

Blue Note Mining Inc.
Condensed Interim Consolidated Financial Statements
March 31, 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 three months period ended March 31, 2011.

Blue Note Mining Inc.

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

See going concern uncertainty – note 1

	March 31, 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)	1,048,000	1,020,000	-
Sundry receivable (note 9)	232,196	196,735	631,715
Consideration receivable (note 7)	697,655	811,591	-
Prepaid expenses	171,754	170,111	252,232
	2,149,605	2,198,437	1,140,035
Other non-current assets	36,850	49,555	-
Reclamation deposits (note 10)	52,589	52,589	-
Funds reserved for exploration (note 11)	1,751,070	2,593,626	316,890
Mineral properties (note 12)	2,590,460	2,567,757	1,239,669
Deferred exploration costs (note 12)	11,971,733	10,910,502	6,381,169
Property and equipment (note 13)	31,403	40,789	80,190
Deferred share issue costs	-	-	100,000
	18,583,710	18,413,255	9,257,953
Liabilities			
<i>Current liabilities</i>			
Accounts payable and accrued liabilities (note 14)	1,336,212	1,206,071	464,602
	1,336,212	1,206,071	464,602
<i>Non-current liabilities</i>			
Provisions (note 15)	70,913	70,913	-
Deferred tax liabilities	1,905,051	1,496,654	1,202,991
	3,312,176	2,773,638	1,667,593
Shareholders' equity			
Share capital (note 16)	20,212,484	19,888,199	10,423,837
Warrants	1,184,858	1,150,298	281,478
Contributed surplus	1,309,233	1,207,870	160,025
Deficit	(7,248,036)	(6,516,745)	(3,274,980)
Accumulated other comprehensive income	(187,005)	(90,005)	-
	15,271,534	15,639,617	7,590,360
	18,583,710	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 period ending March 31, 2011 were approved by the board of directors on June 29, 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 1

Three months ended	March 31, 2011 \$	March 31, 2010 \$ (note 4)
Operating expenses (note 17 b)		
Corporate general and administration	610,428	1,117,567
Depreciation of property and equipment	9,386	12,113
Exploration	3,201	4,618
Foreign exchange (gain) loss	923	(52)
Loss from operations	623,938	1,134,246
Interest income	(2,800)	(1,435)
Interest on long-term debt	275	1,085
Other interest and financial charges	847	758
Realized loss (gain) on disposal of marketable securities	-	(522,937)
Loss (gain) on consideration receivable (note 7)	(38,764)	-
	(40,442)	(522,529)
Loss before taxes	583,496	611,717
Income and mining taxes	147,795	23,792
Loss for the period	731,291	635,509
Other comprehensive loss		
Unrealized loss (gain) on available for sale marketable securities	97,000	21,566
Other comprehensive loss for the period	97,000	21,566
Loss attributable to Shareholders of the Corporation	731,291	635,509
Total comprehensive loss attributable to Shareholders of the Corporation	828,291	657,075
Loss per common share		
Basic and diluted	0.01	0.01
Weighted average common shares outstanding	129,597,533	88,422,745
Common shares outstanding - end of period	130,276,048	104,795,293

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 1

	Three months ended		Twelve months ended
	March 31, 2011	March 31, 2010	December 31, 2010
	\$	\$	\$
		(note 4)	(note 4)
Share capital			
Balance - Beginning of period	19,888,199	10,423,837	10,423,837
Shares issued under private placement	50,344	-	381,171
Shares issued under flow-through placement	273,941	419,721	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	20,212,484	18,306,508	19,888,199
Warrants			
Balance - Beginning of period	1,150,298	281,478	281,478
Share purchase warrants issued	34,560	413,368	888,054
Share purchase warrants expired	-	-	(19,234)
Balance - End of period	1,184,858	694,846	1,150,298
Contributed surplus			
Balance - Beginning of period	1,207,870	160,025	160,025
Stock-based compensation	101,363	139,910	911,414
Forfeiture of options	-	-	(60,064)
Fair value of broker warrants	-	93,333	196,495
Balance - End of period	1,309,233	393,268	1,207,870
Deficit			
Balance - Beginning of period	(6,516,745)	(3,274,980)	(3,274,980)
Loss for the period	(731,291)	(635,509)	(3,241,765)
Balance - End of period	(7,248,036)	(3,910,489)	(6,516,745)
Accumulated other comprehensive loss			
Balance - Beginning of period	(90,005)	-	-
Unrealized loss (gain) on available for sale marketable securities	(97,000)	(21,566)	(90,005)
Balance - End of period	(187,005)	(21,566)	(90,005)
Total Shareholders' equity	15,271,534	15,462,567	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 1

