

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

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## **UNAUDITED INTERIM FINANCIAL STATEMENTS**

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

# Blue Note Mining Inc.

## Consolidated Balance Sheets (unaudited)

See going concern uncertainty – note 2

	September 30, 2010 \$ Successor	December 31, 2009 \$ Successor
<b>Assets</b>		
<i>Current assets</i>		
Cash and cash equivalents	397,339	572,978
Restricted cash	183,864	-
Marketable securities (note 6)	932,647	-
Sundry receivables (note 7)	308,944	631,715
Consideration receivable (note 5)	573,183	-
Prepaid expenses	180,250	252,232
	<b>2,576,227</b>	1,456,925
Reclamation deposits (note 10)	105,177	-
Consideration receivable (note 5)	338,196	-
Mineral properties and exploration costs (note 8)	13,570,916	7,620,838
Property and equipment (note 9)	51,269	80,190
Deferred share issue costs	-	100,000
	<b>16,641,785</b>	9,257,953
<b>Liabilities</b>		
<i>Current liabilities</i>		
Accounts payable and accrued liabilities	417,272	464,602
Advance from joint venture partner	38,092	-
	<b>455,364</b>	464,602
Asset retirement obligation (note 11)	141,825	-
	<b>597,189</b>	464,602
<b>Shareholders' equity</b>		
Share capital (note 12)	17,460,401	9,327,482
Warrants	802,099	281,478
Contributed surplus	605,198	160,025
Deficit	(2,823,102)	(975,634)
	<b>16,044,596</b>	8,793,351
	<b>16,641,785</b>	9,257,953

See accompanying notes to the interim unaudited consolidated financial statements

On behalf of the board:

Signed: "David Crevier" Director

Signed: "Leon Methot" Director

# Blue Note Mining Inc.

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

See going concern uncertainty – note 2

Periods ended	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
<b>Revenue</b>						
Interest income	936	662	1,791	3,351	662	14,368
Depletion and depreciation	12,236	4,267	8,535	36,431	4,267	43,663
Corporate general and administration	417,072	166,818	325,326	2,544,558	166,818	2,761,671
Exploration	13,888	1,840	1,710	21,375	1,840	1,710
Foreign exchange (gain) loss	172	-	-	124	-	-
Interest on long-term debt	404	188	188,681	1,944	188	1,556,349
Other interest and financial charges	2,615	1,210	3,402	5,961	1,210	11,009
Other (income) charges	(32,971)	-	-	(54,568)	-	-
Impairment loss	-	-	-	-	-	1,457,566
Realized and unrealized loss (gain) on disposal of marketable securities	(266,303)	-	(28,941)	(518,716)	-	(564,785)
Loss on disposal of long-lived assets	-	-	11,000	(650)	-	37,777
	147,113	174,323	509,713	2,036,459	174,323	5,304,960
<b>Income (loss) before income taxes</b>	<b>(146,177)</b>	<b>(173,661)</b>	<b>(507,922)</b>	<b>(2,033,108)</b>	<b>(173,661)</b>	<b>(5,290,592)</b>
Future income taxes recovered	-	-	-	185,640	-	-
<b>Income (loss) from continuing operations</b>	<b>(146,177)</b>	<b>(173,661)</b>	<b>(507,922)</b>	<b>(1,847,468)</b>	<b>(173,661)</b>	<b>(5,290,592)</b>
Income (loss) from discontinued operations (note 16)	-	-	-	-	-	19,288,808
<b>Net income (loss) and comprehensive income (loss) for the period</b>	<b>(146,177)</b>	<b>(173,661)</b>	<b>(507,922)</b>	<b>(1,847,468)</b>	<b>(173,661)</b>	<b>13,998,216</b>
Deficit - beginning of period	(2,676,925)	-	-	(975,634)	-	-
<b>Deficit - end of period</b>	<b>(2,823,102)</b>	<b>(173,661)</b>	<b>(507,922)</b>	<b>(2,823,102)</b>	<b>(173,661)</b>	<b>13,998,216</b>
Basic (loss) per share and diluted loss per share						
From continuing operations	(0.001)	(0.003)	(0.001)	(0.018)	(0.003)	(0.015)
From discontinued operations	0.000	0.000	0.000	0.000	0.000	0.053
Net income (loss)	(0.001)	(0.003)	(0.001)	(0.018)	(0.003)	0.039
Weighted average number of common shares outstanding	110,065,604	50,848,764	363,269,313	101,598,540	50,848,764	363,269,313

