

5. In the Monitor's Seventh Report dated May 13, 2010, PWC advised, inter alia, as follows:
 - (a) The Stage 1 assets, as defined in previous reports, remained on site and were under the protection and security of Maple Minerals Inc., the purchaser of those assets;
 - (b) The Stage 2 assets, as defined in previous reports, remained in the ownership of BNCM, and two companies were seeking to purchase them;
 - (c) The Province of New Brunswick (the "Province") continued to utilize funds deposited by BNCM, prior to these proceedings, to supervise the environmental conditions at the mine site while this matter is before the Court;
 - (d) The debt owed to the DIP Lender and the Computershare Trust Company of Canada, as trustee (the "Trustee") of holder of notes issued by BNCM pursuant to a note indenture dated May 3, 2007 (the "Note") exceeded \$25 Million CAD;
 - (e) PWC was not aware of any environmental issues at the site; and
 - (f) There was no prospect of any sale occurring which would yield a positive return to any creditor subsequent to the DIP Lender or the Noteholders, whether secured or unsecured.

6. Other than in relation to the holders of the Note, the foregoing remains true. The following summarizes what has occurred since the Monitor's last report.

7. On June 30, 2010 the Monitor received notice that the indebtedness of BNCM was assigned by the Trustee to Kirkland Intertrade Corp. ("Kirkland").

8. On June 30, 2010 the Monitor acknowledged the assignment by Kirkland. A copy of the Monitor's acknowledgement to Kirkland is attached and marked as **Exhibit "A"**.

9. On August 4, 2010 the Monitor received an offer from Kirkland to acquire all of the assets of BNCM on the terms and conditions set out therein. The proposed closing date for the acquisition by Kirkland is September 25, 2010. A copy of the offer from Kirkland together with the additional terms and conditions are attached and marked as **Exhibit "B"** (the "Kirkland Offer").

10. The Monitor accepted the Kirkland Offer and issued notice of its acceptance to Breakwater Resources Ltd. ("BWR") on Monday August 9, 2010. A copy of the notice to BWR together with the Monitor's acceptance of the Kirkland offer is attached and marked as Exhibit "C".
11. On August 10, 2010 the Monitor was copied on correspondence from Gerald F. Smith, Q.C., as solicitor for certain lien claimants, to counsel for Kirkland setting out his clients' position. A copy of Mr. Smith's correspondence is attached hereto and marked as Exhibit "D".
12. On August 11, 2010 the Monitor received notice of sale pursuant to the *Property Act of New Brunswick* from Kirkland with respect to the proposed sale pursuant to the Notes, scheduled for September 25, 2010. A copy of this notice is attached hereto and marked as Exhibit "E". On August 11, 2010 the Monitor received a revised notice of sale altering the date scheduled for the sale from September 25, 2010 to September 28, 2010. A copy of the revised notice is attached hereto and marked as Exhibit "F".
13. On August 16, 2010 the Monitor received correspondence from Mr. David Langille, Vice President, Finance and Chief Financial Officer of BWR inquiring as to certain terms of the Kirkland offer. A copy of Mr. Langille's correspondence is attached and marked as Exhibit "G".
14. The Monitor responded to Mr. Langille's correspondence of August 16, 2010 on August 17, 2010. A copy of the Monitor's response to Mr. Langille is attached hereto and marked as Exhibit "H".

Extension of the stay

15. In light of the Kirkland Offer, the Monitor recommends an extension of the Stay for a period of 90 days in order for the parties to attempt to conclude the transaction contemplated by the Kirkland Offer or for BWR to exercise its right of first refusal, if any.
16. The Monitor is not aware of any prejudice that would be caused to any party by the continuance of the Stay.

17. The Monitor also understand that the parties will return to Court in late September, 2010 to advise of the status of the transactions contemplated by the Kirkland Offer and also the mortgage sale process initiated by Kirkland.

18. As a result of the foregoing, the current secured creditors who maintain an economic interest in BNCM's assets are as follows:

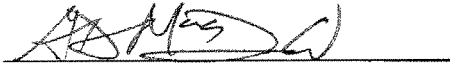
- (a) Administrative charge as set out in the Initial Order as amended in July, 2009;
- (b) DIP charge to an approximate amount of \$500,000 as provided for in the Initial Order;
- (c) Kirkland's secured charge in the approximate amount of \$25,000,000; namely a first charge on land, buildings and personal property;
- (d) The Province's subordinated secured charge by virtue of its payment of loans and direct debts owed by BNCM to the Bank of Nova Scotia, in the approximate amount of \$22,500,000 secured by a charge on land, buildings and personal property; and
- (e) Other subordinated secured creditors.

19. In all material respects the Company and the former employees and directors have cooperated fully with the Monitor, provided all information requested on a timely basis, have complied with all recommendations and requests of the Monitor and have acted in good faith.

Respectfully submitted and

SWORN TO at the Halifax Regional,)
Municipality in the County of Halifax,)
and Province of Nova Scotia, this 23rd)
day of August, 2010.)

