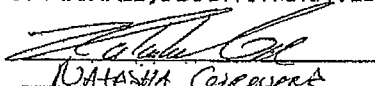
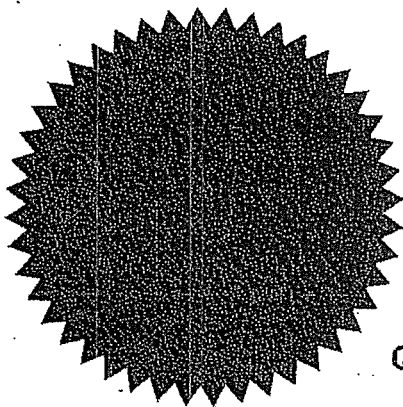


EXHIBIT "E" (QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS OF BN)
TO THE AFFIDAVIT OF MICHAEL JUDSON SWORN FEBRUARY 18, 2009


Danyelle Casavant
(print name) 61392
A Notary Public in and for the
Province of Québec

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Blue Note Mining Inc.
Quarterly Consolidated Financial Statements
September 30, 2008
(unaudited)

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Blue Note Mining Inc.

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Consolidated Balance Sheets (unaudited)

	September 30, 2008 \$	December 31, 2007 \$
Assets		
<i>Current assets</i>		
Cash and cash equivalents	14,006,364	38,540,221
Restricted cash	-	75,000
Accounts receivable	-	1,187,947
Sundry receivables (note 3)	1,346,013	1,935,640
Inventories (note 4)	9,884,618	6,907,450
Prepaid expenses	492,835	676,564
	25,729,830	49,322,822
Reclamation deposits	10,501,000	10,401,000
Mining properties and deferred exploration costs (note 5)	24,388,509	142,947,050
Embedded derivative	-	194,773
Property and equipment	671,061	753,421
	61,290,400	203,619,066
Liabilities		
<i>Current liabilities</i>		
Credit facility (note 6)	15,000,000	13,759,844
Accounts payable and accrued liabilities	27,045,883	22,431,265
Current portion of capital lease obligations	1,838,623	1,704,540
Current portion of long-term debt	6,000,000	7,000,000
	49,884,506	44,895,649
Capital lease obligations	3,507,636	4,903,596
Long-term debt (note 7)	22,339,126	32,932,097
Embedded derivative	35,904	377,038
Asset retirement obligation (note 8)	9,419,347	8,837,946
	85,186,519	91,946,326
Non controlling interest (note 7)	2,982,173	-
Shareholders' equity (deficiency)		
Share capital (note 9)	111,135,134	111,597,934
Warrants (note 9)	2,440,622	2,440,622
Equity component of convertible debenture (note 7)	-	5,895,002
Contributed surplus (note 9)	15,900,079	9,427,526
Deficit	(156,354,127)	(17,688,344)
	(26,878,292)	111,672,740
	61,290,400	203,619,066

Description of operations and going concern uncertainty (note 1)

Contingent liabilities (note 14)

See accompanying notes to the unaudited consolidated financial statements

Approved on behalf of the board:

Signed: "Peter D. Watson" Director

Signed: "Michael Judson" Director

Blue Note Mining Inc.

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Consolidated Statements of Loss, Comprehensive Loss and Deficit

(unaudited)

Periods ended September 30,	Three months ended		Nine months ended	
	2008	2007	2008	2007
	\$	\$	\$	\$
Revenue	14,010,420	-	60,631,075	-
Direct operating expenses	17,925,692	-	65,191,207	-
Depletion and depreciation	7,550,752	37,608	22,297,091	93,703
Corporate general and administration	1,582,793	2,220,558	5,238,645	6,332,136
Exploration	330,494	-	2,260,483	-
Government incentives (note 5)	(243,009)	-	(595,048)	-
Foreign exchange loss	164,758	-	390,023	-
Interest on capital leases	151,024	-	463,859	-
Interest on long-term debt	689,384	693,048	2,056,849	1,122,500
Other interest and financial charges	226,327	5,259	748,800	12,764
Accretion expense of asset retirement obligation	137,972	120,704	413,916	362,112
Accretion expense on long-term debt	586,282	380,800	2,042,488	1,834,326
Investment and other income	(132,251)	(91,985)	(739,308)	(774,836)
Revaluation of long-term debt (note 7)	-	-	(2,406,173)	-
Impairment charges (note 5)	111,000,000	-	111,000,000	-
Loss on exercise of convertible debenture (note 7)	15,354,565	-	15,354,565	-
Loss on disposal of property and equipment	-	-	-	2,624
Net gain from change in fair value of embedded derivatives	(406,795)	(400,314)	(146,361)	(453,164)
	154,917,988	2,965,678	223,571,036	8,532,165
Non controlling interest (note 7)	(23,601,678)	-	(23,601,678)	-
	131,316,310	2,965,678	199,969,358	8,532,165
Loss before income taxes	(117,305,890)	(2,965,678)	(139,338,283)	(8,532,165)
Future income taxes recovered	-	-	672,500	423,855
Net loss and comprehensive loss for the period	(117,305,890)	(2,965,678)	(138,665,783)	(8,108,310)
Deficit - beginning of period	(39,048,237)	(11,048,573)	(17,688,344)	(5,905,941)
Deficit - end of period	(156,354,127)	(14,014,251)	(156,354,127)	(14,014,251)
Basic and diluted loss per share (note 11)	(0.323)	(0.010)	(0.382)	(0.029)
Weighted average number of common shares outstanding	363,260,020	285,878,964	363,159,879	277,737,602