Three months ended	March 31, 2011	March 31, 2010
	\$	\$
Cash provided from (used for):		
Operating activities		
Net loss	(731,291)	(635,509)
Non-cash items:		
Mining and income taxes	147,795	23,792
Depreciation of property and equipment	9,386	12,113
Non-cash stock-based compensation	101,363	139,910
Realized and unrealized loss (gain) on disposal of marketable securities	-	(522,937)
Acquisition of X-Ore Resources (note 5)	-	21,503
Gain on consideration receivable (note 7)	(38,764)	-
Net changes in non-cash components of operating working capital (note 18)	324,043	(192,036)
Cash-flow used (provided) by operating activities	(187,468)	(1,153,164)
Financing activities		
Proceeds from the issue of equity	428,846	896,387
Cash-flow provided by financing activities	428,846	896,387
Investing activities		
Proceeds receivable from sale of marketable securities	-	1,094,542
Mining properties and deferred exploration costs	(1,083,934)	(41,330)
Funds reserved for exploration	842,556	(900,068)
Deferred acquisition cost	-	100,000
Disposition of office furniture and equipment	-	(3,645)
Cash-flow provided (used) by investing activities	(241,378)	249,499
Net increase (decrease) in cash and cash equivalents	-	(7,278)
Cash and cash equivalents - beginning of period	-	256,088
Cash and cash equivalents - end of period	-	248,810
Represented by:		
Cash	-	248,810
Cash equivalents	-	-
Supplemental informations:		
Interest paid	309	1,091
Interest received	2,509	1,435

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

March 31, 2011

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.

1. 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. As these financial statements represent the Corporation's initial presentation of its results and financial position under IFRS, they have been prepared in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards". 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 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. Moreover, in addition to the supplemental disclosures in note 4, other notes have been added for ease of understanding of the condensed interim consolidated financial statements.

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 March 31, 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 three-month period ended March 31, 2011, the Corporation recorded a loss of \$731,291. The Corporation must secure sufficient funding to maintain its existing operations for exploration programs and general and administration expenses.

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

March 31, 2011

1. 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.

2. Summary of significant accounting policies

The 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 accounting policies summarized below:

Consolidated financial statements: The condensed interim consolidated financial statements include the accounts of the Corporation and of the Corporation's wholly-owned (100%) subsidiary X-Ore Resources Inc. ("X-ORE"), a Canadian exploration Corporation located in Val D'Or, Quebec, Canada. The subsidiary has the same financial year end as the parent company. The amounts reported in their financial statements have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Corporation.

Loss and other comprehensive loss of subsidiaries acquired or disposed of during the year are recognized from the effective date of the acquisition, or up to the effective date of disposal, as applicable.

All inter-company transactions and balances have been eliminated upon consolidation.

Joint venture: A portion of the Corporation's exploration activities are conducted jointly with others wherein the Corporation enters into agreements that provide for a specified percentage interest in exploration properties. Expenditures on these properties are capitalized to mining properties and deferred exploration costs. The Corporation's interest in joint venture is accounted for by the proportionate consolidation method.

Foreign currency translation: Foreign currency denominated monetary assets and liabilities are translated at exchange rate prevailing at the year end; foreign currency denominated revenues and expenses are translated at average rates of exchange prevailing during the year. Exchange gains and losses arising on the translation of the accounts are included in the statements of loss and comprehensive loss.

Cash and cash equivalents: The Corporation considers currency on hand and demand deposits with financial institutions to be cash. The Corporation considers all highly liquid investments with Canadian financial institutions and purchased with an original maturity of three months or less to be cash equivalents. The Corporation has classified cash and cash equivalents as loans and receivables.

Marketable securities: Marketable securities consist primarily of shares of publicly-traded companies and are recorded at fair market value. The Corporation has classified marketable securities as available for sale.

Funds reserved for exploration: Funds reserved for exploration are unused financing proceeds. Under restrictions imposed by the financing, the Corporation is required to use these funds for mining properties exploration.

Mining properties and deferred exploration costs: The Corporation capitalizes the acquisition costs of mineral properties and all direct costs relating to exploration on its mineral properties less government grants and impairment. These costs will be amortized over the estimated productive lives of the properties upon commencement of production using the unit-of-production method. Options or sales of mineral properties are accounted for by applying the proceeds from such sales to the carrying costs of the property and reducing costs to zero prior to recognizing any gain. Costs related to abandoned projects are written off.

Blue Note Mining Inc.

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

March 31, 2011

2. Summary of significant accounting policies (continued)

Mining properties and deferred exploration costs (continued)

Carrying values of capitalized mineral properties and deferred exploration costs are reviewed for impairment indicators at each reporting period. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating-units). A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The interests, where future cash flows are not reasonably determinable, are evaluated for impairment based on results of exploration work, management's intentions and determination of the extent to which future exploration programs are warranted and likely to be funded. General exploration costs not related to specific properties and general administrative expenses are charged to the statement of loss and comprehensive loss in the year in which they are incurred.

If an exploration project is successful, then the related expenditures will be transferred to mining assets and amortized over the estimated life of the ore reserves on a unit of production basis.

The recovery of the mining properties and deferred exploration costs is dependent upon the discovery of economically recoverable ore reserves, the ability of the Corporation to obtain the necessary financing to complete the development of the ore reserves and future profitable production or proceeds from the disposal thereof.

Property and equipment: Office furniture and equipment are recorded at cost less accumulated depreciation; any related government assistance and accumulated impairment. Cost includes expenditures that are directly related to the acquisition of the asset. The carrying value of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to statement of loss and comprehensive loss during the period in which they are incurred. Depreciation of each asset component is calculated over the estimated useful lives of the related assets using the following rates and method:

	Rates	Method
Office furniture and equipment	5 years	Straight-line
Computer equipment	2 to 3 years	Straight-line

Material residual value estimates and estimates of useful life and depreciation method are updated as required, at least annually. Any changes in residual value or estimated useful life are recognized prospectively as they occur.