BEFORE ME:)



A NOTARY PUBLIC IN AND FOR)
THE PROVINCE OF NOVA SCOTIA)



David A. Boyd

Gavin D.F. MacDonald

EXHIBIT "A"

This is Exhibit "A" referred to
in the Affidavit of David A. Boyd,
sworn before me this 23rd day
of August, 2010.

A handwritten signature in black ink, appearing to read "Gavin D.F. MacDonald", is written over a horizontal line.

A Notary Public, in and for the
Province of Nova Scotia

Gavin D.F. MacDonald

416-360-8277

Att. Drew Allen

Att: Bob Smith

ACKNOWLEDGEMENT**TO: KIRKLAND INTERTRADE CORP.**

The undersigned hereby acknowledges and confirms, in its capacity as monitor of Blue Note Caribou Mines Inc. ("Caribou") in the proceedings under the *Companies Creditors Arrangement Act* and in its capacity as Trustee in bankruptcy of Caribou pursuant to the *Bankruptcy and Insolvency Act* (collectively, the "Monitor"), that:

1. the proof of claim delivered to the undersigned by Computershare Trust Company of Canada, as trustee (the "Trustee") of holders of notes issued by Blue Note Mining Inc. pursuant to a note indenture dated May 3, 2007 (the "Noteholders") was accepted as a partially secured claim against Caribou as described in Exhibit "A" attached hereto;
2. to the undersigned's knowledge, based solely upon its activities as Monitor and without any investigation or inquiry of any kind by the undersigned, the undersigned is not aware of anything inconsistent with the description of the indebtedness owed to the Trustee as set out in Exhibit "B" attached hereto; and
3. the undersigned has received notice that the indebtedness owed by Caribou to the Trustee, on behalf of the Noteholders, was transferred and assigned to Kirkland Intertrade Corp. ("Kirkland") effective as of the date hereof and shall recognize Kirkland as the holder thereof from and following the date hereof.

DATED this 30TH day of June, 2010.

PRICEWATERHOUSECOOPERS INC., solely in its capacity as Monitor of Blue Note Caribou Mines Inc. and not in its personal capacity

Per: 

Name:

Title:

ROBERT SMITH
SENIOR VICE-PRESIDENT

EXHIBIT "A"

[See attached]

B/
8/11

CORPORATE BANKRUPTCY

**TRUSTEE'S REPORT TO THE FIRST MEETING OF CREDITORS
PURSUANT TO DIRECTIVE 32**

Estate of: **Blue Note Caribou Mines Inc.** Estate No: 51-1228301 Court No: NB15411

Date of Bankruptcy: July 3, 2009

Creditors Meeting: Date: July 30, 2009 Time: 1500

Place: Lakeview Inn and Suites, Bathurst

Preliminary Comments on Background

BNCM operated a lead and zinc mining operation in Caribou and Restigouche, New Brunswick for a period of several months in 2008, and prior to that was engaged in developing the resource. The world price of lead and zinc plummeted in late 2008 as the world economy spiraled, and at the same time the US dollar relative to the Canadian dollar also dropped, resulting in large operating losses and no recovery in the foreseeable future.

BNCM is a relatively new junior miner, and as such does not have the resources to sustain long periods with large "care and maintenance" costs, which were running at approximately \$300,000 per month.

The Company ceased operations in October 2008, and filed for protection under the CCAA in March, 2009.

PricewaterhouseCoopers Inc. is both Trustee and Monitor under the CCAA pursuant to an Order of the Court of Queen's Bench of New Brunswick, and will receive independent legal counsel in respect of the various security interests.

1. Comments re Trustee's Duties:

1. Notice of the first meeting of creditors has been sent to the debtor and all known creditors.
2. The trustee confirmed the validity of the various secured creditors claiming on the estate and has confirmed that there is no equity available to the estate for the benefit of the unsecured creditors.

Conservatory and protective measures – the Trustee is not in possession of the property, which was secured by the Monitor. The assets have been for sale for some time by the Monitor, as a going concern, and recently the Court ordered that the Monitor proceed to liquidation.

Stays of proceedings were issued to: none issued in the bankruptcy, however there are many stays in place as a result of the CCAA Initial Order.

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2. Comments re. Assets:

All assets are fully encumbered as follows:

The Monitor holds a first secured Administrative Charge by virtue of the Court Order Initial as amended.

BNM, the parent company, holds a second secured charge by virtue of the DIP financing Order of the Court.

Computershare holds a third secured charge by virtue of its loan of \$25 million, which with accrued interest and costs now exceeds \$27 million, holding a charge on all assets of the Company.

There is some confusion by the lien holders as to their status. On the statement of affairs they will be reflected as "secured", but their security value is "nil" so the effect is that they are unsecured creditors in the bankruptcy estate. Our position as trustee does not impact on their right to assert claims in priority as may be available to them at law in New Brunswick.

