

**IN THE COURT OF QUEEN'S BENCH OF NEW BRUNSWICK
TRIAL DIVISION
JUDICIAL DISTRICT OF BATHURST**

**IN THE MATTER OF THE COMPANIES'
CREDITORS ARRANGEMENT ACT, R.S.C.
1985, c.C-36, AS AMENDED**

- and -

**IN THE MATTER OF THE APPLICATION
OF BLUE NOTE CARIBOU MINES INC., a
body corporate**

SECOND REPORT OF THE MONITOR
May 14, 2009

I, ROBERT C. SMITH, of the Town of Rothesay, County of Kings, Judicial District of Saint John, and Province of New Brunswick, MAKE OATH AND REPORT TO THE COURT THAT:

1. I am a Chartered Accountant, licensed Trustee in Bankruptcy, and Senior Vice-President of PricewaterhouseCoopers Inc. ("PWC") and have personal knowledge of the matters hereinafter deposed to, except where otherwise stated, and in such cases I do verily believe the truth of the contents deposed to;
2. PWC was appointed Monitor of Blue Note Caribou Mines Inc. ("BNCM" or the "Company") on February 20, 2009 by Order of the Court issued that date (the "Initial Order");



3. The Initial Order dated February 20, 2009 was extended by Order of this Court on March 22, 2009 to May 21, 2009;
4. We advise the Court that the operations of Blue Note Caribou Mines Inc. in Caribou and Restigouche are now closed and the sites secured, all employees have been laid off and all amounts owed to the employees have been paid;

Sale of the business operations

5. Since the Initial Order in this matter, the Monitor has worked closely with the Company to develop and circulate documents and information in respect of the sale of the business as a going concern;
6. In that respect, the Company retained the PricewaterhouseCoopers Corporate Finance ("PWCCF") Group out of Montreal to develop a list of prospects and contact each to elicit offers on the business;
7. PWCCF developed that list with our extensive contacts worldwide, in cooperation with the Company, and contacted over 90 prospective purchasers worldwide;
8. PWCCF developed purchase materials in several languages (Mandarin, French and English) for distribution, and this information was made available on the Monitor's website;
9. The Monitor made available on the website also the Invitation to Offer document, a list of the tangible assets and a list of the inventory;
10. Over the period from March 20, 2009 to May 9, 2009, the Monitor entertained discussions and mine site visits from prospective purchasers. The initial Invitation to Offer document



specified an end of bidding process on April 15, 2009, and several parties requested an extension of that time to April 30, 2009.

11. There were no offers received by the April 30, 2009 deadline, however three parties continued to express interest and continued to seek information. We advised each that this was now a "first across the finish line" process with no fixed date;
12. The deadline was not artificial. The power to the pumps was discontinued by the Province and the pumps removed from the mine in February, 2009. Water has been flooding the lower levels of the mine, and the damage to the mine was not extensive in the early stages. I am advised that as the water moves up the mine, the damage is more extensive and the cost of dewatering and recertifying the mine for safety purposes escalates at a progressively faster rate.

Current application

13. At this date, there are no offers to purchase the business with a view to opening the mine;
14. The Company and its shareholder now take the view that water and costs have overtaken the situation, and there is no purpose in continuing the sale of the mine process;
15. The Government of New Brunswick through its representatives have also advised us that they do not believe the mine has a future, and they propose to start reclamation at the Restigouche and Caribou sites as soon as possible;
16. The current secured creditors who maintain an economic interest in the mine equipment are as follows:




- (a) Administrative charge to a limit of \$400,000 plus HST as set out in the Initial Order;
- (b) DIP charge to an approximate amount of \$500,000 as provided for in the Initial Order;
- (c) Compushare senior secured charge in the approximate amount of \$25,000,000 secured by a first charge on land, buildings and personal property;
- (d) Province of New Brunswick subordinated secured charge by virtue of its payout of the Bank of Nova Scotia loans and direct debts in the approximate amount of \$22,500,000 secured by a charge on land, buildings and personal property; and
- (e) Other subordinated secured creditors.

17. The Monitor has reviewed a draft valuation of the mine assets, and it is estimated that the personal property located at the mine site has a value of less than \$10 million. Accordingly, the only secured creditors with an economic interest in the mine assets (personal property) are set out in (a), (b) and (c) above.

18. The lands on which the mine is situate is subject to competing claims as to ownership rights, security rights, lien rights and other issues which the Monitor and this Court need not decide at this time. The reclamation process is long and we propose to deal with those priorities if the need arises in the future. If there is no going concern sale, the Monitor does not propose to sell any land rights at the mine site at the present time. If there are orphan land sites, the Monitor may sell those and if required return to the Court for a determination of priority and Vesting Order.

