13)	24,692	40,789	80,190
Deferred share issue costs	-	-	100,000
	18,804,915	18,413,255	9,257,953
Liabilities			
<i>Current liabilities</i>			
Accounts payable and accrued liabilities (note 14)	1,186,810	1,206,071	464,602
	1,186,810	1,206,071	464,602
<i>Non-current liabilities</i>			
Provisions (note 15)	70,913	70,913	-
Deferred tax liabilities	2,175,554	1,496,654	1,202,991
	3,433,277	2,773,638	1,667,593
Shareholders' equity			
Share capital (note 16)	20,731,899	19,888,199	10,423,837
Warrants	1,208,883	1,150,298	281,478
Contributed surplus	1,471,546	1,207,870	160,025
Deficit	(7,777,685)	(6,516,745)	(3,274,980)
Accumulated other comprehensive income	(263,005)	(90,005)	-
	15,371,638	15,639,617	7,590,360
	18,804,915	18,413,255	9,257,953

Commitments (note 22)

Subsequent events (note 23)

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

These unaudited condensed interim consolidated financial statements for the periods ending June 30, 2011 were approved by the board of directors on August 25, 2011.

On behalf of the board:

Signed: "David Crevier" Director

Signed: "Leon Methot" Director

Blue Note Mining Inc.

Consolidated Statements of Loss and Comprehensive Loss (unaudited) - in Canadian dollars

See going concern uncertainty – note 2

	Three months ended June 30		Six months ended June 30	
	2011 \$	2010 \$ (note 4)	2011 \$	2010 \$ (note 4)
Operating expenses (note 17b)				
Corporate general and administration	888,520	1,009,919	1,498,948	2,127,486
Depreciation of property and equipment	9,509	12,082	18,895	24,195
Exploration	1,864	2,869	5,065	7,487
Foreign exchange (gain) loss	(18)	5	905	(48)
Loss (gain) on disposal of property and equipment	-	(650)	-	(650)
Loss from operations	899,875	1,024,225	1,523,813	2,158,470
Interest income	(4,144)	(980)	(6,944)	(2,415)
Interest on long-term debt	295	449	570	1,534
Other interest and financial charges	650	2,593	1,497	3,352
Realized loss (gain) on disposal of marketable securities	-	(88,971)	-	(611,908)
Other income (note 17 c)	(465,147)	(21,597)	(465,147)	(21,597)
Gain on consideration receivable (note 7)	(30,864)	-	(69,628)	-
	(499,210)	(108,506)	(539,652)	(631,034)
Loss before taxes	400,665	915,719	984,161	1,527,436
Income and mining taxes	128,984	82,840	276,779	106,632
Loss for the period	529,649	998,559	1,260,940	1,634,068
Other comprehensive loss				
Unrealized loss (gain) on available for sale marketable securities	76,000	337,929	173,000	359,495
Total comprehensive loss for the period	76,000	337,929	173,000	359,495
Loss attributable to Shareholders of the Corporation	529,649	998,559	1,260,940	1,634,068
Comprehensive loss attributable to Shareholders of the Corporation	605,649	1,336,488	1,433,940	1,993,563
Loss per common share				
Basic and diluted	0.00	0.01	0.01	0.02
Weighted average common shares outstanding	130,910,509	106,069,437	130,257,647	97,294,839
Common shares outstanding - end of period	138,524,048	110,065,604	138,524,048	110,065,604

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

Blue Note Mining Inc.

Consolidated Statements of Shareholders' Equity (Deficiency) (unaudited) – in Canadian dollars

See going concern uncertainty – note 2

	Six months ended		Twelve months ended
	June 30, 2011	June 30, 2010	December 31, 2010
	\$	\$	\$
		<i>(note 4)</i>	<i>(note 4)</i>
Share capital			
Balance - Beginning of period	19,888,199	10,423,837	10,423,837
Shares issued under private placement	132,060	-	381,171
Shares issued under flow-through placement	711,640	570,898	1,570,241
Shares issued related to Resources X-Ore acquisition	-	7,312,950	7,312,950
Shares issued related to property acquisition	-	-	50,000
Shares issued following the convertible debenture	-	150,000	150,000
Balance - End of period	20,731,899	18,457,685	19,888,199
Warrants			
Balance - Beginning of period	1,150,298	281,478	281,478
Share purchase warrants issued	58,585	539,855	888,054
Share purchase warrants expired	-	(5,856)	(19,234)
Balance - End of period	1,208,883	815,477	1,150,298
Contributed surplus			
Balance - Beginning of period	1,207,870	160,025	160,025
Stock-based compensation	257,386	275,152	911,414
Forfeiture of options	-	-	(60,064)
Fair value of broker warrants	6,290	132,246	196,495
Balance - End of period	1,471,546	567,423	1,207,870
Deficit			
Balance - Beginning of period	(6,516,745)	(3,274,980)	(3,274,980)
Loss for the period	(1,260,940)	(1,634,068)	(3,241,765)
Balance - End of period	(7,777,685)	(4,909,048)	(6,516,745)
Accumulated other comprehensive loss			
Balance - Beginning of period	(90,005)	-	-
Unrealized loss (gain) on available for sale marketable securities	(173,000)	(359,495)	(90,005)
Balance - End of period	(263,005)	(359,495)	(90,005)
Total Shareholders' equity	15,371,638	14,572,042	15,639,617

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

Blue Note Mining Inc.

Consolidated Statements of Cash Flows (unaudited) – in Canadian dollars

See going concern uncertainty – note 2

Six months ended	June 30, 2011 \$	June 30, 2010 \$
Cash provided from (used for):		
Operating activities		
Net loss	(1,260,940)	(1,634,068)
Non-cash items:		
Income and mining taxes	276,779	106,632
Depreciation of property and equipment	18,895	24,195
Non-cash stock-based compensation	257,386	275,152
Realized loss (gain) on disposal of marketable securities	-	(611,908)
Loss (gain) on disposal of Property and equipment	-	(650)
Acquisition of X-Ore Resources (note 5)	-	21,503
Gain on consideration receivable (note 7)	(69,628)	-
Net changes in non-cash components of operating working capital (note 18)	307,321	485,321
Cash-flow (used) provided by operating activities	(470,187)	(1,333,823)
Financing activities		
Proceeds from the issue of equity	1,146,026	1,207,108
Cash-flow provided by financing activities	1,146,026	1,207,108
Investing activities		
Proceeds receivable from sale of marketable securities	-	1,193,412
Mining properties and deferred exploration costs	(1,848,828)	(230,903)
Funds reserved for exploration	1,175,787	(1,188,887)
Deferred acquisition cost	-	100,000
Property and equipment	(2,798)	(2,995)
Cash-flow provided (used) by investing activities	(675,839)	(129,373)
Net increase (decrease) in cash and cash equivalents	-	(256,088)
Cash and cash equivalents - beginning of period	-	256,088
Cash and cash equivalents - end of period	-	-
Represented by:		
Cash	-	248,810
Cash equivalents	-	-
Supplemental informations:		
Interest paid	570	1,540
Interest received	6,357	2,415

Supplementary cash flow information (note 18)

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

Blue Note Mining Inc.

Notes to the Interim Consolidated Financial Statements (unaudited) – in Canadian dollars

June 30, 2011

1. General information

Blue Note Mining Inc. is a mineral exploration and mining company with gold and base metal exploration properties located in Quebec, New Brunswick and Ontario. The business of the Corporation is to explore and develop mining projects. The minerals being targeted by the Corporation are precious metals. Blue Note is incorporated under the Canadian Business Corporations Act and its head office is located at 1 Place Ville-Marie, suite 1511, Montreal, Quebec, Canada. The Corporation's common shares are listed on the TSX Venture Exchange under the symbol BNT.