See accompanying notes to the unaudited consolidated financial statements

Consolidated Statements of Cash Flows (unaudited)

Periods ended September 30,	Three months ended		Nine months ended	
	2008	2007	2008	2007
	\$	\$	\$	\$
Operating activities				
Net loss	(117,305,890)	(2,965,678)	(138,665,783)	(8,108,310)
<i>Non-cash items:</i>				
Future income taxes recovered	-	-	(672,500)	(423,855)
Accretion expense of asset retirement obligation	137,972	120,704	413,916	362,112
Accretion expense on long-term debt	586,282	380,800	2,042,488	1,834,326
Depletion and depreciation	7,550,752	37,608	22,297,091	93,703
Gain from change in fair value of embedded derivatives	(406,795)	(400,314)	(146,361)	(453,164)
Loss on disposal of property and equipment	-	-	-	2,624
Loss on exercise of convertible debenture (note 7)	15,354,565	-	15,354,565	-
Non controlling interest (note 7)	(23,601,678)	-	(23,601,678)	-
Revaluation of long-term debt	-	-	(2,406,173)	-
Impairment charges (note 5)	111,000,000	-	111,000,000	-
Stock-based compensation	138,045	546,152	666,351	2,435,276
	(6,546,747)	(2,280,728)	(13,718,084)	(4,257,288)
Net changes in non-cash components of operating working capital (note 10)	6,060,551	8,756,868	3,598,753	8,875,009
Cash flows from operating activities	(486,196)	6,476,140	(10,119,331)	4,617,721
Investing activities				
Short-term investments	5,613,660	-	-	45,000,000
Reclamation deposits	-	-	(100,000)	-
Decrease in restricted cash	1,000,000	-	75,000	-
Mining properties and deferred exploration costs	(4,537,834)	(24,291,114)	(14,998,571)	(79,236,489)
Government incentives (note 5)	-	-	647,961	-
Acquisition of property and equipment	(2,200)	-	(10,848)	(129,015)
Cash flows from investing activities	2,073,626	(24,291,114)	(14,386,458)	(34,365,504)
Financing activities				
Repayment of capital lease obligations	(447,404)	(461,809)	(1,388,224)	(1,329,623)
Proceeds from credit facility	-	3,267,765	1,240,156	3,267,765
Proceeds from the issue of debt	-	-	-	21,610,449
Proceeds from the issue of equity (note 9)	-	1,317,796	120,000	7,225,566
Cash flows from financing activities	(447,404)	4,123,752	(28,068)	30,774,157
Net increase (decrease) in cash and cash equivalents during the period				
	1,140,026	(13,691,222)	(24,533,857)	1,026,374
Cash and cash equivalents - beginning of period	12,866,338	16,211,643	38,540,221	1,494,047
Cash and cash equivalents - end of period	14,006,364	2,520,421	14,006,364	2,520,421
Represented by:				
Cash	14,006,364	2,520,421	14,006,364	2,520,421

See accompanying notes to the unaudited consolidated financial statements

Notes to the Consolidated Financial Statements (unaudited)

September 30, 2008

1. Description of operations and basis of presentation**(a) Description of operations and going concern uncertainty**

The Corporation is an exploration company, and through its wholly owned subsidiary, is a mining company with properties located in New Brunswick. The business of the Corporation is to operate mines and mineral processing facilities acquired through the acquisition, exploration and development of exploration properties or the acquisition of existing mining operations. The minerals being targeted by the Corporation are zinc, lead, copper, nickel, gold and silver.