Gains or losses arising on the disposal of property and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in consolidated income.

Impairment of non-financial assets: Impairment reviews for mining properties and deferred exploration costs is performed by management on a property-by-property basis at each financial statement date to determine if they have become impaired. If any such indication exists, the Corporation estimates the net recoverable amount and records an impairment as the excess of recoverable amount over the carrying amount if applicable. For those properties, the ultimate recoverability of the amounts capitalized is dependent on the delineation of economically recoverable ore reserves, the ability to obtain the necessary financing to complete their development and the ability to realize profitable production or proceeds from the disposition thereof. Management's estimates of recoverability of the investment in properties are based on current conditions. However, it is reasonably possible that changes could occur in the near future which could adversely affect management's estimates and may result in future write-down's of capitalized costs.

Reversals of impairment losses are recognized in respect of mining properties and deferred exploration costs where this is justified by a change of circumstances.

Blue Note Mining Inc.

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

March 31, 2011

2. Summary of significant accounting policies (continued) *Impairment of non-financial assets (continued)*

Assets that are subject to amortization, such as property and equipment, are reviewed periodically to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). For assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows.

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 recovered as a deferred tax expense in the statement of income (loss).

Provisions, contingent liabilities and contingent assets: Provisions are recognized when the Corporation has a present obligation, legal or constructive, as a result of a past event, and, it is probable that an outflow of economic resources will be required to settle the obligation and reliable estimate can be made of the amount of the obligation. Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Provisions are discounted when the time value of money is significant. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

The Corporation is subject to environmental laws and regulations enacted by federal and provincial authorities. The Corporation records the present value of the estimated costs required to settle the obligations arising from environmentally acceptable closure plans, such as dismantling and demolition of infrastructures, removal of residual matter and site restoration, in the period in which the obligation is incurred. The asset retirement obligations relate primarily to site restoration and dismantling of facilities at and near the mining sites in Val D'Or upon their closure based on the mining plan. The fair value of the future asset retirement obligations is recognized in the year in which they are incurred when a reasonable estimate of the fair value can be made. When the liability is initially recognized, the present value of the estimated restoration cost is capitalized by increasing the carrying value amount of the related mining assets. Over time, the discounted liability is increased for the change in present value based on a risk-free discount rate. The accretion expense is recognized in the net loss as a finance expense as incurred. The cost of the related asset is adjusted to reflect changes in the reporting period. Costs of asset retirement are deducted from the provision when incurred.

Short-term employee benefits: Short-term employee benefits, including vacation settlement, are classified as current liabilities included in "Accounts payable and accrued liabilities", measured at the undiscounted amount that the Corporation expects to pay as a result of the unused entitlement.

Stock-based compensation: The Corporation's stock based compensation plan is described in *note 16*. The Corporation applies the fair value method. The fair value method is used to measure the fair value of the options at the grant date using the Black-Scholes option pricing model. The fair value of options issued to employees, officers and directors are generally recognized as an expense over the individual tranche's vesting period based on a number of awards expected to vest, with a corresponding increase to contributed surplus. The number of awards expected to vest is periodically reviewed, and the estimated option forfeiture rate is adjusted as required throughout the life of the option, with final adjustment to expense occurring when the vesting period of each tranche expires. Any consideration paid by employees, officers and directors on exercise of stock options or purchase of stock is credited to share capital.

Blue Note Mining Inc.

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

March 31, 2011

2. Summary of significant accounting policies (continued)

Share issue expenses: Share capital is presented net of share issue expenses.

Net loss per share: The basic net loss per share is calculated using the weighted average number of common shares outstanding during the year. The diluted net loss per share is calculated based on the weighted average number of common shares outstanding during the year, plus the effects if any, of dilutive common share equivalents such as options and warrants. This method requires that the diluted net loss per share be calculated using the treasury stock method, as if all common share equivalents had been exercised at the beginning of the reporting period, or period of issuance, as the case may be, and that the funds obtained thereby were used to purchase common shares of the Corporation at the volume weighted average trading price of the common shares during the year.

Due to a net loss for the three months ended March 31, 2011 and 2010, no incremental shares are included in calculating the diluted loss per share because the effect would be anti-dilutive. The Corporation has 15,544,801 options and broker warrants and 25,786,500 warrants potentially convertible into 41,331,301 common shares in the future which are potentially dilutive.

Deferred income taxes: The Corporation uses the liability method of tax allocation to account for income taxes. Deferred income taxes are recognized for the future income tax consequences attributable to differences between the consolidated financial statement carrying values and their respective income tax basis. Deferred income tax assets and liabilities are measured using substantively enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities due to a change in tax rates is included in income in the period in which the change occurs. The amount of deferred income tax assets recognized is limited to the amount that is more likely than not to be realized.

Financial instruments, recognition and measurement: Financial assets and financial liabilities are recognized when the Corporation becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. Financial liability is derecognized when it is extinguished, discharged, cancelled or when it expires. Financial assets and financial liabilities are measured initially at fair value plus transaction costs, except for those financial assets and financial liabilities classified as at fair value through profit or loss, which are measured initially at fair value.

The Corporation's financial assets and financial liabilities are measured subsequently as described below.