2. Basis of preparation with adoption of IFRS and going concern uncertainty

These condensed interim consolidated financial statements of the Corporation have been prepared by the management in accordance with *International Financial Reporting Standards* ("IFRS"), and in accordance with IAS 34 "Interim Financial Reporting". They do not include all the information required in annual financial statements in accordance with IFRS. These condensed interim consolidated financial statements have, in management's opinion, been properly prepared using careful judgement within reasonable limits of materiality and within the framework of the same accounting policies as described in Note 2, Summary of significant accounting policies, of the condensed interim consolidated financial statements for the first quarter of 2011. These condensed interim consolidated financial statements have been prepared in accordance with the accounting policies the Corporation expects to adopt in its December 31, 2011 financial statements. Those accounting policies are based on the IFRS standards that the Corporation expects to be applicable at that time. The policies described in Note 2 of the condensed interim consolidated financial statements for the first quarter of 2011, were consistently applied to all the periods presented unless otherwise noted below.

The Corporation's consolidated financial statements were previously prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"). The transition date from Canadian GAAP to IFRS is January 1, 2010. Canadian GAAP differs in some areas from IFRS. In preparing these condensed interim consolidated financial statements in accordance with IFRS, management has amended certain accounting, measurement and consolidation methods previously applied in the Canadian GAAP financial statements to comply with IFRS. The comparative figures for 2010 were restated to reflect these adjustments. Certain information disclosures which are considered material to the understanding of the Corporation's condensed interim consolidated financial statements and which are normally included in annual financial statements prepared in accordance with IFRS are provided in note 4. This note also presents reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on shareholders' equity, net loss and comprehensive loss.

These condensed interim consolidated financial statements were prepared on a going concern basis, under the historical cost convention, which assumes the Corporation will continue its operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the ordinary course of business. The use of these principles may not be appropriate because as of June 30, 2011, there is substantial doubt that the Corporation will be able to continue as a going concern without raising additional financial resources.

The Corporation is not currently generating any revenue from its operations and for the six-month period ended June 30, 2011, the Corporation recorded a loss of \$1,260,940. 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 condensed interim consolidated financial statements.

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

Blue Note Mining Inc.

Notes to the Interim Consolidated Financial Statements (unaudited) – in Canadian dollars

June 30, 2011

2. Basis of preparation with adoption of IFRS and going concern uncertainty (continued)

The preparation of condensed interim consolidated financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment when applying the Corporation's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the condensed interim consolidated financial statements are disclosed in Note 3, Summary of significant accounting estimates, assumptions and judgments of the condensed interim consolidated financial statements for the first quarter of 2011.

3. New accounting standard issued but not yet in effect

The IASB issued the following Standards which are relevant but have not yet been adopted by the Corporation: IFRS 9, *Financial Instruments*, IFRS 10, *Consolidated Financial Statements*, IFRS 11, *Joint Arrangements*, IFRS 12, *Disclosure of Interests in Other Entities*, IFRS 13, *Fair Value Measurements*, amended IAS 27, *Separate Financial Statements*, and IAS 28, *Investments in Associates and Joint Ventures*, IAS 1 *Presentation of Financial Statements*, IAS 12 *Income Taxes* and IAS 19 *Employee Benefits*. The Corporation has not yet begun the process of assessing the impact that the new and amended standards will have on its consolidated financial statements or whether to early adopt any of the new requirements.

The following is a brief summary of the new standards:

a) *International Financial Reporting Standard 9, Financial Instruments ("IFRS 9")*

International Financial Reporting Standard 9, Financial Instruments, ("IFRS 9") was issued in November 2009. It addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends, to the extent not clearly representing a return of investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated as at fair value through profit and loss would generally be recorded in other comprehensive income.

This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Corporation has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

b) *International Accounting Standard 12, Income Taxes, ("IAS 12")*

The IASB issued on December 20, 2010 an amendment to IAS 12 Income taxes ("IAS 12") related to the recovery of underlying assets. It addresses Deferred Tax: Recovery of Underlying Assets. The amendments provide an exception to the general principles of IAS 12 for investment property measured using the fair value model in IAS 40 Investment Property. For the purposes of measuring deferred tax, the amendments introduce a rebuttable presumption that the carrying amount of such an asset will be recovered entirely through sale. The presumption can be rebutted if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits over time, rather than through sale. The exception also applies to investment property acquired in a business combination if the acquirer applies the fair value model in IAS 40 subsequent to the business combination. The amendments also incorporate the requirements of SIC-21 Income Taxes- Recovery of Revalued Non-Depreciable Assets into IAS 12, i.e., deferred tax arising on a non-depreciable asset measured using the revaluation model in IAS 16 should be based on the sale rate. The effective date of the amendments is for annual periods beginning on or after January 1, 2012. Earlier application is permitted. The Corporation has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

Blue Note Mining Inc.

Notes to the Interim Consolidated Financial Statements (unaudited) – in Canadian dollars

June 30, 2011

3. New accounting standard issued but not yet in effect (continued)

c) *International Financial Reporting Standard 11, Joint Arrangements (“IFRS 11”) & related Standards*

On May 12, 2011, the IASB issued IFRS 11 Joint Arrangements which supersedes IAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. Concurrent with the issuance of IFRS 11, the IASB also issued:

- IFRS 10, *Consolidated Financial Statements*; which replaces SIC-12 *Consolidation—Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statements*.
- IFRS 12, *Disclosure of Involvement with Other Entities*;
- IAS 27, *Separate Financial Statements* (revised 2011), has been amended for the issuance of IFRS 10 for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements but retains the current guidance for separate financial statements; and
- IAS 28, *Investments in Associates and Joint Ventures* (revised 2011), has been amended for conforming changes based on the issuance of IFRS 10 and IFRS 11.

Each of the standards has an effective date for annual periods beginning on or after January 1, 2013, with earlier application permitted so long as each of the other standards are also early applied. However, entities are permitted to incorporate any of the disclosure requirements in IFRS 12 into their financial statements without early adopting IFRS 12.

Joint control: IFRS 11 defines a joint arrangement as an “arrangement of which two or more parties have joint control” and makes clear that joint control exists only when “decisions about the relevant activities require the unanimous consent of the parties that control the arrangement collectively.”

Joint operations and joint ventures: The new Standard establishes two types of joint arrangements: joint operations and joint ventures. The two types of joint arrangements are distinguished by the rights and obligations of those parties to the joint arrangement. In a joint operation, the parties to the joint arrangement (referred to as “joint operators”) have rights to the assets and obligations for the liabilities of the arrangement. By contrast, in a joint venture, the parties to the arrangement (referred to as “joint venturers”) have rights to the net assets of the arrangement.

IFRS 11 requires that a joint operator recognize its share of the assets, liabilities, revenues and expenses in accordance with applicable IFRSs while a joint venturer would account for its interest using the equity method of accounting under IAS 28 (revised 2011), *Investments in Associates and Joint Ventures*.

Distinction between joint operations and joint ventures: The existence of a separate vehicle is a necessary, but not sufficient, condition for a joint arrangement to be considered a joint venture.

In the absence of a separate vehicle, IFRS 11 makes it clear that the parties to the joint arrangement have direct rights and obligations to the assets and liabilities of the arrangement and hence the arrangement will be classified as a joint operation. In an arrangement with a separate vehicle, that may or may not be the case, all relevant facts and circumstances should be considered in determining whether the parties to the arrangement have rights to the net assets of the arrangement.