Effective January 1, 2008, the Corporation announced that the Caribou and Restigouche mines had achieved commercial production.

As at September 30, 2008 the Corporation has negative working capital of \$24,154,676 and an accumulated deficit of \$156,354,127 and has incurred a net loss of \$138,665,783 for the nine-month period ended September 30, 2008. On September 30, 2008 the Corporation conducted an impairment analysis on its long-lived assets and recorded an impairment charge of \$111,000,000 (see note 5). On October 17, 2008, the Corporation placed the Caribou and Restigouche mines on care and maintenance due to declining commodity prices for zinc and lead and the challenging financial environment. The prices of zinc and lead traded at approximately USD \$0.51/lb. and USD \$0.60/lb. respectively at October 17, 2008 as compared to USD \$1.08/lb. and USD \$1.17/lb. respectively at December 31, 2007. Currently, the mines are being kept in ready condition through care and maintenance while the Corporation evaluates its options. Ongoing monthly care and maintenance costs are estimated to approximate \$500,000 and will be expensed as incurred. At this point in time the Corporation is considering a number of alternatives with respect to the mines that may include seeking funds from external sources, the sale of its principal assets and a financial reorganization. The Corporation's ability to continue as a going concern is dependent on the outcome of these alternatives, which are mostly dependent on matters outside the Corporation's control. Accordingly, substantial doubt exists as to whether the Corporation will be able to continue as a going concern. There can be no assurance that once a decision is made with respect to future operations that either the Corporation will be able to execute on its plans or recover the amounts currently recorded as long-lived assets.

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis, which presumes the Corporation will continue in operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the ordinary course of business. These unaudited interim consolidated financial statements do not include any adjustments to the carrying values and classifications of assets and liabilities, and the results of operations that would be necessary should the going concern assumption not be appropriate. This could include any subsequent change in the impairment of long-lived assets. Such adjustments could be material and could have a significant adverse effect on the Corporation's unaudited interim consolidated financial statements.

(b) Basis of presentation

These unaudited interim consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada for the presentation of interim financial information and in the opinion of the management, all adjustments necessary to present fairly the results of operations have been included. All disclosures required for annual financial statements have not been included in the financial statements and therefore these interim consolidated financial statements should be read in conjunction with the Corporation's 2007 annual consolidated financial statements. These financial statements use the same accounting policies and methods used in the preparation of the Corporation's 2007 annual consolidated financial statements except for changes in accounting policies described in note 2. Interim results may not necessarily be indicative of results anticipated for the year.

...continued

Notes to the Consolidated Financial Statements (unaudited)

September 30, 2008

1. Description of operations and basis of presentation (continued)

(c) Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted in the current period.

2. Changes in accounting policies and new accounting pronouncements

(a) Changes in accounting policies

Effective January 1, 2008, the Corporation adopted the following CICA accounting standards:

“Capital Disclosures”, Accounting Standards section 1535, establishes standards for disclosing information about an entity’s capital and how it is managed. The impact of these changes is reflected in note 12 to the interim consolidated financial statements.

“Financial Instruments - Disclosures”, Accounting Standards section 3862, requires entities to provide disclosure of quantitative and qualitative information in their financial statements that enable users to evaluate the significance of financial instruments for the entity’s financial position and performance as well as the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and managements objectives, policies and procedures for managing such risks. The impact of the adoption of this section is reflected in Note 13 to the interim consolidated financial statements.

“Financial Instruments - Presentation”, Accounting Standards section 3863, is carried forward unchanged from the superceded pronouncement.

“Inventories”, Accounting Standards section 3031, establishes the accounting treatment for inventory and provides guidance on the determination of inventory costs and its subsequent recognition as an expense, including any write-down to net realizable value. The adoption of this section had no impact on the quarterly consolidated financial statements.

The Corporation evaluated the impact of these new accounting standards on its consolidated financial statements. The only impact of these accounting standards is additional disclosure requirements and does not have a material effect on the financial condition, changes in financial condition and results of operations.

(b) New accounting pronouncements

“Goodwill and other intangible assets”, Accounting Standards section 3064, will replace *“Goodwill and other intangibles”*, Accounting Standards section 3062, effective January 1, 2009. This new standard provides guidance on the recognition, measurement and disclosure of goodwill and intangible assets. Concurrent with the adoption of this standard, EIC-127, *“Revenues and Expenditures in the Pre-operating Period”*, will be withdrawn. This will result in a change to the Corporation’s accounting for the start up of mining operations, as pre-commercial production costs will no longer be capitalized as an asset. The Corporation is currently assessing the impact of these changes on the consolidated financial statements.