19. The only secured creditor with an economic interest in the mine, Computershare Trust, has advised us that they are prepared to accept the recommendation of the Company and allow the mine assets to be liquidated and the proceeds paid to the secured creditor after payment of the DIP charge and the Administration Fee.



20. Recent indicators are that the price of commodities are expected to rise significantly such that this mine would be profitable in late 2009 or early 2010, however there appears to be no desire by any of the parties with an economic interest to take this risk and bear the ongoing costs;
21. I have closely monitored the affairs of the Company during this CCAA process;
22. I can confirm to the Court that the behaviour and activities of the Company and the creditors have been in compliance with the Order and of assistance to the Monitor;
23. The parent Company of BNCM, Blue Note Mines Inc., has indicated that it wishes to have no further involvement in the activities of BNCM and wishes to dispose of its shares and loans. In that respect the Monitor reports that;
- (a) There are no employees of BNCM;
 - (b) There are no directors of BNCM; and
 - (c) The Monitor has agreed that, with the permission of the Court, it will take possession of the shares and intercompany loans other than the DIP loan with a view to determining if there is an opportunity to sell the shares and loans as part of a package which might yield some payment to the creditors in exchange for the sale of the shares which might have tax credits or value to an acquirer.
24. The Monitor now wishes to embark on a dual track process for the sale of the assets.
25. Track One will be the completion of the possible sale of the business as a going concern. As of the writing of this report, there are only a few weeks left to possibly complete a sale for value, and in all likelihood this process will be complete by May 20, 2009, the scheduled date of the hearing.
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26. Track Two is the sale of the assets by liquidation. Track Two will likely include the following:


- (a) Engaging a non-local professional liquidator with knowledge of the mining industry and the many uses of the key pieces of equipment located at the mine site. The Monitor has entered into discussions with two such liquidators and will conclude an arrangement in consultation with the Computershare security holder;
- (b) Engaging a local professional liquidator with general knowledge to assist in the sale of equipment and inventory that is not specific to the mining sector or of lower value. The Monitor has entered into discussions and will conclude an arrangement with a local liquidator.
- (c) Engage in discussions with the Department of Natural Resources and/or Department of the Environment with respect to the assets requested by their representatives to remain available to them for the purpose of reclamation and environmental remediation. The Monitor proposes to provide them with first opportunity to acquire or lease the specified assets which are on site for their purposes over the next 20 days.

27. In respect of Track Two, the Monitor now seeks additional rights under the CCAA process. In the initial phase, the Monitor had limited authority to actively sell the assets. We now seek the authority to:

- (a) Sell the assets of the Company. In that respect, we seek the authority to sell individual transactions up to \$500,000 without further Court approval, and for any transaction in excess of \$500,000 to complete any sale with the authority of the Court. Such sales to be final and complete and extinguish any charge by any person on that asset, with the proceeds of the sale to be held in substitution for the asset;

- (b) File such tax returns and other documents as may be required, and engage such professionals as may be required, to obtain any tax refunds to which the Company may be entitled. These might include SRED and HST refunds in particular;
 - (c) Execute and file such documents as may be required to place the Company in bankruptcy should the Monitor in consultation with the senior creditors determine this is an appropriate course of action; and
 - (d) Take such other incidental activities as may be required to complete the sale of the assets in an expedient and cost effective manner.
28. The sale of these assets will take some considerable time, as will the reclamation process. The Monitor now seeks a six month extension of time in order to deal with most of this mandate.
29. The Monitor also seeks authority to repay the DIP lender and extinguish that charge from the first available funds after provision for and payment of any Administrative Charges.


Good Faith and Compliance


30. The Applicant and the other parties in the CCAA process generally have acted in good faith and with due diligence throughout these CCAA proceedings to date;
31. The Applicant the other parties in the CCAA process have complied with all Orders of this Court and the CCAA, in both the letter and the spirit and intent of the Orders and the CCAA; and
32. That in all respects the Company and the former employees and directors have cooperated fully with the Monitor and provided all information requested on a timely basis, and have complied with all recommendations and requests of the Monitor.
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Recommendation

It is the recommendation of the Monitor that the application be granted.

Respectfully submitted and

SWORN TO at the City of Saint John,)
 in the County of Saint John, and)
 Province of New Brunswick, this 14th)
 day of May, 2009.)
 BEFORE ME:)
)
 _____)
 Timothy M. Hopkins,)
 Commissioner of Oaths,)
 Being a Solicitor)



 Robert C. Smith