Financial assets: For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- loans and receivables;
- financial assets at fair value through profit or loss;
- available-for-sale financial assets.

All financial assets, except for those at fair value through net loss, are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below. All income and expenses relating to financial assets that are recognized in net loss are presented within financial revenue or administrative expenses.

Blue Note Mining Inc.

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

March 31, 2011

2. Summary of significant accounting policies (continued)

Financial instruments, recognition and measurement (continued)

Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortized cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. Term deposits and receivables fall into this category of financial instruments. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and other available features of shared credit risk characteristics. The percentage of the write-down is then based on recent historical counterparty default rates for each identified group. Impairment of receivables is presented in administrative expenses.

Financial assets at fair value through profit or loss: Financial assets at fair value through profit or loss include financial assets that are either classified as held-for-trading or that meet certain conditions and are designated at fair value through profit or loss upon initial recognition. Cash falls into this category. Assets in this category are measured at fair value with gains or losses recognized in net income.

Available-for-sale financial assets: Available-for-sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Corporation's available-for-sale financial assets include shares of publicly-traded companies. All available-for-sale financial assets are measured at fair value. Gains and losses are recognized in statement of loss and comprehensive loss. When the asset is disposed of or is determined to be impaired, the gain or loss is recognized in statement of loss. Reversals of impairment losses are recognized in statement of loss.

Financial liabilities The Corporation's financial liabilities include accounts payable and accrued liabilities. Financial liabilities are measured subsequently at amortized cost using the effective interest method, except for financial liabilities held for trading or designated at fair value through profit or loss, that are carried subsequently at fair value with gains or losses recognized in net loss. If applicable, all interest-related charges and changes in an instrument's fair value that are reported in net loss are included within financial revenue or administrative costs.

Financing costs: *Financing costs associated with the issuance of debt are recorded as a reduction of the carrying value of the related debt, and amortized over the term of the related debt using the effective interest method.*

3. Summary of significant accounting estimates, assumptions and judgments

The preparation of financial statements requires management to make estimates, assumptions and judgments with respect to future events. These estimates and judgments are constantly challenged. They are based on past experience and other factors, in particular, forecasts of future events that are reasonable in the circumstances. The actual results are likely to differ from the estimates, assumptions and judgments made by management, and will seldom equal the estimated results.

The significant areas of estimation uncertainty considered by the Corporation management in preparing the financial statements are described below:

Blue Note Mining Inc.

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

March 31, 2011

3. Summary of significant accounting estimates, assumptions and judgments (continued)

Significant accounting estimates and assumptions

Proven and probable reserves: Proven and probable reserves are estimates of the quantity of ore that could be economically and legally extracted from a mine. The Corporation estimates its reserves using information compiled by qualified persons in accordance with industry standards defined under NI 43-101 of Canadian Securities regulatory authorities. This information relates to geological data on the size, depth and shape of the deposit and requires geological assessments to interpret the data. The assessment of recoverable reserves is based on factors such as the estimated exchange rate, price of metals, capital investments required and production costs stemming from geological assumptions based on the size and grade of the deposit. Changes in proven and probable reserves may impact upon the carrying value of exploration and assets, mining properties, deferred exploration costs, property and equipment, provision for ARO, recognition of deferred tax assets, and depreciation charges.

Provisions under asset retirement obligations: The Corporation assesses its asset retirement obligations periodically. Determining these obligations requires significant estimates and assumptions due to the numerous factors that affect the amount ultimately payable. Such factors include estimates of the scope and cost of restoration activities, legislative amendments, known environmental impacts, the effectiveness of reparation and restoration measures and changes in the discount rate. This uncertainty may lead to differences between the actual expense and the provision. At the date of the statement of financial position, asset retirement obligations represent management's best estimate of the actual cost for future restoration costs.

Share-based compensation expense: The estimation of share-based payment costs requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The Corporation has made estimates as to the volatility of its own shares, the probable life of options, the time of exercise of those options and expected forfeitures. The Corporation uses the Black-Scholes model.

Provisions and contingent liabilities: Judgments are made as to whether a past event has led to a liability that should be recognized in the condensed interim consolidated financial statements or disclosed as a contingent liability. These judgments are based on a number of factors including the nature of the claims or dispute, the legal process and potential amount payable, legal advice received past experience and the probability of a loss being realized. Several of these factors are sources of estimation uncertainty.

Significant management judgment in applying accounting policies

Income taxes and deferred mining taxes: The Corporation is subject to taxes from different tax jurisdictions. It maintains allowances for uncertain tax positions that, in its opinion, appropriately reflect the risks related to the tax positions subject to discussions, audits, differences of opinion and appeals with the tax authorities or that are otherwise uncertain. These allowances are determined using best estimates of the amount payable based on a qualitative assessment of all relevant information. These allowances are reassessed at the end of each financial reporting period to determine if the amount is sufficient. However, audits by the tax authorities could subsequently result in an additional liability. Upon the definite resolution of a tax issue resulting in a tax amount that differs from the initially recognized tax expense, the difference is recognized in the tax expense of the period of definitive settlement.

Blue Note Mining Inc.

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

March 31, 2011

3.1 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*. 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 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 (and thereby the standards in the ‘package of five’).

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.

Blue Note Mining Inc.