Separate financial statements: Joint operations are accounted for in the same manner in the separate financial statements as in the consolidated financial statements (i.e., the investor recognizes directly its shares of assets, liabilities, revenues and expenses related to the joint operations).

Joint ventures, like investments in associates and in subsidiaries, are accounted for in the separate financial statements of the venturer either at cost or under IFRS 9 (or IAS 39, as applicable) as permitted by IAS 27.

Disclosures: The disclosure requirements for entities involved with joint arrangements are established in IFRS 12. This Standard establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity’s interests in other entities.

Blue Note Mining Inc.

Notes to the Interim Consolidated Financial Statements (unaudited) – in Canadian dollars

June 30, 2011

3. New accounting standard issued but not yet in effect (continued)

Effective date and transition: IFRS 11 is effective for annual periods beginning on or after January 1, 2013, with early application permitted (so long as IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011) are adopted at the same time). When adoption of IFRS 11 requires a change in accounting, the impact of the change is calculated as at the beginning of the earliest period presented and the comparative periods are restated.

d) *International Financial Reporting Standard 13, Fair Value Measurements (“IFRS 13”)*

In May 2011, the IASB issued IFRS 13 *Fair Value Measurements*, which is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

e) *Employee Benefits (“IAS 19”)*

In June 2011, the IASB amended IAS 19 – *Employee Benefits*, eliminating the corridor approach to recognizing changes in actuarial gains and losses. Entities will also need to segregate changes in the defined benefit obligation and in the fair value of plan assets into three components: service costs, net interest on the net defined benefit liabilities (assets) and remeasurements of the net defined benefit liabilities (assets). The amendments also enhance disclosure about the risks arising from defined benefit plans. The amendments to IAS 19 must be applied retrospectively (with certain exceptions) for annual periods beginning on or after January 1, 2013, with early adoption permitted.

f) *Presentation of Financial Statements (“IAS 1”)*

In June 2011, the IASB amended IAS 1 – *Presentation of Financial Statements*, providing guidance on items contained in other comprehensive income (OCI) and their classification within OCI. The amendments to IAS 1 must be applied retrospectively for annual periods beginning on or after July 1, 2012.

The adoption of these new IFRS standards and amendments is not expected to have a significant impact on the Corporation’s financial statements.

Blue Note Mining Inc.

Notes to the Interim Consolidated Financial Statements (unaudited) – in Canadian dollars

June 30, 2011

4. Transition to IFRS

The Corporation's consolidated financial statements for the year ending December 31, 2011 will be the first consolidated annual financial statements that comply with IFRS. These condensed interim consolidated financial statement, as at June 30, 2011 were prepared in accordance with IAS 34, including application of IFRS 1. The effect of the transition from Canadian GAAP to IFRS on shareholders' equity, comprehensive loss and cash flows is presented and described in this note, and is explained in detail with the following tables.

Exemptions applied

IFRS 1 allows first-time adopters certain exemptions from the general principal of retrospective restatement. The Corporation applied mandatory exceptions and certain optional exemptions. The following exemptions and exceptions were adopted by the Corporation as of January 1, 2010.

IFRS optional exemptions – January 1, 2010

Business combination: IFRS 1 provides the option to apply IFRS 3 "Business Combinations" prospectively from the date of transition (January 1, 2010) or to choose a date from which the business combinations will be restated. The Corporation elected to prospectively apply IFRS 3. The acquisition of X-Ore on January 19, 2010 did not have any impact at the time of the transition to IFRS, as the Corporation had early adopted section 1582 "Business Combinations" which is harmonized with IFRS 3.

Stock-based compensation: The Corporation has elected to use the transition exemption available to not retrospectively apply the IFRS 2 calculation method to any share options granted after November 7, 2002 and/or vested before January 1, 2010. At the transition date no material adjustments were identified.

IFRS mandatory exceptions – January 1, 2010

Estimates: All estimates previously made by the Corporation management under Canadian GAAP were not revised for application of IFRS.

Derecognition of financial assets and liabilities: Financial assets and liabilities that were derecognized before January 1, 2010 in accordance with its previous Canadian GAAP shall not be recognized in accordance with IFRS.

Reconciliations of Canadian GAAP to IFRS

The following represents the reconciliations from Canadian GAAP to IFRS, as required by IFRS 1, for the respective periods noted;

Shareholders' equity reconciliation

Period ended;	December 31, 2010	June 30, 2010	January 1, 2010
	\$	\$	\$
Shareholders' equity under Canadian GAAP	17,685,336	16,145,180	8,793,351
<i>Impacts of the transition to IFRS:</i>			
1. Flow through shares	(2,045,719)	(1,573,138)	(1,202,991)
Shareholders' equity under IFRS	15,639,617	14,572,042	7,590,360

Blue Note Mining Inc.

Notes to the Interim Consolidated Financial Statements (unaudited) – in Canadian dollars

June 30, 2011

4. Transition to IFRS (continued)

Reconciliations of Canadian GAAP to IFRS

Comprehensive loss reconciliation

Period ended;	June 30, 2010 Three months \$	June 30, 2010 Six months \$	December 31, 2010 Twelve months \$
Loss under Canadian GAAP	1,253,648	1,701,291	2,852,468
<i>Impacts of the transition to IFRS:</i>			
1. Flow through shares	82,840	292,272	2,778,648
2. d) Reclassification adjustment for marketable securities	(337,929)	(359,495)	(90,005)
Loss under IFRS	998,559	1,634,068	5,541,111
Other comprehensive loss under Canadian GAAP			
<i>Impacts of the transition to IFRS:</i>			
2. d) Reclassification adjustment for marketable securities	337,929	359,495	90,005
Comprehensive loss under IFRS	1,336,488	1,993,563	5,631,116

Adjustments to consolidated statement of cash flows

The transition from Canadian GAAP to IFRS had no significant impact on the cash flows reported by the Corporation.

Blue Note Mining Inc.

Notes to the Interim Consolidated Financial Statements (unaudited) – in Canadian dollars

June 30, 2011

4. Transition to IFRS (continued)

Reconciliations of Canadian GAAP to IFRS (continued)

Reconciliation of Financial Position as at June 30, 2010

	Note	Canadian GAAP Balance \$	IFRS Reclassification \$	IFRS Adjustment \$	IFRS Balance \$
Assets					
Current assets					
Cash and cash equivalents		-			-
Marketable securities		1,025,116			1,025,116
Sundry receivable		219,768			219,768
Consideration receivable		568,236			568,236
Prepaid expenses		149,616			149,616
		1,962,736	-	-	1,962,736
Non-current assets					
Consideration receivable	2 c)	420,866	(420,866)		-
Others non-current assets	2 c)	-	420,866		420,866
Reclamation deposits		52,589			52,589
Funds reserved for exploration		1,505,777			1,505,777
Mineral properties		2,312,822			2,312,822
Deferred exploration costs		10,727,230			10,727,230
Property and equipment		63,505			63,505
		17,045,525	-	-	17,045,525
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities		829,432		263,515	1,092,947
		829,432	-	263,515	1,092,947
Non-current liabilities					
Provisions		70,913			70,913
Deferred tax liabilities	1	-		1,309,623	1,309,623
		900,345	-	1,573,138	2,473,483
Shareholders' equity					
Share capital	1	17,439,205		1,018,480	18,457,685
Warrants		815,477			815,477
Contributed surplus		567,423			567,423
Deficit	1, 2d)	(2,676,925)	359,495	(2,591,618)	(4,909,048)
Accumulated other comprehensive loss	2 d)	-	(359,495)	-	(359,495)
		16,145,180	-	(1,573,138)	14,572,042
		17,045,525	-	-	17,045,525

Blue Note Mining Inc.