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

See accompanying notes to the interim unaudited consolidated financial statements

# Blue Note Mining Inc.

## Consolidated Statements of Shareholders' Equity (unaudited)

See going concern uncertainty – note 2

	Share capital	Warrants	Contributed Surplus	Deficit	Total
	\$	\$	\$	\$	\$
Balance - December 31, 2008 -Predecessor	111,135,134	2,440,622	15,976,153	(179,515,759)	(49,963,850)
Stock-based compensation charged to operations	-	-	134,660	-	134,660
Options forfeited	-	-	(33,719)	-	(33,719)
Net income from January 1 to August 31, 2009	-	-	-	12,817,182	12,817,182
Balance - August 31, 2009 -Predecessor	111,135,134	2,440,622	16,077,094	(166,698,577)	(37,045,727)
Share issued for restructuring	43,059,815	-	-	-	43,059,815
Fresh start accounting	(145,217,908)	(2,440,622)	(16,077,094)	166,698,577	2,962,953
Balance - August 31, 2009 -Successor	8,977,041	-	-	-	8,977,041
Equity issued	350,441	-	-	-	350,441
Stock-based compensation charged to operations	-	-	100,525	-	100,525
Warrants	-	281,478	-	-	281,478
Broker warrants	-	-	59,500	-	59,500
Net income from September 1 to December 31, 2009	-	-	-	(975,634)	(975,634)
Balance - December 31, 2009 -Successor	9,327,482	281,478	160,025	(975,634)	8,793,351
Equity issued	7,882,671	-	-	-	7,882,671
Tax effect of flow-through share renunciation	(185,640)	-	-	-	(185,640)
Stock-based compensation charged to operations	-	-	139,910	-	139,910
Warrants	-	413,368	-	-	413,368
Broker warrants	-	-	93,333	-	93,333
Net income (loss) from January 1 to March 31, 2010	-	-	-	(447,643)	(447,643)
Balance - March 31, 2010 -Successor	17,024,513	694,846	393,268	(1,423,277)	16,689,350
Equity issued	414,692	-	-	-	414,692
Stock-based compensation charged to operations	-	-	135,242	-	135,242
Warrants expired	5,856	(5,856)	-	-	-
Warrants	-	126,487	-	-	126,487
Broker warrants	-	-	33,057	-	33,057
Net income (loss) from April 1 to June 30, 2010	-	-	-	(1,253,648)	(1,253,648)
Balance - June 30, 2010 -Successor	17,445,061	815,477	561,567	(2,676,925)	16,145,180
Equity issued	1,962	-	-	-	1,962
Stock-based compensation charged to operations	-	-	102,656	-	102,656
Options forfeited	-	-	(57,063)	-	(57,063)
Warrants expired	13,378	(13,378)	-	-	-
Broker warrants	-	-	(1,962)	-	(1,962)
Net income (loss) from July 1 to September 30, 2010	-	-	-	(146,177)	(146,177)
Balance - September 30, 2010 -Successor	17,460,401	802,099	605,198	(2,823,102)	16,044,596

See accompanying notes to the interim unaudited consolidated financial statements