3. Sundry receivables

Sundry receivables include advances to certain officers of the Corporation in the amount of \$248,680 (December 31, 2007 – nil). These advances are related to income taxes paid by these officers on the stock bonus compensation plan issued in 2007.

Blue Note Mining Inc.

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Notes to the Consolidated Financial Statements (unaudited)

September 30, 2008

4. Inventories

	September 30, 2008	December 31, 2007
	\$	\$
Concentrate inventory	6,039,113	4,028,536
Supplies inventory	3,324,860	2,316,429
Ore stock piles	520,645	562,485
	9,884,618	6,907,450

Cost of the concentrate inventory and ore stock piles includes direct labour, material costs, mine-site overhead expenses, royalties and depletion.

5. Mining properties and deferred exploration costs

	September 30, 2008					Dec-31 2007 Net \$
	Mining Properties \$	Deferred Exploration Costs \$	Accumulated Depletion \$	Impairment \$	Sept-30 2008 Net \$	
	New Brunswick					
Caribou and Restigouche	154,103,618	-	(22,203,885)	(111,000,000)	20,899,733	140,099,067
Canoe Landing Lake	324,826	406,879	-	-	731,705	729,561
California Lake	317,725	3,040	-	-	320,765	320,765
Rio Road	106,383	2,120	-	-	108,503	108,503
Armstrong	41,936	1,288,030	-	-	1,329,966	1,103,396
Other	146,723	851,114	-	-	997,837	585,758
	155,041,211	2,551,183	(22,203,885)	(111,000,000)	24,388,509	142,947,050

In accordance with the Corporation's stated accounting policy, long-lived assets are reviewed and evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. During the three months ended September 30, 2008, the Corporation's management conducted a review of the operating performance of the Caribou and Restigouche mines in light of recent changes to several key economic variables including the downturn in commodities prices and overall general economic slow-down.

In assessing the recoverability of the carrying value of the Caribou and Restigouche mines, the Corporation reviewed the impact of the above noted variables on the estimated undiscounted future net cash flows. The fair market value was then calculated by discounting the estimated future cash flow which included; estimated recoverable reserves; future metal prices and foreign exchange rates; and, estimated operating and capital costs, using a single interest rate commensurate with the risk.

Based on this review, the Corporation recorded an asset impairment charge of \$111,000,000 during the nine months ended September 30, 2008 which were allocated against the mining properties of the Caribou and Restigouche mines. However, given that the process being undertaken by the Corporation is incomplete and further write-down could occur, this preliminary valuation represents management's best estimate available at this time.

Year to date, the Corporation recorded government grants of \$1,243,009. Of this amount \$647,961 has been recorded as a reduction of deferred exploration costs, and \$595,048 has been recorded as a reduction of exploration costs in the quarterly consolidated statement of earnings (quarter ended September 30, 2007 – nil).

Notes to the Consolidated Financial Statements (unaudited)

September 30, 2008

6. Credit Facility, letter of credit and restricted cash

The Corporation has in place a bank operating credit facility of \$15 million, the lending margin under which is calculated periodically based on trade receivables and inventory at the Caribou Mine. Amounts owing under this facility are secured by a New Brunswick governmental guarantee to a maximum of \$15 million, bear interest at the bank's prime lending rate (weighted average rate of 4.802% in the quarter ended September 30, 2008) and are repayable on demand. As at September 30, 2008, a total of \$15,000,000 (December 31, 2007 – \$13,759,844) was outstanding under this facility.

7. Long-term debt**(a) Note indenture**

During the quarter ended June 30, 2008, the Corporation revised its estimates of the timing of the repayments of its \$25 million note indenture. Previously, the Corporation had assumed a different repayment stream, which considered the pre-payment option available to it in the note indenture. The resulting change in the present value of the debt using the original effective interest rate of 19.46% was recognized in the results of operations.

The repayment schedule is set out in note 13

(b) Convertible debenture

In 2006, the Corporation issued an unsecured subordinated convertible debenture of \$15,000,000 to Breakwater Resources Ltd. as partial consideration for the purchase of the Caribou and Restigouche mines.