Notes to the Interim Consolidated Financial Statements (unaudited) – in Canadian dollars

June 30, 2011

4. Transition to IFRS (continued)

Reconciliation of Statements of Loss and Comprehensive Loss

Three months ended June 30, 2010	Note	Canadian GAAP	IFRS	IFRS	IFRS
		Balance	Reclassification	Adjustment	Balance
		\$	\$	\$	\$
Revenue					
Interest income	2 a)	980	(980)		-
Operating expenses					
Corporate general and administration		1,009,919			1,009,919
Depletion and depreciation		12,082			12,082
Exploration		2,869			2,869
Foreign exchange (gain) loss		5			5
Interest on long-term debt	2 b)	449	(449)		-
Other interest and financial charges	2 b)	2,593	(2,593)		-
Loss (gain) on disposal of property and equipment		(650)			(650)
Realized loss (gain) on disposal of marketable securities	2 b)	248,958	(248,958)		-
		1,276,225	(252,000)	-	1,024,225
Loss from operations		1,275,245	(251,020)	-	1,024,225
Interest income	2 a)	-	(980)		(980)
Interest on long-term debt	2 b)		449		449
Other interest and financial charges	2 b)		2,593		2,593
Other income		(21,597)			(21,597)
Realized loss (gain) on disposal of marketable securities	2 b)		248,958	(337,929)	(88,971)
		(21,597)	251,020	(337,929)	(108,506)
Loss before taxes		1,253,648	-	(337,929)	915,719
Income and mining taxes	1	-	-	82,840	82,840
Loss for the period		1,253,648	-	(255,089)	998,559
Other comprehensive loss					
Unrealized loss (gain) on available for sale marketable securities	2 d)	-		337,929	337,929
Total comprehensive loss for the period		-	-	337,929	337,929
Loss attributable to Shareholders of the Corporation					
					998,559
Comprehensive loss attributable to Shareholders of the Corporation					
					1,336,488
Loss per common share					
Basic and diluted		0.01			0.01
Weighted average common shares outstanding					
		106,069,437			106,069,437
Common shares outstanding - end of period					
		110,065,604			110,065,604

Blue Note Mining Inc.

Notes to the Interim Consolidated Financial Statements (unaudited) – in Canadian dollars

June 30, 2011

4. Transition to IFRS (continued)

Reconciliation of Statements of Loss and Comprehensive Loss

Six months ended June 30, 2010	Note	Canadian GAAP Balance \$	IFRS Reclassification \$	IFRS Adjustment \$	IFRS Balance \$
Revenue					
Interest income	2 a)	2,415	(2,415)		-
Operating expenses					
Corporate general and administration		2,127,486			2,127,486
Depletion and depreciation		24,195			24,195
Exploration		7,487			7,487
Foreign exchange (gain) loss		(48)			(48)
Interest on long-term debt	2 b)	1,534	(1,534)		-
Other interest and financial charges	2 b)	3,352	(3,352)		-
Loss (gain) on disposal of property and equipment		(650)			(650)
Realized loss (gain) on disposal of marketable securities	2 b)	(252,413)	252,413		-
		1,910,943	247,527	-	2,158,470
Loss from operations		1,908,528	249,942	-	2,158,470
Interest income	2 a)	-	(2,415)		(2,415)
Interest on long-term debt	2 b)		1,534		1,534
Other interest and financial charges	2 b)		3,352		3,352
Other (income) charges		(21,597)			(21,597)
Realized loss (gain) on disposal of marketable securities	2 b)		(252,413)	(359,495)	(611,908)
		(21,597)	(249,942)	(359,495)	(631,034)
Loss before taxes		1,886,931	-	(359,495)	1,527,436
Income and mining taxes	1	(185,640)	-	292,272	106,632
Loss for the period		1,701,291	-	(67,223)	1,634,068
Other comprehensive loss					
Unrealized loss (gain) on available for sale marketable securities	2 d)	-		359,495	359,495
Total comprehensive loss for the period		-	-	359,495	359,495
Loss attributable to Shareholders of the Corporation					1,634,068
Comprehensive loss attributable to Shareholders of the Corporation					1,993,563
Loss per common share					
Basic and diluted		0.02			0.02
Weighted average common shares outstanding		97,294,839			97,294,839
Common shares outstanding - end of period		110,065,600			110,065,600

Blue Note Mining Inc.

Notes to the Interim Consolidated Financial Statements (unaudited) – in Canadian dollars

June 30, 2011

4. Transition to IFRS (continued)

Reconciliations of Canadian GAAP to IFRS (continued)

Adjustments and reclassification notes

1) Flow through common shares: The Corporation renounces tax deductions relating to resource expenditures that are financed by the issuance of flow through shares for the benefit of its shareholders, as permitted by the tax legislation. Currently there is no specific IFRS guidance related to the accounting and reporting of these arrangements and as a result, the Corporation has adopted a policy that is consistent with the guidance as outlined in SFAS 109. On the completion of the subscriber agreement, the proceeds are recorded as an asset with the share capital being increase by the fair value of the shares issued using representative market prices and the difference is reflected as a liability in the statement of financial position. On the renunciation of the eligible expenditures to the shareholders, the liability is reversed; the deferred tax liability is recognized as a deferred tax expense in the statement of income (loss).

2) Presentation changes: The transition to IFRS resulted in numerous financial statement presentation changes "Reclassification". These reclassifications have been identified in the previous tables of reconciliation. These reclassifications have no impact on the final shareholders' equity position of the Corporation. Reclassifications as per IFRS requirements are summarized as:

- **a)** Revenue income; is now presented after operating earnings
- **b)** Finance expenses; which included interest on long term debt, other financial charges and realized and unrealized loss (gain) on disposal of marketable securities are presented after the operating earnings
- **c)** Expenses by function; the statement of loss and comprehensive loss now presents expenses by function.
- **d)** Unrealized loss (gain) on available for sale marketable securities are presented under other comprehensive loss due to a re-classification of the marketable securities from held-for-sale under Canadian GAAP to available for sale under IFRS in accordance with IFRS 39.

Others adjustments considered;

Stock-based compensation: Stock options issued by the Corporation to his directors, managers and employee have a specific vesting schedule which is treated differently under IFRS compared to Canadian GAAP. The Corporation has reviewed the Canadian GAAP stock-based compensation calculation methods and adjusted the methods to take into account the required compliant changes. As previously mentioned in the IFRS optional exemptions, the Corporation has elected to applied IFRS 2 only to equity instruments that were applied at the time of transition (January 1, 2010) but that were not entirely vested at this time. At the transition date no material adjustments were identified.

Business combination: As previously mentioned in IFRS optional exemptions, the Corporation applied the exemption in IFRS 1 for business combinations. The acquisition of X-Ore on January 19, 2010 did not have any impact at the time of the transition to IFRS, as the Corporation had early adopted section 1582 "Business Combinations" which is harmonized with IFRS 3.

Blue Note Mining Inc.

Notes to the Interim Consolidated Financial Statements (unaudited) – in Canadian dollars

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5. Acquisition of X-Ore Resources Inc.

Effective January 19, 2010, all of the outstanding common shares of “X-ORE” were acquired by 9216-4706 Quebec Inc., a wholly-owned subsidiary of the Corporation. The transaction took the form of an amalgamation between “X-ORE” and a wholly-owned subsidiary of the Corporation in exchange for the Corporation’s common shares, subject to certain conditions.