# Blue Note Mining Inc.

## Consolidated Statements of Cash Flows (unaudited)

See going concern uncertainty – note 2

Periods ended	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
<b>Cash provided from (used for):</b>						
<b>Operating activities</b>						
Net income (loss)	(146,177)	(173,661)	(507,922)	(1,847,468)	(173,661)	(5,290,592)
Non-cash items:						
Future income taxes recovered	-	-	-	(185,640)	-	-
Depreciation of mining & capital assets	12,236	4,267	8,535	36,431	4,267	43,663
Non-cash stock-based compensation	45,593	-	12,549	320,745	-	100,941
Gain on disposal of short-term investment	(266,303)	-	(28,941)	(518,716)	-	(564,785)
Loss on disposal of property and equipment	-	-	11,000	(650)	-	37,777
Impairment loss	-	-	-	-	-	1,457,566
Net changes in non-cash components of operating working capital (note 13 a)	(485,605)	77,819	(2,478,760)	(263,799)	77,819	(1,918,317)
<b>Cash flow used by continuing operating activities</b>						
	(840,256)	(91,575)	(2,983,539)	(2,459,097)	(91,575)	(6,133,747)
<b>Cash flow provided by discontinued operating activities</b>						
	-	-	(22,832)	-	-	8,482
<b>Cash flow used by operating activities</b>						
	(840,256)	(91,575)	(3,006,371)	(2,459,097)	(91,575)	(6,125,265)
<b>Financing activities</b>						
Increase in restricted cash	514,895	-	-	(183,864)	-	-
Proceeds from equity issue	-	626,419	-	1,470,623	626,419	-
<b>Cash flow provided (used) by continuing financing activities</b>						
	514,895	626,419	-	1,286,759	626,419	-
<b>Cash flow used by discontinued financing activities</b>						
	-	-	-	-	-	(40,921)
<b>Cash flow provided (used) by financing activities</b>						
	514,895	626,419	-	1,286,759	626,419	(40,921)

See accompanying notes to the interim unaudited consolidated financial statements

Continued...

# Blue Note Mining Inc.

## Consolidated Statements of Cash Flows (unaudited) (continued)

See going concern uncertainty – note 2

Periods ended	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
<b>Investing activities</b>						
Proceeds receivable from sale of short-term investment	428,221	-	28,942	1,621,633	-	564,785
Mining properties and deferred exploration costs	(512,539)	(99,085)	(51,799)	(743,442)	(99,085)	(139,020)
Government incentive	-	-	-	-	-	27,397
Deferred acquisition cost	-	-	-	100,000	-	-
Proceeds from asset held for sale	-	-	-	-	-	1,000,000
Disposition of office furniture and equipment	-	-	-	(2,995)	-	1,805
<b>Cash flow provided (used) by continuing investing activities</b>	<b>(84,318)</b>	<b>(99,085)</b>	<b>(22,857)</b>	<b>975,196</b>	<b>(99,085)</b>	<b>1,454,967</b>
<b>Cash flow used by discontinued investing activities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Cash flow provided (used) by investing activities</b>	<b>(84,318)</b>	<b>(99,085)</b>	<b>(22,857)</b>	<b>975,196</b>	<b>(99,085)</b>	<b>1,454,967</b>
Net increase (decrease) in cash provided by continuing activities	(409,679)	435,759	(3,006,396)	(197,142)	435,759	(4,678,780)
Net increase (decrease) in cash provided by discontinued activities	-	-	(22,832)	-	-	(32,439)
Net increase (decrease) in cash and cash equivalents	(409,679)	435,759	(3,029,228)	(197,142)	435,759	(4,711,219)
Cash and cash equivalents - beginning of period						
From continuing operations	807,018	751,394	3,757,790	594,481	751,394	5,430,174
From discontinued operations	-	-	22,832	-	-	32,439
Cash and cash equivalents - end of period						
From continuing operations	397,339	1,187,153	751,394	397,339	1,187,153	751,394
From discontinued operations	-	-	-	-	-	22,832
<b>Represented by:</b>						
Cash	397,339	437,303	751,394	397,339	437,303	751,394
Cash equivalents	-	749,850	-	-	749,850	-