As at August 29, 2008, Breakwater Resources Ltd. exercised this option and converted its debenture to a direct 20% interest in the Caribou and Restigouche mines. This conversion resulted in a loss of \$15,354,565, which represents the difference between 20% of the net book value of the mines as of August 29, 2008 and \$11,229,285 being the carrying value of the debenture at that date.

The equity component of the convertible debenture can no longer be exercised and as a result, the amount of \$5,895,002 has been reclassified to contributed surplus.

Management has accounted for this conversion as a sale of a portion of their mining properties, constituting a business and therefore has accounted for the investment by Breakwater Resources Ltd. as a non controlling interest.

As of August 29, 2008, the Corporation and Breakwater Resources Ltd. entered into an agreement to share costs and revenues at a ratio of 80% and 20% respectively. The respective interests may at any time be reduced if a party fails to contribute to costs, as per calculations included in the agreement. As per this agreement, Blue Note continues to operate and control the Caribou and Restigouche mines.

8. Asset retirement obligation

The asset retirement obligation is for the restoration of the Caribou and Restigouche mines and ancillary facilities. The estimated amount of undiscounted cash flows required to satisfy the asset retirement obligation at September 30, 2008 was \$10,433,962 (at December 31, 2007 - \$10,025,816). Changes resulting from temporary care and maintenance may result in actual asset retirement obligation differing from the estimate. The expected timing of payments of the cash flows range from 2012 to 2015.

Balance – December 31, 2007	\$8,837,946
Additional liability	167,485
Accretion	413,916
Balance – September 30, 2008	<u>\$9,419,347</u>

Notes to the Consolidated Financial Statements (unaudited)

September 30, 2008

9. Shareholders' deficiency

	Share capital		Warrants		Stock options and broker warrants	Contributed Surplus	Total
	Number	\$	Number	\$	Number	\$	\$
Balance - December 31, 2007	362,854,313	111,597,934	35,750,000	2,440,622	43,765,758	9,427,526	123,466,082
Future income taxes on flow through expenses renounced (a)		(672,500)					(672,500)
Options issued and stock based compensation charged to operations					990,000	307,063	307,063
Options forfeited					(150,000)	(14,408)	(14,408)
Warrants exercised (a)	400,000	208,800			(400,000)	(88,800)	120,000
Balance - March 31, 2008	363,254,313	111,134,234	35,750,000	2,440,622	44,205,758	9,631,381	123,206,237
Options issued and stock based compensation charged to operations (b)					500,000	235,651	235,651
Options forfeited (b)					(1,000,000)		-
Broker warrants expired					(11,687,925)		
Balance - June 30, 2008	363,254,313	111,134,234	35,750,000	2,440,622	32,017,833	9,867,032	123,441,888
Equity issued (a)	15,000	900					900
Options issued and stock based compensation charged to operations (a & b)						143,813	143,813
Options forfeited (b)					(120,000)	(5,768)	(5,768)
Equity component of convertible debenture						5,895,002	5,895,002
Balance - September 30, 2008	363,269,313	111,135,134	35,750,000	2,440,622	31,897,833	15,900,079	129,475,835
Deficit							(156,354,127)
Total Shareholders' deficiency							(26,878,292)

... continued

Notes to the Consolidated Financial Statements (unaudited)

September 30, 2008

9. Shareholders' deficiency (continued)**(a) Shares issued during 2008**

- i) the Corporation has recorded an additional share issue cost of \$672,500 to account for the future tax cost of the exploration costs it has renounced in March 2008 on the flow through shares issued in 2007. The amount has been charged to share capital.
- ii) a total of 400,000 broker warrants were exercised for gross proceeds of \$120,000 resulting in the issue of 400,000 common shares.
- iii) as part of an agreement to acquire 100% undivided interest in the Brandy Brook properties, located in Gloucester County, New Brunswick, the Corporation issued 15,000 shares with a fair value of \$900.

(b) Stock option plan

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

	30-Sep-08		30-Sep-07	
	Number of options	Weighted Average Exercise Price \$	Number of options	Weighted Average Exercise Price \$
Balance - December 31	21,692,000	0.42	17,044,000	0.38
Options granted under stock option plan	990,000	0.30	2,410,000	0.43
Options exercised	-	-	(54,000)	0.25
Options forfeited	(150,000)	0.45	-	-
Balance - March 31	22,532,000	0.42	19,400,000	0.39
Options granted under stock option plan	500,000	0.27	4,050,000	0.53
Options exercised	-	-	(80,000)	0.35
Options forfeited	(1,000,000)	0.39	(180,000)	0.39
Balance - June 30	22,032,000	0.42	23,190,000	0.41
Options granted under stock option plan	-	-	250,000	0.32
Options exercised	-	-	(2,123,000)	0.38
Options forfeited	(120,000)	0.30	(375,000)	0.39
Balance - September 30	21,912,000	0.42	20,942,000	0.42