The Corporation granted shareholders of “X-ORE” 0.50 common share of the Corporation for each “X-ORE” common share outstanding for a total of 43,017,349 Corporation common shares. Subject to their terms and conditions, 3,337,142 “X-ORE” warrants and 2,050,000 “X-ORE” stock options were exchanged for warrants and stock options of the Corporation entitling the holder thereof to receive upon their exercise such number of the Corporation common shares based upon the exchange ratio, in lieu of common shares of “X-ORE.”

The Corporation performed an assessment of the fair value of the identifiable assets and liabilities acquired. Management’s estimates of fair value are based on independent appraisals and valuations. There are three generally accepted valuation approaches in the mining industry; a) income approach, b) market approach and c) cost approach. The process of determining the fair value of the identifiable assets and liabilities was completed as of the date of issuance of our audited consolidated financial statements and the amounts assigned to the assets and liabilities are final.

This transaction was valued at \$7.3 million and was accounted for under the requirements of IFRS 3 (Business Combinations), 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 shareholders’ deficit as of January 19, 2010.

	\$
Assets acquired	
Cash and cash equivalents	21,503
Marketable securities	1,137,760
Sundry receivable	23,502
Tax credit receivable	22,756
Prepaid expenses	24,386
Reclamation deposits (note 10)	52,589
Mineral properties (note 12)	1,091,093
Deferred exploration costs (note 12)	3,762,889
Property and equipment	3,865
Consideration receivable (note 7)	1,900,491
	<u>8,040,834</u>
Liabilities assumed	
Accounts payable and accrued liabilities	(342,611)
Loan payable	(129,275)
Provisions (note 15)	(70,913)
Debenture	(153,001)
	<u>(695,800)</u>
Net value of assets acquired	<u>7,345,034</u>
Consideration paid	
Shares issued by the Corporation (note 16)	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.

Notes to the Interim Consolidated Financial Statements (unaudited) – in Canadian dollars

June 30, 2011

6. Interest in a joint venture

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

7. Consideration receivable

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

The consideration for the transaction consists of staggered cash payments totaling \$200,000, the issuance of 7,000,000 “Amex” common shares and 1,000,000 common share purchase warrants of “Amex” to be exercisable over a period of 24 months following their issuance. In addition, “Amex” assumed all of X-Ore International and Minerals X-Ore SA de CV obligations and liabilities. At term, the Corporation will receive, net of selling costs of \$5,881, consideration valued at \$1.9 million as follows:

Consideration receivable	1,900,491
Received	(1,362,500)
	537,991
Staggered consideration receivable	607,619
Loss (gain) on consideration receivable	(69,628)

For the three months ended June 30, 2011, gain on consideration receivable amounted to \$30,864.

As of June 30, 2011, staggered consideration receivable was composed of the following:

Date	Staggered cash \$	Staggered shares \$	Staggered warrants \$	Total \$
September 30, 2011	23,978	115,097	-	139,075
December 31, 2011	-	441,575	369	441,944
Current portion	23,978	556,672	369	581,019
Long-term portion (1)	-	-	26,600	26,600
Total receivable	23,978	556,672	26,969	607,619

(1): Long-term portion of the consideration receivable is included in “Other non-current assets”.

Blue Note Mining Inc.

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8. Marketable securities

	June 30, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Critical Elements Corporation, 200,000 (December 31, 200,000) common shares	32,000	75,000	-
Amex Exploration Inc., 4,500,000 (December 31, 3,500,000) common shares	1,057,500	945,000	-
	1,089,500	1,020,000	-

9. Sundry receivables

	June 30, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Commodity tax receivable	104,946	66,824	130,973
Others receivables	52,056	129,911	187,500
Receivable from related party	-	-	313,242
	157,002	196,735	631,715

10. Reclamation deposits

As at December 31, 2010, the Corporation has invested \$105,177 in term deposits in accordance with the current financial guarantee requirements set forth by the *Ministère des Ressources naturelles et de la Faune* of the province of 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. The term deposit bears interest at 1.125% (3.5% in December 31, 2010 and January 1, 2010), maturing in July 2011.

According to the joint venture agreement, the Corporation has recorded an amount of \$52,589, representing its 50% interest in the Croinor property (note 6).

11. Funds reserved for exploration

	June 30, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Funds issued from flow-through private placement	4,832,690	3,812,890	700,000
Less: Deferred exploration expenses	(2,995,908)	(1,223,381)	(402,102)
Total outstanding flow-through commitments	1,836,782	2,589,509	297,898
Plus: Deferred exploration expenses in accounts payables and accrued liabilities	163,597	108,209	18,992
Funds reserved for exploration	2,000,379	2,697,718	316,890
Less: Funds used for current operating purposes	(582,540)	(104,092)	-
Plus: Funds provided by operations	-	-	256,088
	1,417,839	2,593,626	572,978
Composed of:			
Cash and cash equivalent	-	-	256,088
Funds reserved for exploration	1,417,839	2,593,626	316,890

The Corporation raises flow-through funds for exploration under a subscription agreement which requires it to incur prescribed resource expenditures. These funds, which are not available for current operating purposes, and therefore reported as funds reserved for exploration.

Blue Note Mining Inc.

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June 30, 2011

11. Funds reserved for exploration (continued)

As at June 30, 2011 and December 31, 2010, the Corporation made use of funds reserved for exploration for other operating purposes. The temporary use of these funds is covered by the marketable securities currently held.

During 2010, under the terms of flow-through agreements, the Corporation issued 23,121,973 flow-through shares and was required to spend \$3,112,890 on qualifying exploration expenditures. As at June 30, 2011 the amount of \$2,295,908 had been spent (which include accrued exploration expenditures of \$163,597), the balance of \$816,982 must be incurred before December 31, 2011.

During 2011, under the terms of flow-through agreements, the Corporation issued 9,031,333 flow-through shares and was required to spend \$1,019,800 on qualifying exploration expenditures. As at June 30, 2011 no amount had been spent, therefore the balance of \$1,019,800 must be incurred before December 31, 2012.

12. Mineral properties and deferred exploration costs

Mineral properties	December 31, 2010	Additions	June 30, 2011
	\$	\$	\$
Quebec properties			
Croinor & Pershing	1,221,182	30,630	1,251,812
Chimo & Nova	15,497	902	16,399
Others	1,244	1,560	2,804
	1,237,923	33,092	1,271,015
New Brunswick properties			
Williams Brook	388,412	25,750	414,162
Others	941,422	5,880	947,302
	1,329,834	31,630	1,361,464
Total Mineral Properties	2,567,757	64,722	2,632,479
Deferred exploration costs	December 31, 2010	Additions	June 30, 2011
	\$	\$	\$
Quebec properties			
Croinor & Pershing	4,054,327	1,401,367	5,455,694
Chimo & Nova	286,268	344,058	630,326
Others	49,744	16,872	66,616
	4,390,339	1,762,297	6,152,636
New Brunswick properties			
Williams Brook	1,842,795	17,934	1,860,729
Others	4,677,368	3,875	4,681,243
	6,520,163	21,809	6,541,972
Total Deferred Exploration Costs	10,910,502	1,784,106	12,694,608
	13,478,259	1,848,828	15,327,087

Blue Note Mining Inc.