See accompanying notes to the interim unaudited consolidated financial statements

# Blue Note Mining Inc.

## Note to the Consolidated Financial Statements (unaudited)

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September 30, 2010

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### 1. Plan of arrangement and reorganization

Blue Note Mining Inc. (the "Predecessor" prior to August 31, 2009 or the "Successor" or the "Corporation" subsequent to August 31, 2009) is a mineral exploration and mining company with gold and base metal exploration properties located in Quebec, New Brunswick and Ontario with the recent purchase of X-Ore Resources Inc. ("X-ORE"). The business of the Corporation is to explore and develop mining projects. The minerals being targeted by the Corporation are precious metals.

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

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

On July 17, 2009, the Predecessor's creditors approved the proposed plan of arrangement and reorganization (the "Plan") submitted by the Predecessor under the CCAA. At a meeting held on July 17, 2009, 95% of the votes registered by the Predecessor's creditors were in favor of the Plan. On August 4, 2009, the Quebec Superior Court ratified the Plan effective August 25, 2009 and the Predecessor emerged from protection under CCAA on August 31, 2009. Under the terms of the Plan, selected creditors received \$2,500,000 in cash and 74.36% of the Successor's outstanding common shares after share consolidation. The creditors were the senior secured note holders (carrying value of \$25 million); the New Brunswick Provincial Holdings (\$15 million); unpaid accrued interest (\$2.5 million) and other trade creditors (\$1.8 million). The selected creditors received a total of 35,131,088 common shares of the Successor representing 74.36% of the total equity. The Plan included a one for 30 share consolidation of Blue Note's shares.

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

The Successor performed an assessment of the fair value of the identifiable assets and liabilities. Management's estimates of fair value were 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 a combination of these three approaches and 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 Predecessor's financial information has been presented to provide additional information for the reader. Detailed information on the plan of arrangement, the impact of adjustments and fresh start accounting is available in the annual audited financial statements as at December 31, 2009.

# **Blue Note Mining Inc.**

## **Note to the Consolidated Financial Statements (unaudited)**

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September 30, 2010

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### **2. Basis of presentation and going concern uncertainty**

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

The Corporation is not currently generating any revenue from its operations activities and for the nine month period ended September 30, 2010, the Corporation recorded a loss of \$1,847,468. The Corporation must secure sufficient funding to maintain its existing operations for exploration programs and general and administration expenses.

Management is seeking financing through the issuance of new equity instruments to continue its activities, but there can be no assurance it will be able to do so in the future. Without new funding being available, the Corporation could be unable to continue its operations, and amounts realized for assets may be less than amounts reflected in these consolidated financial statements.

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

### **3. Change in accounting policies**

#### *"Business combinations, Consolidated financial statements and Non-controlling interests"*

In January 2009, the Accounting Standards Board issued 3 new accounting standards: Section 1582 "Business Combinations"; Section 1601 "Consolidated Financial Statements"; and Section 1602 "Non-Controlling Interests". These sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011 with early adoption permitted. The Corporation has adopted these standards on January 1, 2010. Section 1582 has been applied to the business combination described in Note 4. The adoption of Sections 1601 and 1602 had no effect on the unaudited interim consolidated financial statements of the Corporation.

# Blue Note Mining Inc.

## Note to the Consolidated Financial Statements (unaudited)

September 30, 2010

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

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

The Corporation granted shareholders of X-ORE 0.50 common share of the Corporation for each X-ORE common share outstanding for a total of 43,017,352 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.