3. Comments re Creditors:

	<u>Per Statement of Affairs</u>	<u>As filed to Date</u>
Unsecured	\$ 42,614,849.00	\$163,681,863.00
Secured:	15,445,001.00	10,468,268.95
Preferred:	0.00	0.00
	<u>\$ 68,164,176.00</u>	<u>\$ 174,150,131.95</u>

To the best of our knowledge all employees have been paid and there is no WEPPA claim.

The largest variance in the above is a proof of claim received from Blue Note Mining Inc. as the parent company and the DIP lender in the amount of \$143 million which was not reported on the statement of affairs as provided to us. We have reviewed the claim and they appear appropriate. It is anticipated that the majority of the creditors in the CCAA proceeding will in due course file claims in the bankruptcy.

The Trustee will be cooperating fully with the Monitor (the same firm and individual representing both with Court approval) to facilitate an orderly administration of the file and timely completion.

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4. Comments re legal matters:

There are none expected.

5. Comments re Anticipated Realizations and Projected Distribution

The Trustee can confirm that there will be no dividends available to the unsecured creditors.

6. Comments re: Sundry Matters:

The fees and expenses of the Trustee are guaranteed by the Monitor in the CCAA process.

Dated at Saint John, New Brunswick this 28th day of July, 2009

PricewaterhouseCoopers Inc.

Trustee:

Robert C. Smith, CA, CIRP
Senior Vice-President

PRICEWATERHOUSECOOPERS 

B
w/le

July 30, 2009

PricewaterhouseCoopers Inc.
400 Brunswick House
44 Chipman Hill, PO Box 789
Saint John, New Brunswick
Canada E2L 4H9
Telephone +1 (506) 632 1810
Facsimile +1 (506) 632 8997

PricewaterhouseCoopers Inc. and
Computershare Trust Company of Canada et al
c/o Aird & Berlis
Steve Graff
Brookfield Place
Suite 1800
181 Bay Street
Toronto, Ontario
M5J 2T9

Re Blue Note Caribou Mines Inc.

Re: In the matter of the bankruptcy of Blue Note Caribou Mines Inc.

PricewaterhouseCoopers Inc., Trustee, acknowledges your interest as a secured creditor in the estate of the above-named individual. We hereby disclaim any interest in the following item(s):

- All assets of the Company as set out in the Monitor's Reports, the Order of the Court and the debenture of Computershare Trust.

Please note that the Trustee offers no opinion as to the bankrupt's interest in the item covered by your security. This release is addressed to both parties as there are various security interests to be dealt with by the Monitor on the sale of the assets (possibly including the administrative charge, DIP loan and Computershare Trust claim, also mechanics' liens).

We have recorded your claim as partially secured as filed by Computershare and amended. Should you wish to file a revised unsecured claim, after realization, you may do so by advising us of the amount realized for your security.

Should you have any questions, please contact our office, 506-653-8847.

Yours truly,
PricewaterhouseCoopers Inc.



Robert Smith, CA-CIRP
Senior Vice President

EXHIBIT "B"**INDEBTEDNESS**

Indebtedness as at May 4, 2007	\$25,000,000.00
Plus:	
1. Accrued Interest	\$4,097,565.00
Less:	
1. Payment received from Blue Note Mining Inc. on August 5, 2009 in respect of plan of arrangement	\$1,194,991.00
2. Value of 17,364,147 common shares issued by Blue Note Mining Inc.	\$3,472,829.40
3. Payment received by Assignor from Monitor on behalf of Blue Note Caribou Mines Inc.	\$2,176,000.00
<hr/> Total Indebtedness as at the date hereof:	\$22,253,744.60

EXHIBIT "B"

This is Exhibit "B" referred to
in the Affidavit of David A. Boyd,
sworn before me this 23rd day
of August, 2010.

A handwritten signature in black ink, appearing to read "Gavin D.F. MacDonald", is written over a horizontal line.

A Notary Public, in and for the
Province of Nova Scotia

Gavin D.F. MacDonald

Cooper, George L. (Moncton)

From: Drew Allen [Drew.Allen@macleoddixon.com]
Sent: August-04-10 4:38 PM
To: david.a.boyd@ca.pwc.com
Cc: jparker@smss.com; psmith@smss.com; shutchison@smss.com; thomas.oneil@mcinnescooper.com; Natalie.LeBlanc@gnb.ca; MGottlieb@dwpv.com; jlem@dwpv.com; john.logan@gnb.ca; McElman, Josh (NB); Atkinson, Rebecca (Saint John); christian.bourque@ca.pwc.com; euclide.dlib@nb.aibn.com; srd_law@nbnet.nb.ca; faw@gormannason.com; tmh@GormanNason.com; Doucette, Vicky Gina (Moncton); sslawgs@nb.aibn.com; Cooper, George L. (Moncton); srd_law@nb.aibn.com; Marvin Singer; Mike Moher; Howard Gorman; Karl Seidenz; Ed Heakes; Fran Scola; drgpc@mapleminerals.net; Shchetinin, Andrey; Meleshenko Vera; rcreamer@lawsoncreamer.com; mletson@lawsoncreamer.com; Jeffrey Burgess; Kathy Clark
Subject: Kirkland Offer to Purchase Blue Note Caribou Assets
Attachments: TORONTO-#183766-v1-Offer_cover_letter.PDF; TORONTO-#183763-v1-Caribou_-_Offer_to_Purchase_Assets.PDF; Kirkland terms and conditions.pdf

Dear David,

I attach a cover letter and an offer by Kirkland Intertrade Corp. to purchase all assets of Blue Note Caribou Mines Inc. on the terms set out therein (with additional terms attached separately) .