Notes to the Interim Consolidated Financial Statements (unaudited) – in Canadian dollars

June 30, 2011

12. Mineral properties and deferred exploration costs (continued)

Mineral properties	January 1, 2010	Acquisition (note 5)	Additions	December 31, 2010
	\$	\$	\$	\$
Quebec properties				
Croinor & Pershing	-	1,079,525	141,657	1,221,182
Chimo & Nova	-	11,568	3,929	15,497
Others	-	-	1,244	1,244
	-	1,091,093	146,830	1,237,923
New Brunswick properties				
Williams Brook	313,896	-	74,516	388,412
Others	925,773	-	15,649	941,422
	1,239,669	-	90,165	1,329,834
Total Mineral Properties	1,239,669	1,091,093	236,995	2,567,757
Deferred exploration costs	January 1, 2010	Acquisition (note 5)	Additions	December 31, 2010
	\$	\$	\$	\$
Quebec properties				-
Croinor & Pershing	-	3,636,825	417,502	4,054,327
Chimo & Nova	-	126,064	160,204	286,268
Others	-	-	49,744	49,744
	-	3,762,889	627,450	4,390,339
New Brunswick properties				
Williams Brook	1,713,998	-	128,797	1,842,795
Others	4,667,171	-	10,197	4,677,368
	6,381,169	-	138,994	6,520,163
Total Deferred Exploration Costs	6,381,169	3,762,889	766,444	10,910,502
	7,620,838	4,853,982	1,003,439	13,478,259

Blue Note Mining Inc.

Notes to the Interim Consolidated Financial Statements (unaudited) – in Canadian dollars

June 30, 2011

13. Property and equipment

	December 31, 2010	Acquisition (Disposal)	Additions	June 30, 2011
<u>Cost</u>	\$	\$	\$	\$
				-
Office furniture, equipment and computer	105,547	(9,580)	2,798	98,765
Accumulated Depreciation				
Office furniture, equipment and computer	(64,758)	9,580	(18,895)	(74,073)
<u>Net book Value</u>	40,789	-	(16,097)	24,692

	January 1, 2010	Acquisition (Disposal)	Additions	December 31, 2010
<u>Cost</u>	\$	\$	\$	\$
Office furniture, equipment and computer	97,259	3,460	4,828	105,547
Accumulated Depreciation				
Office furniture, equipment and computer	(17,069)	1,055	(48,744)	(64,758)
<u>Net book Value</u>	80,190	4,515	(43,916)	40,789

14. Accounts payable and accrued liabilities

	June 30, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Trade	167,793	192,269	98,687
Accrued liabilities	634,623	464,737	365,915
Accrued flow-through shares liabilities	384,394	549,065	-
	1,186,810	1,206,071	464,602

Blue Note Mining Inc.

Notes to the Interim Consolidated Financial Statements (unaudited) – in Canadian dollars

June 30, 2011

15. Provisions

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

According to the joint venture agreement, the Corporation recorded an asset retirement obligation of \$70,913, representing its 50% interest in the Croinor property (*note 6*).

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

16. Shareholders' equity

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

Authorized: An unlimited number of preferred shares with no par value (issued – none).

	Share capital	
	Number	\$ (<i>note 4</i>)
Balance - January 1, 2010	52,244,612	10,423,837
<i>Shares issued related to Resources X-Ore acquisition (note 5)</i>	43,017,349	7,312,950
Convertible debenture	1,200,000	150,000
Flow-through shares issued	23,121,973	1,570,241
Common shares issued	7,254,166	381,171
Shares issued related to William Brook acquisition	384,615	50,000
Balance - December 31, 2010	127,222,715	19,888,199
Flow-through shares issued	2,333,333	273,941
Common shares issued	720,000	50,344
Balance - March 31, 2011	130,276,048	20,212,484
Flow-through shares issued	6,698,000	437,699
Common shares issued	1,550,000	81,716
Balance - June 30, 2011	138,524,048	20,731,899

Blue Note Mining Inc.

Notes to the Interim Consolidated Financial Statements (unaudited) – in Canadian dollars

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16. Shareholders' equity (continued)

(a) Issues during 2011

On January 21, 2011, the Corporation closed a private placement of 2,333,333 flow-through shares at \$0.15 per share for gross proceeds of \$350,000 and 720,000 units at \$0.12 per unit, for a gross proceed of \$86,400, each unit being composed of one common share and one warrant which entitles the holder to acquire one common share at \$0.25 over a period of two years. In connection with the issuance of these units, the Corporation incurred costs of \$7,554. The issue generated total gross proceeds of \$436,400 and net proceeds of \$428,846. The proceeds were allocated between the components based on their estimated fair values, as follows; \$324,285 to share capital; \$34,560 to warrant account and \$70,001 to accounts payable and accrued liabilities, as a liability related to flow-through shares.

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

On June 23, 2011, the Corporation closed a private placement of 6,698,000 flow-through shares at \$0.10 per share for gross proceeds of \$669,800 and 1,550,000 units at \$0.08 per unit, for a gross proceed of \$124,000, each unit being composed of one common share and one-half warrant which entitles the holder to acquire one common share at \$0.11 over a period of two years. In connection with the issuance of these units, the Corporation incurred costs of \$76,620. The issue generated total gross proceeds of \$793,800 and net proceeds of \$717,180. The proceeds were allocated between the components based on their estimated fair values, as follows; \$519,415 to share capital; \$24,025 to warrant account; \$6,290 to broker warrants and \$167,450 to accounts payable and accrued liabilities, as a liability related to flow-through shares.

The fair value of warrants issued in June 2011, was estimated at \$0.031, calculated using Black-Scholes pricing model with the following assumptions: estimated weighted average duration of eighteen months, risk free interest rate of 1.93%, forecasted volatility of 103% and no forecasted dividends.

(b) Issues during 2010

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

On March 16, 2010, the Corporation closed a private placement of 8,333,332 flow-through units at \$0.12 per unit. Each unit is composed of one common share and one warrant, which entitles the holder to acquire one common share at \$0.25 over a period of two years. In connection with the issuance of these units, the Corporation incurred a cost of \$103,613 and issued 833,333 broker warrants to the agent to acquire 833,333 common shares at \$0.12 per share and 833,333 broker warrants to the agent to acquire 833,333 common shares at \$0.25 per share over a period of two years. The issue generated total gross proceeds of \$1,000,000 and net proceeds of \$896,387. The proceeds were allocated between the components based on their estimated fair values, as follows; \$419,721 to share capital; \$383,333 to warrant account; and, \$93,333 to broker warrants.

The fair value of warrants issued in March 2010, was estimated at \$0.046, calculated using Black-Scholes pricing model with the following assumptions: estimated weighted average duration of 2 years, risk free interest rate of 2.34%, forecasted volatility of 105% and no forecasted dividends.

Blue Note Mining Inc.

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16. Shareholders' equity (continued)

(b) Issues during 2010 (continued)

On June 8, 2010, the Corporation closed a private placement of 5,270,307 flow-through units at \$0.13 per unit. Each unit is composed of one common share and one warrant, which entitles the holder to acquire one common shares at \$0.25 over a period of two years. In connection with the issuance of these units, the Corporation incurred a cost of \$110,904 and issued 527,030 broker warrants to the agent to acquire 527,030 common shares at \$0.13 per share and 527,030 broker warrants to the agent to acquire 527,030 common shares at \$0.25 per share over a period of two years. The issue generated total gross proceeds of \$685,140 and net proceeds of \$574,236. The proceeds were allocated between the components based on their estimated fair values, as follows; \$153,139 to share capital; \$126,487 to warrant account; \$31,095 to broker warrants and \$263,515 to accounts payable and accrued liabilities, as a liability related to flow-through shares.

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

On November 3, 2010, the Corporation announced that it is maintaining its option to acquire a 100% interest in the Williams Brook gold property' located in northern New Brunswick. The Corporation maintained its option on Williams Brook for a fifth year in exchange for consideration of \$10,000 cash and the issuance of 384,615 Corporation common shares, with a stated value of \$50,000, which are subject to a statutory four-month hold period expiring March 19, 2011. As part of the consideration paid on the transaction, the Corporation issued 384,615 common shares at \$0.13 per share.