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

# Blue Note Mining Inc.

## Note to the Consolidated Financial Statements (unaudited)

September 30, 2010

### 5. Assets held for sale

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

The consideration for the transaction consists of staggered cash payments totaling \$200,000, the issuance of 7,000,000 Amex common shares and 1,000,000 common share purchase warrants of Amex to be exercisable over a period of 24 months following their issuance. In addition, Amex assumed all of X-Ore International and Minerals X-Ore SA de CV obligations and liabilities. The Corporation will receive, net of selling costs of \$7,570, consideration valued at approximately \$1.5 million over the time period as follow:

	\$
Cash received	<b>75,000</b>
Shares received	<b>525,000</b>
Staggered cash	<b>114,252</b>
Staggered shares	<b>782,140</b>
Staggered warrants	<b>14,987</b>
Estimated consideration	<b>1,511,379</b>
Received	<b>(600,000)</b>
Estimated receivable	<b>911,379</b>
Less: current portion	<b>573,183</b>
Long term portion	<b>338,196</b>

### 6. Marketable securities

	September 30, 2010 \$ Successor
Rocmec Mining Inc., 300,000 common shares (under escrow)	-
First Gold Exploration Inc., 532,000 common shares	<b>194,180</b>
Gold Hawk Resources Inc., 75,000 common shares	<b>96,000</b>
Amex Exploration Inc., 2,500,000 common shares	<b>525,000</b>
Forest Gate Energy Inc., 1,381,962 common shares	<b>117,467</b>
	<b>932,647</b>

# Blue Note Mining Inc.

## Note to the Consolidated Financial Statements (unaudited)

September 30, 2010

### 7. Sundry receivables

	September 30, 2010 \$ Successor	December 31, 2009 \$ Successor
Commodities taxes receivable	181,201	130,973
Receivable from related party	-	313,242
Other receivables	127,743	60,000
Loan receivable	-	127,500
	<b>308,944</b>	<b>631,715</b>

### 8. Mineral properties and exploration costs

	September 30, 2010 - Successor		
	Mineral properties \$	Exploration costs \$	Total \$
Mineral and exploration properties	2,404,554	11,166,362	13,570,916
	<b>2,404,554</b>	<b>11,166,362</b>	<b>13,570,916</b>

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

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

The consideration payable under this acquisition consists of \$2,350,000 cash less staggered cash payments totaling \$100,000, and the issuance, in escrow, of 17,500,000 Blue Note common shares to be released from escrow on a monthly basis from the closing date of the transaction during a thirty-five (35) month period. At this point in time, the Corporation is performing an assessment of the fair value of the identifiable assets and liabilities acquired. This transaction value is estimated by management at approximately \$4.6 million, subject to final appraisal at the acquisition date.

# Blue Note Mining Inc.

## Note to the Consolidated Financial Statements (unaudited)

September 30, 2010

### 8. Mineral properties and exploration costs (continued)

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

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

### 9. Property and equipment

	September 30, 2010 - Successor		
	Cost \$	Accumulated Depreciation \$	Net \$
Office furniture and equipment	92,131	(45,564)	46,567
Computer equipment	11,584	(6,882)	4,702
	103,715	(52,446)	51,269

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

# Blue Note Mining Inc.

## Note to the Consolidated Financial Statements (unaudited)

September 30, 2010

### 10. Reclamation deposits

As at September 30, 2010, the Corporation has invested \$105,177 in term deposits in accordance with the current financial guarantee requirements set forth by the *Ministère des Ressources naturelles et de la Faune* of the province of Quebec for future site restoration costs at the Croinor mining site. As updated mine closure plans are submitted to and approved by this government body, the related financial guarantee will be adjusted accordingly.