I note that closing of the acquisition is proposed for September 25, 2010.

Yours truly,

Drew K. Allen

Drew K. Allen // Macleod Dixon LLP // direct - (416) 202-6724
TD Centre - TD Waterhouse Tower - 79 Wellington St W - Ste 2300 - Toronto, Ontario M5K 1H1



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Toronto-Dominion Centre
TD Waterhouse Tower
79 Wellington Street West
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Toronto, Ontario
M5K 1H1

Main: (416) 360-8511
Fax: (416) 360-8277

www.macleoddixon.com

Our File: 265909

Drew Allen
Associate
Direct Phone: (416) 202-6724
E-mail: drew.allen@macleoddixon.com

August 4, 2010

PricewaterhouseCoopers Inc.
as Monitor and Trustee of Blue Note Caribou Mines Inc.
Suite 301, 44 Chapman Hill
Saint John, New Brunswick E2L 4B9
Attention: David A. Boyd, CA, CIRP

BY FAX & EMAIL

Dear Sirs:

Re: Offer to Purchase Assets of Blue Note Caribou Mines Inc. ("Caribou")

Attached for your consideration and acceptance is an offer (the "Offer") to purchase all of the assets of Blue Note Caribou Mines Inc. as described therein (the "Assets"). The Offer is open for acceptance until 5 p.m. (EST) on Tuesday, August 10, 2010.

We note that Breakwater Resources Ltd. ("Breakwater") may claim that it is entitled to exercise a right of first refusal to purchase the Assets under the terms of a joint venture agreement which we understand may have been entered into by Blue Note Mining Inc. and Breakwater on October 17, 2008 (the "JV Agreement"). In addition, under Section 15 of the JV Agreement (which we understand would apply in the circumstances of the Offer), Breakwater has 45 days after receipt of notice from you of the Offer to exercise this right of first refusal and that, in order to exercise such right, it must pay the Purchase Price (as set out in the Offer) by no later than the proposed closing date under the Offer, being September 25, 2010.

We look forward to your response.

Sincerely,

MACLEOD DIXON LLP

Drew Allen

c. Stephen J. Hutchison, *Stewart McKelvey*
Stirling Scales
George Cooper, *Cox & Palmer*

KIRKLAND INTERTRADE CORP.
c/o Macleod Dixon LLP
Toronto-Dominion Centre, TD Waterhouse Tower
79 Wellington Street W., Suite 2300
Toronto, Ontario M5K 1H1

August 3, 2010

PricewaterhouseCoopers Inc.,
as Monitor and Trustee of Blue Note Caribou Mines Inc.
Suite 301, 44 Chapman Hill
Saint John, New Brunswick E2L 4B9

Attention: David A. Boyd, CA, CIRP

Dear Sirs:

**Re: Offer (the "Offer") to Purchase Assets of Blue Note Caribou Mines Inc.
("Caribou")**

Kirkland Intertrade Corp. ("**Purchaser**"), on its own behalf or on behalf of one of its affiliates, does hereby offer to purchase all of the assets of Caribou (the "**Assets**") on an "as-is" basis from PricewaterhouseCoopers Inc. as Caribou's Court-appointed Monitor and Trustee ("**PWC**"), including the following:

- (a) an 80% undivided interest in the following:
 - (i) Mining Lease No. ML-246,
 - (ii) Industrial Surface Lease No. SIML2271 (also referred to as Crown Lands Lease #415060027),
 - (iii) Mining Lease No. ML-255,
 - (iv) Industrial Surface Lease No. SIML2473,
 - (v) the freehold parcel of real estate identified by Property Identification Number 50072032, and
 - (vi) all right, title and interest in and to all additional exploration properties that are owned by, or under option to, Caribou,(collectively, the "**Properties**");
- (b) all right, title and interest of Caribou in and to the cash security deposit provided by Caribou to the Minister of Natural Resources of New Brunswick, the Minister of Environment for the Province of New Brunswick, and any other branch or agency of the government of New Brunswick, the total of which is approximately \$9,500,000 as at the date hereof;
- (c) to the extent assignable, all right, title and interest of Caribou in and to all agreements, licences, permits, approvals, consents, registrations, certificates and other authorizations issued to or held by Caribou in connection with the mining

and milling operations currently or formerly carried out at or relating to the Properties; and

(d) all other assets of Caribou not described in the foregoing paragraphs (a) to (c).