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

March 31, 2011

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

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.

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.

b) *International Financial Reporting Standard 13, Fair Value Measurements ("IFRS 13")*

On 12 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.

c) *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 begun the process of assessing the impact that the new standard will have on its consolidated financial statements.

Blue Note Mining Inc.

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

March 31, 2011

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

d) *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 begun the process of assessing the impact that the new standard will have on its consolidated financial statements.

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 March 31, 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.

Blue Note Mining Inc.

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

March 31, 2011

4. Transition to IFRS (continued)

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	March 31, 2010	January 1, 2010
	\$	\$	\$
Shareholders' equity under Canadian GAAP	17,685,336	16,689,350	8,793,351
<i>Impacts of the transition to IFRS:</i>			
1. Flow through shares	(2,045,719)	(1,226,783)	(1,202,991)
Shareholders' equity under IFRS	15,639,617	15,462,567	7,590,360

Comprehensive loss reconciliation

Period ended;	December 31, 2010	March 31, 2010
	Twelve months	Three months
	\$	\$
Loss under Canadian GAAP	2,852,468	447,643
<i>Impacts of the transition to IFRS:</i>		
1. Flow through shares	2,778,648	209,432
2. d) Reclassification adjustment for marketable securities	(90,005)	(21,566)
Loss under IFRS	5,541,111	635,509
Other comprehensive loss under Canadian GAAP		
<i>Impacts of the transition to IFRS:</i>		
2. d) Reclassification adjustment for marketable securities	90,005	21,566
Comprehensive loss under IFRS	5,631,116	657,075

Blue Note Mining Inc.

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

March 31, 2011

4. Transition to IFRS (continued)

Reconciliations of Canadian GAAP to IFRS (continued)

Reconciliation of Financial Position as at January 1, 2010

	Note	Canadian GAAP Balance \$	IFRS Reclassification \$	IFRS Adjustment \$	IFRS Balance \$
Assets					
Current assets					
Cash and cash equivalents		256,088			256,088
Sundry receivable		631,715			631,715
Prepaid expenses		252,232			252,232
		1,140,035	-	-	1,140,035
Non-current assets					
Funds reserved for exploration		316,890			316,890
Mineral properties		1,239,669			1,239,669
Deferred exploration costs		6,381,169			6,381,169
Property and equipment		80,190			80,190
Deferred share issued costs		100,000			100,000
		9,257,953	-	-	9,257,953
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities		464,602			464,602
		464,602	-	-	464,602
Non-current liabilities					
Deferred tax liabilities	1	-		1,202,991	1,202,991
		464,602	-	1,202,991	1,667,593
Shareholders' equity					
Share capital	1	9,327,482		1,096,355	10,423,837
Warrants		281,478			281,478
Contributed surplus		160,025			160,025
Deficit	1	(975,634)		(2,299,346)	(3,274,980)
Accumulated other comprehensive loss		-			-
		8,793,351	-	(1,202,991)	7,590,360
		9,257,953	-	-	9,257,953

Blue Note Mining Inc.

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

March 31, 2011

4. Transition to IFRS (continued)

Reconciliations of Canadian GAAP to IFRS (continued)

Reconciliation of Financial Position as at March 31, 2010

	Note	Canadian GAAP Balance \$	IFRS Reclassification \$	IFRS Adjustment \$	IFRS Balance \$
Assets					
Current assets					
Cash and cash equivalents		248,810			248,810
Marketable securities		1,051,184			1,051,184
Sundry receivable		500,909			500,909
Consideration receivable		564,526			564,526
Prepaid expenses		203,699			203,699
		2,569,128	-	-	2,569,128
Non-current assets					
Consideration receivable	2 c)	503,574	(503,574)		-
Others non-current assets	2 c)	-	503,574		503,574
Reclamation deposits		52,589			52,589
Funds reserved for exploration		1,216,958			1,216,958
Mineral properties		2,305,204			2,305,204
Deferred exploration costs		10,545,275			10,545,275
Property and equipment		75,587			75,587
		17,268,315	-	-	17,268,315
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities		508,052			508,052
		508,052	-	-	508,052
Non-current liabilities					
Provisions		70,913			70,913
Deferred tax liabilities	1	-		1,226,783	1,226,783
		578,965	-	1,226,783	1,805,748
Shareholders' equity					
Share capital	1	17,024,513		1,281,995	18,306,508
Warrants		694,846			694,846
Contributed surplus		393,268			393,268
Deficit	1, 2d)	(1,423,277)	21,566	(2,508,778)	(3,910,489)
Accumulated other comprehensive loss	2 d)	-	(21,566)	-	(21,566)
		16,689,350	-	(1,226,783)	15,462,567
		17,268,315	-	-	17,268,315

Blue Note Mining Inc.