### 11. Asset retirement obligations

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

### 12. Shareholders' equity

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

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

	Share capital	
	Number	\$
Balance, December 31, 2009 - Successor	52,244,611	9,327,482
Issued of shares related to Resources X-Ore acquisition (note 4)	43,017,352	7,312,950
Convertible debenture	1,200,000	150,000
Tax effect of 2009 flow-through share renunciations	-	(185,640)
Flow-through shares,	8,333,333	419,721
Balance - March 31, 2010 - Successor	104,795,296	17,024,513
Warrants expired	-	5,856
Flow-through shares,	5,270,308	414,692
Balance - June 30, 2010 -Successor	110,065,604	17,445,061
Equity adjustment	-	1,962
Warrants expired	-	13,378
Balance - September 30, 2010 - Successor	110,065,604	17,460,401

#### (a) Issues during 2010

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

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

# Blue Note Mining Inc.

## Note to the Consolidated Financial Statements (unaudited)

September 30, 2010

### 12. Shareholders' equity (continued)

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

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 for these warrants, risk free interest rate of 2.34%, forecasted volatility of 105% and no forecasted dividend.

On June 8, 2010, the Corporation closed a private placement of 5,270,308 flow-through units at \$0.13 per unit each composed of 5,270,308 common shares and 5,270,308 warrants to acquire 5,270,308 common shares at \$0.25 over a period of two years. In connection with the issuance of these units, the Corporation incurred cost of \$110,904 and issued 527,030 broker warrants to the agent to acquire 527,030 common shares at \$0.13 per share over a period of two years. The issue generated total gross proceeds of \$685,140 and net proceeds of \$574,236. The proceeds were allocated as follows; \$416,654 to share capital; \$126,487 to warrant account; and, \$31,095 to broker warrants.

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

#### (b) Stock option plan

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

Period ended September 30,	2010 - Successor		2009 - Predecessor	
	Number of options	Weighted Average Exercise Price \$	Number of options	Weighted Average Exercise Price \$
<b>Balance – beginning of period</b>	<b>3,533,333</b>	<b>1.14</b>	31,682,000	0.22
Options granted under stock option plan	4,500,000	0.23	2,000,000	0.05
Options forfeited	-	-	(8,620,000)	0.19
<b>Balance – March 31</b>	<b>8,033,333</b>	<b>0.63</b>	25,062,000	0.21
Options granted under stock option plan	2,400,000	0.11	-	-
Options forfeited	(850,000)	0.37	-	-
<b>Balance – June 30</b>	<b>9,583,333</b>	<b>0.52</b>	25,062,000	0.21
Options granted under stock option plan	-	-	-	-
Options forfeited	(1,110,000)	0.21	(6,062,000)	0.29
<b>Balance – August 31 - Predecessor</b>			19,000,000	0.19
Share consolidation 30:1			633,333	5.63
<b>Balance – September 30 - Successor</b>	<b>8,473,333</b>	<b>0.56</b>	633,333	5.63

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

# Blue Note Mining Inc.

## Note to the Consolidated Financial Statements (unaudited)

September 30, 2010

### 12. Shareholders' equity (continued)

#### (b) Stock option plan (continued)

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

Periods ended	<b>Three months ended</b> <b>September 30, 2010</b> \$ <b>Successor</b>	One month ended September 30, 2009 \$ Successor	Two months ended August 31, 2009 \$ Predecessor	<b>Nine months ended</b> <b>September 30, 2010</b> \$ <b>Successor</b>	One month ended September 30, 2009 \$ Successor	Eight months ended August 31, 2009 \$ Predecessor
Directors, management and employee compensation	<b>59,724</b>	-	12,549	<b>326,820</b>	-	100,941
Consultant compensation	<b>(14,131)</b>	-	-	<b>(6,075)</b>	-	-
Total charged to earnings	<b>45,593</b>	-	12,549	<b>320,745</b>	-	100,941

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

As at September 30, 2010, the outstanding options, as issued under the stock option plan to directors, management, employees and consultants for the purchase of one common share per option, are as follows:

Granted	Exercisable	Weighted average Exercise price \$	Expiry date
23,333	23,333	7.50	Jan-11
200,000	200,000	11.70	Jun-11
100,000	100,000	0.46	Dec-11
25,000	25,000	16.80	Nov-12
50,000	50,000	0.20	Jan-13
308,333	308,333	1.50	Dec-13
66,667	66,667	1.50	Mar-14
2,525,000	1,262,500	0.16	Oct-14
3,125,000	1,562,500	0.19	Jan-15
2,050,000	512,500	0.11	Apr-15
<b>8,473,333</b>	<b>4,110,833</b>	<b>0.56</b>	

# Blue Note Mining Inc.

## Note to the Consolidated Financial Statements (unaudited)

September 30, 2010

### 12. Shareholders' equity (continued)

#### (b) Stock option plan (continued)

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

	January 1, 2010 to September 30, 2010	January 1, 2009 to September 30, 2009
Risk-free interest rate	2.34% to 2.59%	1.63%
Expected life (years)	5	5
Expected volatility	105%	260%
Expected dividend yield	nil	nil
Weighted average grant date fair value; post consolidation	\$0.085	\$0.300

#### (c) Broker warrants and units

Period ended September 30,	2010 - Successor		2009 - Predecessor	
	Granted	Weighted Average Exercise Price \$	Granted	Weighted Average Exercise Price \$
<b>Balance – beginning of year</b>	<b>700,000</b>	<b>0.23</b>	9,985,833	0.62
Broker w arrants issued upon exercise of broker units	1,666,667	0.19	-	-
<b>Balance – March 31</b>	<b>2,366,667</b>	<b>0.20</b>	9,985,833	0.62
Broker w arrants issued upon exercise of broker units	1,120,560	0.19	-	-
<b>Balance – June 30</b>	<b>3,487,227</b>	<b>0.20</b>	9,985,833	0.62
<b>Balance – August 31 - Predecessor</b>			9,985,833	0.62
<b>Consolidation 30:1</b>			332,861	18.74
Broker w arrants issued upon exercise of broker units	(66,500)	0.19		
<b>Balance – September 30 - Successor</b>	<b>3,420,727</b>	<b>0.20</b>	332,861	18.74

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

# Blue Note Mining Inc.

## Note to the Consolidated Financial Statements (unaudited)

September 30, 2010

### 12. Shareholders' equity (continued)

#### (d) Share purchase warrants

Period ended September 30,	2010 - Successor		2009 - Predecessor	
	Granted	Weighted Average Exercise Price \$	Granted	Weighted Average Exercise Price \$
<b>Balance – beginning of year</b>	<b>3,608,695</b>	<b>0.26</b>	35,750,000	0.67
Share purchase w arrants	10,001,904	0.24	-	-
<b>Balance – March 31</b>	<b>13,610,599</b>	<b>0.25</b>	35,750,000	0.67
Share purchase w arrants expired	(325,357)	0.02	-	-
Share purchase w arrants	5,270,308	0.25	-	-
<b>Balance – June 30</b>	<b>18,555,550</b>	<b>0.25</b>	35,750,000	0.67
Share purchase w arrants expired	(743,213)	0.02	-	-
<b>Balance – August 31 - Predecessor</b>			35,750,000	0.67
Share consolidation 30:1			1,191,667	20.10
<b>Balance – September 30 - Successor</b>	<b>17,812,337</b>	<b>0.26</b>	1,191,667	20.10

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

# Blue Note Mining Inc.

## Note to the Consolidated Financial Statements (unaudited)

September 30, 2010

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

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

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
<b>Decrease (increase) in:</b>						
Sundry Receivable	(100,577)	(42,129)	95,924	(85,675)	(42,129)	522,767
Consideration receivable	25,000	-	-	50,000	-	-
Prepaid expenses	(30,635)	61,463	27,329	96,369	61,463	(25,832)
Advance to subsidiary	-	-	1,842,779	-	-	1,170,553
<b>Increase (decrease) in:</b>						
Accounts payable and accrued liabilities	(94,762)	58,485	(4,444,792)	(362,585)	58,485	(3,585,805)
Advance from joint venture partner	(284,631)	-	-	38,092	-	-
	(485,605)	77,819	(2,478,760)	(263,799)	77,819	(1,918,317)

#### (b) Interest paid and received

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
Interest paid	404	188	1,195,381	1,944	188	1,195,381
Interest received	936	662	1,791	3,351	662	14,368

#### (c) Item not affecting cash and cash equivalents

Common shares of public company received in settlement of a receivable from a former related party, valued at \$300,992. Nil in all previous periods.