“**Purchase Price**” means \$18,250,000.00 (representing an amount as at June 30, 2010 equal to the outstanding secured debt owing to the Purchaser of approximately \$22,250,000.00, inclusive of accrued interest and fees, less \$4,000,000) plus any and all applicable sale, transfer or other taxes.

The Purchaser reserves the right to exclude any assets of Caribou, including all mining and surface leases relating to the Restigouche Mine, if it determines not to acquire such assets at the time of closing and, if it so determines, the definition of “Assets” shall exclude such assets but the Purchase Price shall not be adjusted.

The Purchaser hereby offers to purchase the Assets for the Purchase Price on the terms and conditions contained in this letter and those attached hereto (the “**Additional Terms**”).

This Offer shall remain open for acceptance until **5 p.m. (EST) on Tuesday, August 10, 2010** unless further extended by the Purchaser.

The Purchase Price (including any deposit required pursuant to the Additional Terms) shall be paid by partial reduction of the Purchaser's secured claims as against the Assets and Caribou. Applicable taxes will be paid in cash on closing. If the purchase is made by a subsidiary of the Purchaser, the Purchase Price shall be paid by the Purchaser and such subsidiary shall be indebted to the Purchaser for the payment of the Purchase Price.

All amounts referred to herein are in Canadian dollars.

The Purchaser will assume any liability for royalty payments owed to the Fern Trust and any Crown liability for royalty payments or otherwise with respect to any Assets acquired, and shall correspondingly obtain an assignment of all security or other deposits posted with the Province of New Brunswick in connection with the Assets or other governmental departments in existence as at the date of this Offer.

There shall be no material adverse change in the Assets between the date of this Offer and closing.

Caribou and the Purchaser shall agree to make a joint successor election under the *Income Tax Act* with respect to the resource properties transferred.

The Purchaser and Caribou shall allocate the Purchase Price between the Properties, as resource properties (CDE), and any depreciable assets forming part of the Assets, as they may agree, acting reasonably.

PWC, as Caribou's insolvency representative, shall execute and provide all conveyancing documents and agreements customarily used in the Province of New Brunswick for transactions of this nature in an insolvency transaction and shall, at the request of the Purchaser, assist the Purchaser in obtaining any required consents or approvals from relevant governmental authorities. All costs associated with PWC's assistance of the Purchaser shall be paid by the Purchaser.

Closing shall occur on or before September 25, 2010, or such other date as the parties mutually agree (the "**Closing Date**").

Prior to closing, the parties shall obtain a further Order of the Court vesting ownership of and title to the Assets in the name of the Purchaser, free and clear of all claims, charges, liens, actions and writs, in accordance with the terms and conditions of this Offer in a form and substance satisfactory to the Purchaser.

This Offer is not subject to any corporate or board approval, financing or any due diligence conditions.

If Breakwater Resources Ltd. purports to exercise any right of first refusal it may have to acquire the Assets from Caribou on or before the Closing Date, the parties will seek further directions from the Court in respect thereof.

The Additional Terms shall form part of this Offer with such necessary modifications and alterations thereto such that the terms and conditions of this letter and the Additional Terms are not inconsistent with each other, with the terms and conditions of this letter prevailing in the event of any inconsistency.

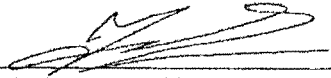
The Purchaser reserves the right to assign any or all of its rights under this Offer to a subsidiary or affiliate or nominee but the Purchaser shall remain jointly liable to perform any obligations herein.

[Signature Lines Follow on Next Page]

Yours truly,

KIRKLAND INTERTRADE CORP.

Per: _____


Maxim V. Finskiy
Director

This Offer to Purchase by Kirkland Intertrade Corp. is accepted as of this ____ day of August, 2010.

Blue Note Caribou Mines Inc., by its
court appointed Monitor and trustee in bankruptcy, PricewaterhouseCoopers Inc.

Per: _____

Authorized Signatory

Counsel to Purchaser:

Attention: Marvin Singer
MACLEOD DIXON LLP
Toronto-Dominion Centre
TD Waterhouse Tower
79 Wellington Street West
Suite 2300, P.O. Box 128
Toronto, ON M5K 1H1

BLUE NOTE CARIBOU MINES INC. TERMS AND CONDITIONS

PRICEWATERHOUSECOOPERS INC.

MONITOR OF BLUE NOTE CARIBOU MINES INC.