... continued

Notes to the Consolidated Financial Statements (unaudited)

September 30, 2008

9. Shareholders' deficiency (continued)**(b) Stock option plan (continued)**

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

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
	\$	\$	\$	\$
Directors, management and employee compensation	138,045	469,848	655,673	1,705,145
Consultant compensation	-	76,304	10,678	209,251
Total charged to earnings	138,045	546,152	666,351	1,914,396
Management compensation added to mining properties	-	122,418	-	421,563
Total credited to contributed surplus	138,045	668,570	666,351	2,335,959

The net amount of \$666,351 has been included in direct operating expenses and in corporate general and administrative expenses for the nine months ended September 30, 2008 (nine months ended September 30, 2007 - \$2,435,276).

As at September 30, 2008, the outstanding options, as issued under the stock option plan to directors, management, employees and consultants for the purchase of one common share per option, are as follows:

Granted	Exercisable	Weighted Average exercise price \$	Expiry date
60,000	48,000	0.39	Jan-10
1,012,000	1,012,000	0.25	Jan-11
10,260,000	10,260,000	0.39	Jun-11
1,700,000	1,700,000	0.39	Aug-11
360,000	360,000	0.39	Sep-11
200,000	160,000	0.40	Nov-11
1,600,000	1,580,000	0.43	Feb-12
300,000	240,000	0.44	Mar-12
750,000	450,000	0.54	May-12
3,300,000	2,445,000	0.53	Jun-12
250,000	150,000	0.57	Aug-12
750,000	375,000	0.56	Nov-12
870,000	348,000	0.30	Mar-13
500,000	100,000	0.27	May-13
21,912,000	19,228,000	0.42	

... continued

Notes to the Consolidated Financial Statements (unaudited)

September 30, 2008

9. Shareholders' deficiency (continued)

(c) Broker warrants and units

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

	30-Sep-08		30-Sep-07	
	number of units	Weighted Average Exercise Price \$	number of units	Weighted Average Exercise Price \$
Balance – December 31, 2007	22,073,758	0.45	20,097,241	0.30
Broker w arrants issued upon exercise of broker units	-	-	143,080	0.30
Exercised	(400,000)	0.30	(2,212,050)	0.30
Balance – March 31, 2008	21,673,758	0.45	18,028,271	0.30
Broker w arrants issued	-	-	333,333	0.60
Broker w arrants issued upon exercise of broker units	-	-	59,546	0.30
Exercised	-	-	(2,977,898)	0.30
Expired	(11,687,925)	0.30	-	-
Balance – June 30, 2008	9,985,833	0.62	15,443,252	0.31
Broker w arrants issued upon exercise of broker units	-	-	204	0.30
Exercised	-	-	(444,508)	0.30
Balance – September 30, 2008	9,985,833	0.62	14,998,948	0.31

(d) Share purchase warrants

As at September 30, 2008, the Corporation has 35,750,000 share purchase warrants outstanding entitling the holders to acquire common shares at an exercise price of \$0.67 until their expiration in November 2009.

(e) Fair value

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

Nine months ended	September 30, 2008	September 30, 2007
Risk-free interest rate	2.88% to 3.02%	4.35%
Expected life (years)	5	5
Expected volatility	66% to 71%	67%
Expected dividend yield	Nil	Nil
Weighted average grant date fair value	\$0.159	\$0.323

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Notes to the Consolidated Financial Statements (unaudited)

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10. Supplemental disclosures of expenses and cash flow information

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

As at September 30,	2008 \$	2007 \$
Decrease (Increase) in:		
Accounts receivable	1,187,947	(3,394,115)
Sundry receivables	589,627	471,403
Inventories	(2,977,168)	-
Prepaid expenses	183,729	(401,774)
Increase in:		
Accounts payable and accrued liabilities	4,614,618	12,199,495
	3,598,753	8,875,009

b) Interest paid and received

	Three months ended September 30,		Nine months ended September 30,	
	2008 \$	2007 \$	2008 \$	2007 \$
Interest paid	1,874,597	1,125,852	3,965,310	1,130,794
Interest received	178,373	143,980	841,941	1,486,392

11. Loss per share

Due to a net loss for the periods ended September 30, 2008 and 2007, no incremental shares are included in calculating the diluted loss per share because the effect would be anti-dilutive. The weighted-average number of fully diluted shares outstanding at September 30, 2008 was 436,557,340.