# Blue Note Mining Inc.

## Note to the Consolidated Financial Statements (unaudited)

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September 30, 2010

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### 14. Capital disclosure

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

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

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

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

	<b>September 30, 2010</b>	December 31, 2009
	<b>\$</b>	\$
	<b>Successor</b>	Predecessor
Shareholder' equity	<b>16,044,596</b>	8,793,351
Long-term debt, including current portion	<b>141,825</b>	-
	<b>16,186,421</b>	8,793,351

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

# Blue Note Mining Inc.

## Note to the Consolidated Financial Statements (unaudited)

September 30, 2010

### 15. Financial instruments and risk management

Financial assets and financial liabilities are measured on an ongoing basis at fair value or amortized cost. The disclosures in the “Financial Instruments – Recognition and Measurement” section of *note 3* to the annual audited financial statements as at December 31, 2009, describe how the categories of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognized.

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

Period ended	Held for trading	Loans and receivables	Other financial liabilities	Total carrying value and fair value	
				September 30, 2010	December 31, 2009
	\$	\$	\$	\$	\$
<b>Financial assets</b>					
Cash and cash equivalents	397,339	-	-	<b>397,339</b>	572,978
Restricted cash	183,864	-	-	<b>183,864</b>	-
Marketable securities	932,647	-	-	<b>932,647</b>	-
Sundry receivables (1)	-	122,544	-	<b>122,544</b>	500,741
Consideration receivable	-	573,183	-	<b>573,183</b>	-
	1,513,850	695,727	-	<b>2,209,577</b>	1,073,719
<b>Financial liabilities</b>					
Account payable and accrued liabilities (2)	-	-	417,272	<b>417,272</b>	464,602
Advance from joint venture partner	-	-	38,092	<b>38,092</b>	-
	-	-	455,364	<b>455,364</b>	464,602

<sup>1</sup> Excluding taxes receivable

<sup>2</sup> Excluding trade payables related to sales and capital taxes.

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

- **Held of trading:** The cash equivalents have been measured using the fair value determined by reference using inputs other than Level 1 quoted prices for which all significant inputs are observable, either directly or indirectly [Level 2]. At September 30, 2010 and December 31, 2009 the fair value of cash and cash equivalents and approximates their carrying value.
- **Loans and receivables:** The carrying amount of the sundry receivables and consideration receivable is a reasonable approximation of their fair value due to the short-term nature of these financial assets.
- **Other financial liabilities:** The carrying value of the accounts payable and accrued liabilities is a reasonable approximation of their fair value due to the short-term nature of these financial liabilities.

# **Blue Note Mining Inc.**

## **Note to the Consolidated Financial Statements (unaudited)**

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September 30, 2010

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### **16. Discontinued operations**

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

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

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

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

### **17. Subsequent event**

On October 1, 2010, the Corporation issued a total of 2,500,000 incentive stock options to directors, employees and consultants for the purchase of one common share per option at an exercise price of \$0.12 with expiry date of October 1, 2015.

On November 2, 2010, the Corporation acquired 100% interest in the William Brook property, located in northern New Brunswick. As part of the consideration paid on the transaction, the Corporation paid \$10,000 cash and issued 384,615 common shares. A second payment of \$25,000 is payable on May 3, 2011 and a last payment of \$25,000 is due on November 3, 2011, subject to a 2% Net Smelter Royalty ("NSR"). The Corporation may also, at its option, purchase half of the NSR for \$1,000,000.