TERMS AND CONDITIONS OF SALE

1. The Vendor is Blue Note Caribou Mines Inc., as may be appropriate, as represented by its Court appointed Monitor ("Vendor") in its capacity as Monitor and not in its personal capacity.
2. The Assets being offered for Sale, pursuant to these Terms and Conditions of Sale, consist of the Vendor's interest in the assets as described in the Invitation to Offer to Purchase Assets, property description and equipment list.
3. Offers marked "**Offer – BN Caribou Mines**" addressed to PricewaterhouseCoopers Inc., Suite 301, 44 Chipman Hill, Saint John, New Brunswick, E2L 4B9 attention Robert Smith, CA, CIRP, CFE.
4. Offers will be reviewed and considered as received.
5. Each offer must be accompanied by a certified cheque, bank draft or money order payable to "PricewaterhouseCoopers Inc. - In Trust", for an amount equal to \$1,000,000. If an offer is accepted and approved, the cheque, bank draft or money order shall be deemed a cash deposit and the balance of the purchase price shall be paid to the Vendor, at the times and on the terms and conditions herein set out.
6. All offers shall be submitted on the required Form of Offer, which is attached to these Terms and Conditions of Sale. The Monitor may reject offers that are not on the required Form of Offer.
7. In consideration of the Vendor making available these Terms and Conditions of Sale, other information and the opportunity of inspection and/or in consideration of the Vendor receiving offers, each prospective Acquirer agrees that its offer is irrevocable and cannot be retracted, withdrawn, varied or countermanded prior to acceptance or rejection thereof.
8. The highest or any offer shall not necessarily be accepted. Preference may be given to en bloc offers.

BLUE NOTE CARIBOU MINES INC. TERMS AND CONDITIONS

9. If the Vendor accepts any offer, then such acceptance shall be communicated to the successful prospective Acquirer within ten (10) business days of the date fixed for the closing of receipt of offers. Such notice may be by telephone, email, facsimile or other means of recorded telecommunications or by registered mail or delivery. Notice of acceptance shall be deemed effectively given when so delivered, telephoned or sent by facsimile or other means of recorded telecommunication or on date of deposit in a post office if mailed by registered mail, as the case may be. Upon such acceptance, there shall be an Agreement of Purchase and Sale between the Vendor and the Acquirer on the terms contained herein and the offer, these Terms and Conditions of Sale, and the acceptance shall be sufficient evidence of such Agreement.
10. Certified cheques, bank drafts or money orders accompanying offers that are not accepted by the Vendor will be returned, without interest, to the address given in the offer within the later of ten (10) business days of the date fixed for the closing of receipt of offers and the Court approval of the sale of the assets.
11. The balance of the purchase price shall be paid to the Monitor by cash, wire transfer or bank draft upon closing, which closing shall occur within thirty days after acceptance of offers by the Monitor provided that where Court approval has not been obtained within 10 days of the date of acceptance, the closing date shall be extended until 30 days after Court approval, or on such other date as may be mutually agreed between the Monitor and Acquirer. Court approval is not required for the equipment and will be closed separately from the land and buildings.
12. Upon closing of the sale contemplated by the Agreement of Purchase and Sale, the Acquirer shall be entitled, upon receipt by the Vendor of the Purchase Price, only to such Deeds, Form 13 Transfers (Land Titles Act of New Brunswick), Bills of Sale or Assignments as may be considered necessary by the Vendor to convey the Assets to the Purchaser or the Assignee of the Purchaser provided that the Purchaser shall remain liable under the Agreement of Purchase and Sale, notwithstanding any assignment thereof by the Acquirer. Any such Deeds, Form 13 Transfers (Land Titles Act of New Brunswick), Bills of Sale or Assignments shall contain only a conveyance of the Vendor's interest in the Assets and shall not contain any covenant other than a covenant that the Vendor has done no act to encumber the Assets.
13. Real Property Taxes will be adjusted pro rata to the Closing Date in favour of the Acquirer. Acquirer's counsel will undertake to pay or otherwise satisfy all Real Property Taxes for 2009 and prior such that clear title is passed to the Acquirer.

BLUE NOTE CARIBOU MINES INC. TERMS AND CONDITIONS

14. In addition to the Purchase Price for the Assets being purchased, the Acquirer shall pay to the Vendor on the Closing Date all applicable federal, provincial and other taxes unless all necessary Certificates to exempt the Acquirer therefrom are provided to the Vendor on or before the Closing Date. The Acquirer shall arrange its own insurance, and there shall be no adjustment of insurance. The Acquirer shall be responsible for all costs with respect to the obtaining of all Federal, Provincial, civic and other licenses necessary to carry on a business.
15. The obligation of the Vendor to sell, and the Acquirer to purchase, the Assets shall, at the option of the Vendor, terminate in the event that, prior to the Closing Date of the sale the Assets are substantially destroyed by fire, flood, the elements, Government action, or civil commotion or any other external cause beyond the control of the Vendor. Such option to terminate by the Vendor shall be exercised by giving notice in writing to the Acquirer that it intends to take the proceeds, if any, payable under any existing insurance policies and terminate the Agreement of Purchase and Sale. In such an event, the Agreement of Purchase and Sale shall automatically terminate and be deemed null and void and the deposit money shall be returned to the Acquirer without interest, cost, and compensation or deduction and no party shall be liable to another for any costs or damages whatsoever. If the Vendor does not exercise such option, the Acquirer, at his option may perform the Agreement of Purchase and Sale, such option to be exercised in writing, within seven (7) business days after notice to the Acquirer that the Vendor does not intend to exercise its option to terminate. In such event, the Acquirer shall be entitled only to an assignment of any proceeds payable under the existing insurance policies and transfer of any remaining Assets in full settlement of the Vendor's obligations to repair or replace the damaged assets and in full satisfaction of this Agreement of Purchase and Sale. If the Acquirer does not exercise its option, the Agreement of Purchase and Sale shall be automatically terminated and deemed null and void and the deposit money shall be refunded to the Acquirer without interest, costs, compensation or deduction and neither party shall be liable to the other for any costs or damages whatsoever.
16. The Vendor shall remain in possession of the Assets until the Closing Date and completion of the Agreement of Purchase and Sale. Title to the Assets shall not pass to the Acquirer, nor shall the Acquirer be entitled to possession of same, until the purchase price and all other payments to be made by the Acquirer pursuant to the Agreement of Purchase and Sale have been paid in full.
17. The Vendor may pay and discharge out of the monies to be paid by the Acquirer any liens or encumbrances not being assumed by the Acquirer.