12. Capital disclosures

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 mining properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

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

	September 30, 2008 \$	December 31, 2007 \$
Shareholders' equity (deficiency)	(26,878,292)	111,672,740
Long-term debt	28,339,126	39,932,097
Total	1,460,834	151,604,837

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Blue Note Mining Inc.

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12. Capital disclosures (continued)

There are no externally imposed capital requirements. The Corporation manages the capital structure and makes adjustments to it depending on economic conditions and the rate of anticipated expenditures. To maintain or adjust the capital structure, the Corporation may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents and investments.

In order to facilitate the management of its capital requirements, the Corporation prepares annual expenditures budgets that are updated as necessary depending on various factors. The annual and updated budgets are approved by the board of directors.

The Corporation's investment policy is to invest its cash in highly liquid short-term interest-bearing investments, selected with regards to the expected timing of expenditures from continuing operations. In order to maximize ongoing development efforts, the Corporation does not currently pay dividends.

13. Financial instruments and risk management

Financial instruments

Financial instruments are classified on a basis consistent with the audited consolidated financial statements as at December 31, 2007.

Fair value

The Corporation's financial instruments consist of cash and cash equivalents, restricted cash, accounts and sundry receivables, credit facility, accounts payable and accrued liabilities, capital lease obligations, long-term debt and embedded derivatives. Cash and cash equivalents, restricted cash and embedded derivatives are presented at fair value. The carrying values of all other financial instruments, except for the New Brunswick debenture, approximate their fair value due to their short-term nature and/or applicable interest rates. As at September 30, 2008, the fair value of the New Brunswick debenture is approximately \$6,223,111 (carrying value \$7,376,904) as determined using a 19.46% effective interest rate.

Derivatives identified by the Corporation include a prepayment derivative embedded in long term debt, and a foreign exchange derivative embedded in a non-financial contract. The fair values of the prepayment embedded derivative liability and the foreign exchange embedded derivative asset are \$35,904 and nil respectively at September 30, 2008 (December 31, 2007 - \$377,038 and \$194,773 respectively).

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 September 30, 2008.

Credit risk

The Corporation's financial assets are cash and cash equivalents, restricted cash, accounts and sundry receivables.

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Notes to the Consolidated Financial Statements (unaudited)

September 30, 2008

13. Financial instruments and risk management (continued)*Financial instruments (continued)**Credit risk (continued)*

Cash and cash equivalents, and restricted cash are held with major Canadian financial institutions and the risk of default is considered remote.

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Corporation is exposed to credit risk from customers. Revenue of the period has been generated from three established customers.

Liquidity risk (see note 1)

The contractual maturities of financial liabilities at September 30, 2008 are as follows:

	Total	2008	2009	2010	2011	2012 +
Credit facility	\$ 15,000,000	\$ 15,000,000	\$ -	\$ -	\$ -	\$ -
Accounts payable and accrued liabilities	\$ 26,571,902	\$ 26,571,902	\$ -	\$ -	\$ -	\$ -
Capital lease obligations	\$ 6,089,639	\$ 541,839	\$ 2,286,634	\$ 2,236,866	\$ 886,050	\$ 138,250
Note indenture	\$ 25,000,000	\$ -	\$ -	\$ 8,333,333	\$ 8,333,333	\$ 8,333,334
New Brunswick debenture	\$ 7,500,000	\$ 6,000,000	\$ 1,500,000	\$ -	\$ -	\$ -
	<u>\$ 80,161,541</u>	<u>\$ 48,113,741</u>	<u>\$ 3,786,634</u>	<u>\$ 10,570,199</u>	<u>\$ 9,219,383</u>	<u>\$ 8,471,584</u>

*Market risk (see note 1)**a) Commodity price risk*

The value of the Corporation's mineral resource properties is related to the prices of zinc, lead and, to a lesser extent silver, and the outlook for these metals. Commodity prices historically have fluctuated widely and are affected by numerous factors outside the Corporation's control, including, but not limited to, industrial and retail demand, levels of worldwide production, short term changes in supply and demand due to speculative hedging activities, and macro-economic variables.

The profitability of the Corporation's operations is highly correlated to the market price of the above commodities. To the extent that prices increase over time, asset value increases and cash flows improve; conversely, declines in the prices directly impact value and cash flows negatively. A protracted period of depressed prices could impair the Corporation's operations and development opportunities, and significantly erode shareholder value.