On December 22, 2010, the Corporation closed a private placement of 9,518,334 flow-through units at \$0.15 per unit each composed of one common share for gross proceeds of \$1,427,750 and 7,254,166 units at \$0.12 per unit, for gross proceeds of \$870,500, each unit being composed of one common share and one warrant which entitles the holder to acquire one common share at \$0.25 over a period of two years. In connection with the issuance of these units, the Corporation incurred a cost of \$233,114 and issued 1,174,075 broker warrants to the agent to acquire 1,174,075 common shares at \$0.20 per share over a period of two years. The issue generated total gross proceeds of the \$2,298,250 and net proceeds of \$2,065,136. The proceeds were allocated between the components based on their estimated fair values, as follows: \$1,378,553 to share capital; \$348,200 to warrant account; \$52,833 to broker warrants and \$285,550 to accounts payable and accrued liabilities, as a liability related to flow-through shares.

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

(c) Stock option plan

The Corporation has a stock option plan (the "Plan") authorizing the Board of Directors to grant options to directors, officers, employees and other persons providing services to the Corporation to acquire common shares of the Corporation at a price computed by reference to the closing market price of the shares of the Corporation on the business day before the Corporation notifies the stock exchanges of the grant of the option. The number of shares which may be granted to any one person shall not exceed 5% (2% for other persons) of the Corporation's outstanding common shares over a twelve-month period. The options will vest 18 months from the date of the grant and expire within 5 years, as determined by the board, with exceptions for death, termination of employment, etc. The Corporation is authorized to issue a maximum of 13,852,405 common shares under the Plan, which represents 10% of the outstanding common shares.

Blue Note Mining Inc.

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16. Shareholders' equity (continued)

(c) Stock option plan (continued)

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

Period ended June 30,	2011		2010	
	Number of options	Weighted Average Exercise Price \$	Number of options	Weighted Average Exercise Price \$
Balance – beginning of period	10,973,333	0.46	3,533,333	1.14
Options granted under stock option plan	-	-	4,500,000	0.23
Options forfeited	(23,333)	7.50	-	-
Balance – March 31	10,950,000	0.45	8,033,333	0.63
Options granted under stock option plan	3,250,000	0.10	2,400,000	0.11
Options forfeited	(2,500,000)	0.96	(850,000)	0.37
Balance – June 30	11,700,000	0.19	9,583,333	0.52

As at June 30, 2011, 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:

Outstanding	Exercisable	Weighted average exercise price \$	Expiry date
100,000	100,000	0.46	Dec-11
25,000	25,000	16.80	Nov-12
50,000	50,000	0.20	Jan-13
108,333	108,333	1.50	Dec-13
66,667	66,667	1.50	Mar-14
1,825,000	1,825,000	0.16	Oct-14
2,425,000	1,818,750	0.19	Jan-15
1,550,000	1,162,500	0.11	Apr-15
2,300,000	1,150,000	0.12	Oct-15
3,250,000	812,500	0.10	May-16
11,700,000	7,118,750	0.19	

Blue Note Mining Inc.

Notes to the Interim Consolidated Financial Statements (unaudited) – in Canadian dollars

June 30, 2011

16. Shareholders' equity (continued)

(c) Stock option plan (continued)

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

Period ended;	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
	\$	\$	\$	\$
Directors, management and employee compensation	156,023	135,242	257,386	275,152
Total charged to earnings	156,023	135,242	257,386	275,152

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

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

	January 1, 2011 to June 30, 2011	January 1, 2010 to June 30, 2010
Risk-free interest rate	1.79% to 2.86%	2.34% to 2.59%
Expected life (years)	2 to 5	5
Expected volatility	103% to 109%	105%
Expected dividend yield	nil	nil
Weighted average grant date fair value	\$0.068	\$0.085

Blue Note Mining Inc.

Notes to the Interim Consolidated Financial Statements (unaudited) – in Canadian dollars

June 30, 2011

16. Shareholders' equity (continued)

(d) Broker warrants and units

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

Period ended June 30,	2011		2010	
	Outstanding	Weighted Average Exercise Price \$	Outstanding	Weighted Average Exercise Price \$
Balance – beginning of year	4,594,801	0.20	700,000	0.23
Broker w arrants issued upon exercise of broker units	-	-	1,666,666	0.19
Balance – March 31	4,594,801	0.20	2,366,666	0.20
Broker w arrants issued upon exercise of broker units	170,000	0.11	1,120,560	0.04
Balance – June 30	4,764,801	0.19	3,487,226	0.14

As at June 30, 2011, the Corporation had the following broker warrants outstanding:

Outstanding	Exercisable	Weighted average exercise price \$	Expiry date
700,000	700,000	0.23	Sep-11
1,666,666	1,666,666	0.19	Mar-12
1,054,060	1,054,060	0.19	Jun-12
1,174,075	1,174,075	0.20	Dec-12
170,000	-	0.11	Jun-13
4,764,801	4,594,801	0.19	

Blue Note Mining Inc.

Notes to the Interim Consolidated Financial Statements (unaudited) – in Canadian dollars

June 30, 2011

16. Shareholders' equity (continued)

(e) Share purchase warrants

Period ended June 30,	2011		2010	
	Outstanding	Weighted Average Exercise Price \$	Outstanding	Weighted Average Exercise Price \$
Balance – beginning of year	25,066,500	0.25	3,608,695	0.26
Share purchase w arrants	720,000	0.25	10,001,903	0.24
Balance – March 31	25,786,500	0.25	13,610,598	0.25
Share purchase w arrants expired	-	-	(325,357)	0.02
Share purchase w arrants	775,000	0.11	5,270,308	0.25
Balance – June 30	26,561,500	0.25	18,555,549	0.26

As at June 30, 2011, the Corporation had the following share purchase warrants outstanding:

Outstanding	Exercisable	Weighted average exercise price \$	Expiry date
600,000	600,000	0.20	Jul-11
108,695	108,695	0.23	Sep-11
3,500,000	3,500,000	0.26	Sep-11
8,333,332	8,333,332	0.25	Mar-12
5,270,307	5,270,307	0.25	Jun-12
7,254,166	7,254,166	0.25	Dec-12
720,000	720,000	0.25	Jan-13
775,000	-	0.11	Dec-12
26,561,500	25,786,500	0.25	

Blue Note Mining Inc.

Notes to the Interim Consolidated Financial Statements (unaudited) – in Canadian dollars

June 30, 2011

17. Additional IFRS information's;

a) Compensation of key management;

Period ended;	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
	\$	\$	\$	\$
Salaries and short-term benefits	371,608	377,016	581,649	677,764
Stock-based compensation	135,584	134,661	227,965	256,030
	507,192	511,677	809,614	933,794

b) Expense by nature;

Period ended;	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
	\$	\$	\$	\$
Business development	83,820	137,655	133,881	356,753
Professional Fees	138,582	195,148	252,750	542,225
General and Administration	139,798	169,068	273,282	275,592
Salaries and levies	370,297	372,806	581,649	677,764
Stock based compensation	156,023	135,242	257,386	275,152
Corporate general and administration	888,520	1,009,919	1,498,948	2,127,486
Depreciation of property and equipment	9,509	12,082	18,895	24,195
Exploration	1,864	2,869	5,065	7,487
Foreign exchange (gain) loss	(18)	4	905	(48)
Loss (gain) on disposal of capital assets	-	(650)	-	(650)
Operating expenses	899,875	1,024,224	1,523,813	2,158,470

c) Other income;

Other income of \$465,147 (2010 - \$21,597) relates to consulting services provided to other entities by employees of the Corporation. In 2010, the amount represented management fees charged to the joint venture partner in the Croinor project. In 2011, the amount is related to the preparation of Scientific Research and Experimental Development (SR&ED) claim on behalf of the trustee of Caribou Mines

Blue Note Mining Inc.