BLUE NOTE CARIBOU MINES INC. TERMS AND CONDITIONS

18. If, on or before closing, it is found that there are property claims, encumbrances or charges against any of the Assets being offered for sale which the Acquirer has not agreed to assume in addition to, or as part of its offer, and which the Vendor is not willing to discharge, then, subject to the Vendor's consent, the offer may be reduced by the Acquirer by the amount of the value of the claimed or encumbered assets (calculated by prorating the value of the encumbered assets based on the actual offered price) or the Vendor at its own option may rescind the agreement to sell the assets in question and the Acquirer shall be entitled solely to the return of the cash deposit without interest and without any other compensation of any kind or nature whatsoever for any loss, damages or other costs.
19. In addition to all other normal closing adjustments, there shall be the following closing adjustments as set out in the invitation to offer:
 - **Inventory of fuel on site at the date of closing.**
20. If the Acquirer fails to comply with these Terms and Conditions of Sale, the deposit shall be forfeited to the Vendor on account of liquidated damages and the Assets may be resold by the Vendor in such manner and on such terms as the Vendor in its sole discretion determines and the Acquirer shall pay to the Vendor (i) an amount equal to the amount, if any, by which the Purchase Price under the Agreement of Purchase and Sale exceeds the net purchase price received by the Vendor pursuant to such resale, and (ii) an amount equal to all costs and expenses incurred by the Vendor in respect of or occasioned by the Acquirer's failure to comply with the Agreement of Purchase and Sale.
21. By submitting an offer, the Acquirer acknowledges that it has inspected the Assets and that the Assets are sold on an "as is, where is" basis at the time of closing and that no representation, warranty or condition is expressed or implied as to title, description, environmental conditions, fitness for purpose, merchantability, quantity, condition, cost, or quality thereof or in respect of any other matter or thing whatsoever. Without limitation, the Assets are specifically offered as they exist on closing and with no adjustments to be allowed the Acquirer for changes in conditions, qualities or quantities of the Assets from the date hereof to the Closing Date except as specifically provided for in the Terms and Conditions of Sale. Each Acquirer acknowledges that the Vendor is not required to inspect or count, or provide any inspection or counting, of the Assets.
22. PricewaterhouseCoopers Inc. acts in its capacity as Monitor as aforesaid and shall have no personal or corporate liability hereunder or from any Agreement of Purchase and Sale of contemplated hereby or as a result of any sale contemplated hereby.
23. In the event that some of the offers submitted are substantially in the same terms and/or amounts, the Vendor may in its sole discretion call upon those prospective Acquirers to submit further offers.
24. The Terms and Conditions contained herein shall not merge on closing, but shall survive such closing and remain in full force and effect and be binding on the Acquirer thereafter.

BLUE NOTE CARIBOU MINES INC. TERMS AND CONDITIONS

25. The submission of an offer by a resident of the province of Quebec will be deemed to constitute the declaration and acknowledgement by such resident that it has requested these Terms and Conditions of Sale, the Form of Offer referred to herein and all other documentation relating to its offer and the acceptance thereof to be drawn up in the English language.
26. In the event that disruption occurs with respect to the Canadian or other postal service, all notices contemplated by these Terms and Conditions of Sale may be forwarded by telegram, facsimile or electronic transmission (email).
27. The validity and interpretation of these Terms and Conditions of Sale, and of each provision and part thereof, and of any Agreement of Purchase and Sale defined herein, shall be governed by the laws of Province of New Brunswick, and the Courts of the Province of New Brunswick shall have exclusive jurisdiction with respect to any disputes arising out of these Terms and Conditions of Sale or any Agreement of Purchase and Sale entered into pursuant to these Terms and Conditions of Sale.
28. The Vendor at its own discretion may waive any or all of the Terms and Conditions of Sale herein.
29. If there is any conflict between these conditions and the advertised Invitation to Offer, the terms contained in these Terms and Conditions of Sale shall prevail.
30. The Agreement of Purchase and Sale entered into pursuant to these Terms and Conditions of Sale shall endure to the benefit of and be binding upon the parties thereto, and their respective successors and assigns.
31. All stipulations as to time are strictly of the essence.