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Notes to the Consolidated Financial Statements (unaudited)

September 30, 2008

13. Financial instruments and risk management (continued)***Risk management of financial instruments (continued)****Market risk (continued)**b) Foreign currency exchange risk*

The Corporation has signed long-term supply and purchases contracts denominated in US dollars. Foreign 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 exchange rates. The Corporation does not use derivative instruments to reduce its exposure to foreign exchange fluctuations. At September 30, 2008, an amount of US\$2,224,875 (December 31, 2007 – US\$461,688) in accounts payable and an amount of nil (December 31, 2007 – US\$2,147,350) in accounts receivable are at risk due to foreign exchange.

c) Market sensitivity analysis (after income taxes)

Based on the Corporation's operating plan for 2008:

- A 1 cent strengthening in the US Dollar would result in a decrease in net loss of approximately \$1.4 million for the year.
- A 1 cent increase per pound in the price of zinc would result in a decrease in net loss of approximately \$0.6 million for the year.
- A 1 cent increase per pound in the price of lead would result in a decrease in net loss of approximately \$0.5 million for the year.

14. Contingent liabilities**a) Fern Trust Litigation**

On May 26, 2006, the Fern Trust, through its trustee Merlin Group Securities Limited, both of which are off-shore entities, notified the Corporation and others, by letter, of its claim in and to a 10% net profit royalty in and to the Caribou Property (the "10% NPI"). The 10% NPI had not been registered with the New Brunswick Recorder of Mines, did not name the Fern Trust, nor was the Fern Trust in possession of a signed copy of the 10% NPI. As of January 22, 2007, the Corporation commenced legal proceedings to seek direction from the Courts as to whether the claimed 10% NPI was a valid claim. The Fern Trust has counterclaimed, for among other things, damages for anticipatory breach in the amount of \$40 Million.

As of March 30, 2007, the Fern Trust advised the Corporation that it had located a signed copy of the 10% NPI in the possession of legal counsel, a copy of which was provided to the Corporation as of April 17, 2007. As of August 21, 2007, the Fern Trust added Canzinc Ltd. and Breakwater Resources Ltd. as defendants to its Counterclaim, both of which jointly filed a Statement of Defence.

The litigation has progressed through the discovery of documents stage. The Fern Trust brought a Motion for Summary Judgment, returnable on August 28, 2008, and the Court rendered its decision on September 30, 2008. The Court found that the 10% NPI was binding on the Corporation and the Caribou Property. The Corporation has appealed the decision to the New Brunswick Court of Appeal and no date has been set for the hearing of the Appeal.

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Notes to the Consolidated Financial Statements (unaudited)

September 30, 2008

14. Contingent liabilities (continued)

a) Fern Trust Litigation (continued)

However, should the decision of the Court be confirmed on Appeal, it is management's view that the 10% NPI would not become payable until the entirety of all expenses relating to the Caribou Property have been re-couped. As such, the financial impact of the 10% NPI upon the Corporation is not reasonably determinable. At September 30, 2008, no amount was recorded and management does not believe it is likely that an amount will come due under the claim for anticipatory breach.

b) Breakwater/Canzinc Litigation

Following the filing of a Statement of Defence by Breakwater Resources Ltd. ("Breakwater") and CanZinco Ltd. ("Canzinc") in the litigation described above, the Corporation commenced an action in Ontario on May 15, 2008, against Breakwater and CanZinco seeking a declaration that it has no obligation to indemnify Breakwater and CanZinco in respect of costs associated with the above-noted litigation or any damages arising there from. The Corporation further seeks an order requiring Breakwater and CanZinco to indemnify it with respect to the 10% NPI and the New Brunswick litigation.

In July, 2008, Breakwater and CanZinco brought a Motion for an Order for staying the Corporation's action on the basis that Ontario was an inconvenient forum. On September 3, 2008, the Court dismissed the Motion. Breakwater and CanZinco filed a Motion for leave to appeal the Court's decision on September 10, 2008. The Motion is scheduled to be heard on November 26, 2008.

Concurrent with its Motion to stay the Ontario litigation, Breakwater and CanZinco commenced an action against the Corporation in New Brunswick on May 15, 2008. As of June 5, 2008, the Corporation brought a Motion to Stay the New Brunswick litigation brought by CanZinco and Breakwater. The Corporation's Stay Motion has been adjourned without a specific return date, pending the outcome of the Stay Motion returnable in Ontario.