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

March 31, 2011

4. Transition to IFRS (continued)

Reconciliations of Canadian GAAP to IFRS (continued)

Reconciliation of Financial Position as at December 31, 2010

	Note	Balance \$	Reclassification \$	Adjustment \$	Balance \$
Assets					
Current assets					
Cash and cash equivalents		-			-
Marketable securities		1,020,000			1,020,000
Sundry receivable		196,735			196,735
Consideration receivable		811,591			811,591
Prepaid expenses		170,111			170,111
		2,198,437	-	-	2,198,437
Non-current assets					
Consideration receivable	2 c)	18,900	(18,900)		-
Prepaid expenses	2 c)	30,655	(30,655)		-
Others non-current assets	2 c)	-	49,555		49,555
Reclamation deposits		52,589			52,589
Funds reserved for exploration		2,593,626			2,593,626
Mineral properties		2,567,757			2,567,757
Deferred exploration costs		10,910,502			10,910,502
Property and equipment		40,789			40,789
		18,413,255	-	-	18,413,255
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities	1	657,006		549,065	1,206,071
		657,006	-	549,065	1,206,071
Non-current liabilities					
Provisions		70,913			70,913
Deferred tax liabilities	1	-		1,496,654	1,496,654
		727,919	-	2,045,719	2,773,638
Shareholders' equity					
Share capital	1	19,155,270		732,929	19,888,199
Warrants		1,150,298			1,150,298
Contributed surplus		1,207,870			1,207,870
Deficit	1, 2d)	(3,828,102)	90,005	(2,778,648)	(6,516,745)
Accumulated other comprehensive loss	2 d)	-	(90,005)	-	(90,005)
		17,685,336	-	(2,045,719)	15,639,617
		18,413,255	-	-	18,413,255

Blue Note Mining Inc.

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

March 31, 2011

4. Transition to IFRS (continued)

Reconciliation of Statements of Loss and Comprehensive Loss

Three months ended March 31, 2010	Note	Canadian GAAP Balance \$	IFRS Reclassification \$	IFRS Adjustment \$	IFRS Balance \$
Revenue					
Interest income	2 a)	1,435	(1,435)		-
Operating expenses					
Corporate general and administration		1,117,567			1,117,567
Depletion and depreciation		12,113			12,113
Exploration		4,618			4,618
Foreign exchange (gain) loss		(52)			(52)
Interest on long-term debt	2 b)	1,085	(1,085)		-
Other interest and financial charges	2 b)	758	(758)		-
Realized loss (gain) on disposal of marketable securities	2 b)	(501,371)	501,371		-
		634,718	499,528	-	1,134,246
Loss from operations					
		633,283	500,963	-	1,134,246
Interest income	2 a)	-	(1,435)		(1,435)
Interest on long-term debt	2 b)		1,085		1,085
Other interest and financial charges	2 b)		758		758
Realized loss (gain) on disposal of marketable securities	2 b)		(501,371)	(21,566)	(522,937)
		-	(500,963)	(21,566)	(522,529)
Loss before taxes					
		633,283	-	(21,566)	611,717
Income and mining taxes	1	(185,640)	-	209,432	23,792
Loss for the period					
		447,643	-	187,866	635,509
Other comprehensive loss					
Unrealized loss (gain) on available for sale marketable securities	2 d)	-		21,566	21,566
Total comprehensive loss for the period					
		-	-	21,566	21,566
Loss attributable to Shareholders of the Corporation					
					635,509
Comprehensive loss attributable to Shareholders of the Corporation					
					657,075
Loss per common share					
Basic and diluted		0.01			0.01
Weighted average common shares outstanding					
		88,422,745			88,422,745
Common shares outstanding - end of period					
		104,795,293			104,795,293

Blue Note Mining Inc.

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

March 31, 2011

4. Transition to IFRS (continued)

Reconciliation of Statements of Loss and Comprehensive Loss

Twelve months ended December 31, 2010	Note	Canadian GAAP Balance \$	IFRS Reclassification \$	IFRS Adjustment \$	IFRS Balance \$
Revenue					
Interest income	2 a)	14,856	(14,856)		-
Operating expenses					
Corporate general and administration		3,540,343			3,540,343
Depletion and depreciation		48,744			48,744
Exploration		26,839			26,839
Foreign exchange (gain) loss		1,761			1,761
Interest on long-term debt	2 b)	2,295	(2,295)		-
Other interest and financial charges	2 b)	8,491	(8,491)		-
Other (income) charges		(29,203)			(29,203)
Loss (gain) on disposal of asset held for sale		(650)			(650)
Realized loss (gain) on disposal of marketable securities	2 b)	(545,656)	545,656		-
		3,052,964	534,870	-	3,587,834
Loss from operations		3,038,108	549,726	-	3,587,834
Interest income	2 a)	-	(14,856)		(14,856)
Interest on long-term debt	2 b)		2,295		2,295
Other interest and financial charges	2 b)		8,491		8,491
Realized loss (gain) on disposal of marketable securities	2 b)		(545,656)	(90,005)	(635,661)
		-	(549,726)	(90,005)	(639,731)
Loss before taxes		3,038,108	-	(90,005)	2,948,103
Income and mining taxes	1	(185,640)	-	2,778,648	2,593,008
Loss for the period		2,852,468	-	2,688,643	5,541,111
Other comprehensive loss					
Unrealized loss (gain) on available for sale marketable securities	2 d)	-		90,005	90,005
Total comprehensive loss for the period		-	-	90,005	90,005
Loss attributable to Shareholders of the Corporation					5,541,111
Comprehensive loss attributable to Shareholders of the Corporation					5,631,116
Loss per common share					
Basic and diluted		0.03			0.05
Weighted average common shares outstanding		104,300,348			104,300,348
Common shares outstanding - end of period		127,222,715			104,795,293

Blue Note Mining Inc.