Notes to the Interim Consolidated Financial Statements (unaudited) – in Canadian dollars

June 30, 2011

18. Supplemental disclosures of expenses and cash flow information

Six months period ended	June 30, 2011 \$	June 30, 2010 \$
Change in non-cash working capital items:		
Decrease (increase) in:		
Sundry Receivable	39,733	14,901
Loan receivable	50,000	25,000
Prepaid expenses	72,179	127,004
Increase (decrease) in:		
Accounts payable and accrued liabilities	145,409	(267,822)
Advance from joint venture partner	-	322,723
	307,321	221,806
Non-cash items:		
Fair value of shares issued for convertible debenture	-	150,000
Commons shares of public company received as consideration from disposal of mining assets	1,057,500	360,000

19. Capital disclosure

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

The Corporation manages its capital structure and makes adjustments to it in response to changes in general industry conditions and its mining and exploration assets. The Corporation may choose to issue equity or debt, revise its capital expenditure program, and/or sell assets.

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

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

Blue Note Mining Inc.

Notes to the Interim Consolidated Financial Statements (unaudited) – in Canadian dollars

June 30, 2011

20. Financial instruments and risk management

Financial assets and financial liabilities are measured on an ongoing basis at fair value or amortized cost. The disclosures in the “Financial Instruments – Recognition and Measurement” section of Note 2 of the condensed interim consolidated financial statements for the first quarter of 2011 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, 2011, the classification of the financial instruments, as well as their carrying values and fair values, are shown in the table below:

	Total carrying value and fair value			Fair value hierarchy level
	June 30, 2011	December 31, 2010	January 1, 2010	
<i>Classification:</i>	\$	\$	\$	
Financial assets				
Loans and receivables;				
Cash and cash equivalents	-	-	256,088	Level 1
Sundry receivables (1)	52,056	129,911	500,742	Level 1
Consideration receivable	607,619	830,491	-	Level 2
Funds reserved for exploration	1,417,839	2,593,626	316,890	Level 1
Available for sale				
Marketable securities	1,089,500	1,020,000	-	Level 2
	3,167,014	4,574,028	1,073,720	
Financial liabilities				
Other financial liabilities;				
Account payable and accrued liabilities	1,186,810	1,206,071	464,602	Level 2
	1,186,810	1,206,071	464,602	

(1) Excluding taxes receivable

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

- Loans and receivables: The carrying amount of the cash and cash equivalent, sundry receivables, consideration receivable and funds reserved for exploration is a reasonable approximation of their fair value due to the short-term nature of these financial assets.
- Available-for-sale financial assets: The marketable securities 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).
- Other financial liabilities: The carrying value of the bank overdraft, accounts payable and accrued liabilities is a reasonable approximation of their fair value due to the short-term nature of these financial liabilities.

Blue Note Mining Inc.

Notes to the Interim Consolidated Financial Statements (unaudited) – in Canadian dollars

June 30, 2011

20. Financial instruments and risk management (continued)

Fair value hierarchy

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

- Level 1: quoted prices (unadjusted) observed in active markets for identical assets or liabilities;
- Level 2: valuation techniques based on inputs other than quoted prices included in level 1, that are either directly or indirectly observable;
- Level 3: valuation techniques with significant unobservable market inputs.

Risk management of financial instruments

The Corporation is exposed to various risks arising from financial instruments. The following analysis provides a measurement of risks as at June 30, 2011, December 31, 2010, and January 1, 2010.

[i] Credit risk

The Corporation's financial assets are cash and cash equivalents, sundry receivables, consideration receivable, funds reserved for exploration and reclamation deposits. The Corporation's maximum exposure to credit risk of as at June 30, 2011, December 31, 2010, and January 1, 2010 is the carrying value of its financial assets. The Corporation manages credit risk by maintaining bank accounts with reputable banks and financial institutions and investing only in highly liquid securities that are traded on active markets and are capable of prompt liquidation. Financial instruments included in sundry receivable, consist of taxes receivable from government authorities and receivable from non-related corporations. Also included in financial instruments, are consideration receivable from a non-related corporation following the disposal of properties. At this point, the Corporation has received the majority of payments and management believes that the credit risk with respect of this transaction is minimal.

[ii] Liquidity risk

The Corporation is exposed to the risk of being unable to honor its financial commitments by the deadlines set out under the terms of such commitments. As described in *note 2*, as at June 30, 2011, December 31, 2010, and January 1, 2010, the Corporation has significant liquidity risk. All of the Corporation's financial liabilities are due within one year.

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

[iii] Market risk

Securities price risk

The Corporation holds marketable securities in certain public securities for which price fluctuations can affect the Corporation's loss. The Corporation classifies these marketable securities as available for sale where price volatility is reflected in other comprehensive loss. The Corporation closely monitors the general trends in the stock markets and individual equity movements, and determines the appropriate course of action to be taken by the Corporation.

The Corporation actually holds investments in mining public companies which are subject to fair value fluctuations arising from changes in the mining sector and currently these amount to \$1,089,500 (December 31, 2010 - \$1,020,000). Based on the balance outstanding as at June 30, 2011, a 10% increase or decrease would impact other comprehensive income (loss) by approximately \$109,000 (2010 - \$102,000).

Blue Note Mining Inc.

Notes to the Interim Consolidated Financial Statements (unaudited) – in Canadian dollars

June 30, 2011

20. Financial instruments and risk management (continued)

Commodity price risk

Future revenues will be highly correlated to the minerals market price. To the extent that prices increase over time, asset values increase and cash flows improve; conversely, declines in the prices directly impact value and cash flows negatively. The Corporation is not currently generating any revenues and therefore is not exposed to commodity price.

Foreign currency exchange risk

The Corporation's foreign exchange risk arises primarily with respect to the US dollar. The Corporation is not currently generating any revenues and therefore is not exposed to foreign exchange risk as commodity prices are denominated in US dollars. The majority of operating expenses are payable in Canadian dollars.

Foreign currency exchange risk arises because the amount of foreign currency cash and cash equivalents, receivables or payables will vary in Canadian dollar terms due to changes in foreign exchange rates. The Corporation does not use derivative instruments to reduce its exposure to foreign exchange fluctuations. At June 30, 2011, an amount of US\$ 2,274 (December 31, 2010 – nil, January 1, 2010 – US\$ 11,720) is included in accounts payable.

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

Interest rate risk

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

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

As at June 30, 2011, December 31, 2010, and January 1, 2010, with other variables unchanged, a 1% change in the variable interest rates would have an insignificant impact on the net loss of the Corporation.

21. Segmented information

Operating segment disclosure is reported in a manner consistent with the internal reporting provided to the Chief Executive Officer of the Corporation.

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

Blue Note Mining Inc.

Notes to the Interim Consolidated Financial Statements (unaudited) – in Canadian dollars

June 30, 2011

22. Commitments

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

On March 29, 2011, the Corporation and “EFG” agreed to extend the original binding agreement announced on July 19, 2010 to May 31, 2011 in consideration of an additional payment of \$10,000.

On June 1, 2011, the Corporation and “EFG” agreed to extend the original binding agreement announced on July 19, 2010 to December 31, 2011 in consideration of an additional payment of \$10,000 per month until December 2011. As of August 25, 2011, the Corporation had met its commitment for the entire amount of \$165,000.

23. Subsequent events

On July 15, 2011, the Corporation closed a private placement of 4,500,000 flow-through shares at \$0.10 per share for gross proceeds of \$450,000.