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

March 31, 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 (note 13)	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

March 31, 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	(1,220,000)
	680,491
Staggered consideration receivable	719,255
	(38,764)

As of March 31, 2011, staggered consideration receivable was composed of the following:

Date	Staggered cash \$	Staggered shares \$	Staggered warrants \$	Total \$
June 30, 2011	23,989	115,149	-	139,138
September 30, 2011	23,010	110,444	368	133,822
December 31, 2011		423,724	971	424,695
Current portion	46,999	649,317	1,339	697,655
Long-term portion (1)	-	-	21,600	21,600
Total receivable	46,999	649,317	22,939	719,255

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

Blue Note Mining Inc.

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

March 31, 2011

8. Marketable securities

	March 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Critical Elements Corporation, 200,000 (December 31, 200,000) common shares	48,000	75,000	-
Amex Exploration Inc., 4,000,000 (December 31, 3,500,000) common shares	1,000,000	945,000	-
	1,048,000	1,020,000	-

9. Sundry receivables

	March 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Commodity tax receivable	189,020	66,824	130,973
Others receivables	43,176	129,911	187,500
Receivable from related party	-	-	313,242
	232,196	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

	March 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Funds issued from flow-through private placement	4,162,890	3,812,890	700,000
Less: Deferred exploration expenses	(2,284,612)	(1,223,381)	(402,102)
Plus: Deferred exploration expenses in accounts payables and accrued liabilities	534,685	108,209	18,992
Funds reserved for exploration	2,412,963	2,697,718	316,890
Less: Funds used for current operating purposes	(661,893)	(104,092)	-
Plus: Funds provided by operations	-	-	256,088
	1,751,070	2,593,626	572,978
Composed of: Cash and cash equivalent	-	-	256,088
Funds reserved for exploration	1,751,070	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.

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

March 31, 2011

11. Funds reserved for exploration (continued)

As at March 31, 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.

12. Mineral properties and deferred exploration costs

Mineral properties	December 31, 2010	Additions	March 31, 2011
	\$	\$	\$
Quebec properties			
Croinor & Pershing	1,221,182	16,682	1,237,864
Chimo & Nova	15,497	-	15,497
Others	1,244	1,560	2,804
	1,237,923	18,242	1,256,165
New Brunswick properties			
Williams Brook	388,412	750	389,162
Others	941,422	3,711	945,133
	1,329,834	4,461	1,334,295
Total Mineral Properties	2,567,757	22,703	2,590,460
Deferred exploration costs	December 31, 2010	Additions	March 31, 2011
	\$	\$	\$
Quebec properties			
Croinor & Pershing	4,054,327	913,937	4,968,264
Chimo & Nova	286,268	131,855	418,123
Others	49,744	4,323	54,067
	4,390,339	1,050,115	5,440,454
New Brunswick properties			
Williams Brook	1,842,795	10,871	1,853,666
Others	4,677,368	245	4,677,613
	6,520,163	11,116	6,531,279
Total Deferred Exploration Costs	10,910,502	1,061,231	11,971,733
	13,478,259	1,083,934	14,562,193

Blue Note Mining Inc.

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March 31, 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

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13. Property and equipment

<u>Cost</u>	December 31, 2010		Additions	March 31, 2011	
	\$		\$	\$	
Office furniture, equipment and computer	106,602		-	106,602	
					-
<u>Accumulated Depreciation</u>					
Office furniture, equipment and computer	(65,813)		(9,386)	(75,199)	
<u>Net book Value</u>	40,789		(9,386)	31,403	

<u>Cost</u>	January 1, 2010	Acquisition (note 5)	Additions	December 31, 2010	
	\$	\$	\$	\$	
Office furniture, equipment and computer	97,259	3,865	5,478	106,602	
<u>Accumulated Depreciation</u>					
Office furniture, equipment and computer	(17,069)	-	(48,744)	(65,813)	
<u>Net book Value</u>	80,190	3,865	(43,266)	40,789	

14. Accounts payable and accrued liabilities

	March 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Trade	575,739	192,269	98,687
Accrued liabilities	402,009	464,737	365,915
Accrued flow-through shares liabilities	358,464	549,065	-
	1,336,212	1,206,071	464,602

Blue Note Mining Inc.

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

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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

Blue Note Mining Inc.

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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 units at \$0.15 per unit each composed of one common share for gross proceeds of \$350,000 and 720,000 units at \$0.12 per unit, for a gross proceed of \$86,400, each unit being composed of one common share and one warrant which entitles the holder to acquire one common share at \$0.25 over a period of two years. In connection with the issuance of these units, the Corporation incurred costs of \$7,554. The issue generated total gross proceeds of \$436,400 and net proceeds of \$428,846. The proceeds were allocated between the components based on their estimated fair values, as follows; \$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.

(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.

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.

Blue Note Mining Inc.

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March 31, 2011

16. Shareholders' equity (continued)

(b) Issues during 2010 (continued)

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 12,959,753 common shares under the Plan, which represents 10% of the outstanding common shares.

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

Three months ended March 31,	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

Blue Note Mining Inc.

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March 31, 2011

16. Shareholders' equity (continued)

(c) Stock option plan (continued)

As at March 31, 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
200,000	200,000	11.70	Jun-11
100,000	100,000	0.46	Dec-11
25,000	25,000	16.80	Nov-12
50,000	50,000	0.20	Jan-13
308,333	308,333	1.50	Dec-13
66,667	66,667	1.50	Mar-14
2,525,000	1,893,750	0.16	Oct-14
3,125,000	2,343,750	0.19	Jan-15
2,050,000	1,025,000	0.11	Apr-15
2,500,000	625,000	0.12	Oct-15
10,950,000	6,637,500	0.45	

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

Three months ended March 31,	2011 \$	2010 \$
Directors, management and employee compensation	101,363	139,910
Total charged to earnings	101,363	139,910

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 March 31, 2011	January 1, 2010 to March 31, 2010
Risk-free interest rate	1.79% to 2.86%	2.34%
Expected life (years)	2 to 5	5
Expected volatility	105% to 109%	105%
Expected dividend yield	nil	nil
Weighted average grant date fair value	\$0.113	\$0.046

Blue Note Mining Inc.

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

March 31, 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:

Three months ended March 31,	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 warrants issued upon exercise of broker units	-	-	1,666,666	0.19
Balance – March 31	4,594,801	0.20	2,366,666	0.20

As at March 31, 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	-	0.20	Dec-12
4,594,801	3,420,726	0.20	

Blue Note Mining Inc.

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16. Shareholders' equity (continued)

(e) Share purchase warrants

Three months ended March 31,	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

As at March 31, 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	-	0.25	Dec-12
720,000	-	0.25	Jan-13
25,786,500	17,812,334	0.25	

Blue Note Mining Inc.

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

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17. Additional IFRS information's;

a) Compensation of key management;

Three months ended	March 31, 2011	March 31, 2010
	\$	\$
Salaries and short-term benefits	210,041	300,748
Stock-based compensation	92,381	121,369
	302,422	422,117

b) Expense by nature;

Three months ended	March 31, 2011	March 31, 2010
	\$	\$
Business development	50,061	219,098
Professional Fees	114,168	347,077
General and Administration	133,484	106,524
Salaries and levies	211,352	304,958
Stock based compensation	101,363	139,910
Corporate general and administration	610,428	1,117,567
Depreciation of property and equipment	9,386	12,113
Exploration	3,201	4,618
Foreign exchange (gain) loss	923	(52)
Operating expenses	623,938	1,134,246

Blue Note Mining Inc.

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

March 31, 2011

18. Supplemental disclosures of expenses and cash flow information

Three months period ended	March 31, 2011	March 31, 2010
	\$	\$
Change in non-cash working capital items:		
Decrease (increase) in:		
Sundry Receivable	(35,461)	130,797
Loan receivable	25,000	
Prepaid expenses	13,763	72,921
Increase (decrease) in:		
Accounts payable and accrued liabilities	320,741	(395,754)
	324,043	(192,036)
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	1,000,000	472,500

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

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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* to these condensed interim consolidated financial statements describe how the categories of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognized.

As at March 31, 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
	March 31, 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)	43,176	129,911	500,742	
Consideration receivable	719,255	830,491	-	
Funds reserved for exploration	1,751,070	2,593,626	316,890	
Available for sale				
Marketable securities	1,048,000	1,020,000	-	Level 2
	<u>3,561,501</u>	<u>4,574,028</u>	<u>1,073,720</u>	
Financial liabilities				
Other financial liabilities;				
Account payable and accrued liabilities	1,336,212	1,206,071	464,602	
	<u>1,336,212</u>	<u>1,206,071</u>	<u>464,602</u>	

(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.

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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 March 31, 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 March 31, 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 honour its financial commitments by the deadlines set out under the terms of such commitments. As described in *note 1*, as at March 31, 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.

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

[iii] Market risk

Securities price risk

The Corporation holds 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 \$1,048,000 (December 31, 2010 - \$1,020,000). Based on the balance outstanding as at March 31, 2011, a 10% increase or decrease would impact other comprehensive income (loss) by approximately \$105,000 (2010 - \$102,000).

Blue Note Mining Inc.

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

March 31, 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 March 31, 2011, an amount of US\$ nil (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 March 31, 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

March 31, 2011

22. Commitments

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 March 31, 2011 the amount of \$1,584,612 had been spent (which include accrued exploration expenditures of \$534,685), the balance of \$1,528,278 must be incurred before December 31, 2011.

During 2011, under the terms of flow-through agreements, the Corporation issued 2,333,333 flow-through shares and was required to spend \$350,000 on qualifying exploration expenditures. As at March 31, 2011 no amount had been spent, therefore the balance of \$350,000 must be incurred before December 31, 2012.

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. As at March 31, 2011, the Corporation had met its commitment for the entire amount of \$135,000.

23. Subsequent events

On June 1, 2011, the Corporation and "EFG" agreed to extend the original binding agreement announced on July 19, 2010 (note 20) to December 31, 2011 in consideration of an additional payment of \$10,000 per month until December 2011. As of June 29, 2011, the Corporation had met its commitment for the entire amount of \$145,000.

On June 23, 2011, the Corporation closed a private placement of 6,698,000 flow-through units at \$0.10 per unit each composed of one common 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 eighteen months. The issue generated total gross proceeds of \$793,800.