PricewaterhouseCoopers Inc.
Monitor of Blue Note Caribou Mines Inc.
Suite 301, 44 Chipman Hill
Saint John, New Brunswick, Canada
E2L 4B9

EXHIBIT "C"

This is Exhibit "C" referred to
in the Affidavit of David A. Boyd,
sworn before me this 23rd day
of August, 2010.

A handwritten signature in black ink, appearing to read "Gavin D.F. MacDonald", is written over a horizontal line.

A Notary Public, in and for the
Province of Nova Scotia

Gavin D.F. MacDonald

PricewaterhouseCoopers Inc.
Summit Place
1801 Lower Water Street, Suite 400
Halifax, Nova Scotia
Canada B3J 3P6
Telephone +1 (902) 491 7400
Facsimile +1 (902) 422 1166
Direct Tel. (902) 491-7421
www.pwc.com/ca

August 9, 2010

Breakwater Resources Limited
95 Wellington Street West, Suite 950
Toronto, ON M5J 2N7

Dear Sirs:

Re: Sale Notice under Joint Venture Agreement of Offer to Purchase Assets of Blue Note Caribou Mines Inc. ("Caribou")

As you are aware, the validity and enforceability of the Joint Venture Agreement dated October 17, 2008 between Breakwater Resources Ltd. and Blue Note Mining Inc. (the "Joint Venture Agreement"), and/or certain provisions thereof, has not been finally determined but pursuant to Section 15 of the Joint Venture Agreement the undersigned hereby provides you with notice of an offer (the "Offer") it has received dated August 3, 2010, a copy of which is attached, from Kirkland Intertrade Corp., on behalf of itself or a subsidiary, (the "Purchaser") offering to purchase all of the assets of Blue Note Caribou Mining Inc. described therein.

The main terms of the Offer are as follows:

- **Purchase price** - Cdn\$18,250,000.00, plus payment of any applicable taxes
- **Proposed Closing Date** - September 25, 2010
- **Assets offered to Buy** - all of Caribou's interest in the mining leases, surface leases and real property relating to the Caribou Mine and the Restigouche Mine and any other assets related thereto as described in the Offer (recognizing Breakwater's undivided 20% in the Caribou and Restigouche Mine real property)
- **Payment terms** - payment of purchase price by partial reduction of secured debt owing to Kirkland by Caribou which was recently acquired from Computershare Trust Company of Canada; payment of applicable taxes in cash
- **Conditions to closing** - no material adverse change in Assets between date of Offer and closing
- **Other terms** - Purchaser to assume liability to pay applicable royalties to Fern Trust and any Crown royalties; Purchaser to receive benefit of security deposits with governmental authorities; parties to obtain vesting order of Court of Queen's bench to approve the sale

We look forward to your response by no later than 5:00 p.m. (Atlantic time) on September 24, 2010.



Breakwater Resources Limited

RE: Sale Notice under Joint Venture Agreement of Offer to Purchase Assets of Blue Note Caribou Mines Inc. ("Caribou")

August 9, 2010

Yours truly,

**PricewaterhouseCoopers Inc.,
As Monitor and Trustee of Blue Note Caribou Mines Inc.
and not in its personal capacity**

A handwritten signature in black ink, appearing to read 'D. Boyd'. The signature is stylized with a large, circular flourish at the end.

**David A. Boyd, CA, CIRP
Senior Vice President
Advisory Services**

**CC: Stephen Hutchison, Stewart McKelvey
Howard Gorman & Marvin Singer, MacLeod Dixon LLP
George Cooper & Josh McElman, Cox & Palmer
Bob Cremer & Jeffrey Burgess, Lawson Cremer**

KIRKLAND INTERTRADE CORP.
c/o Macleod Dixon LLP
Toronto-Dominion Centre, TD Waterhouse Tower
79 Wellington Street W., Suite 2300
Toronto, Ontario M5K 1H1

August 3, 2010

PricewaterhouseCoopers Inc.,
as Monitor and Trustee of Blue Note Caribou Mines Inc.
Suite 301, 44 Chapman Hill
Saint John, New Brunswick E2L 4B9

Attention: David A. Boyd, CA, CIRP

Dear Sirs:

**Re: Offer (the "Offer") to Purchase Assets of Blue Note Caribou Mines Inc.
("Caribou")**

Kirkland Intertrade Corp. ("**Purchaser**"), on its own behalf or on behalf of one of its affiliates, does hereby offer to purchase all of the assets of Caribou (the "**Assets**") on an "as-is" basis from PricewaterhouseCoopers Inc. as Caribou's Court-appointed Monitor and Trustee ("**PWC**"), including the following:

- (a) an 80% undivided interest in the following:
 - (i) Mining Lease No. ML-246,
 - (ii) Industrial Surface Lease No. SIML2271 (also referred to as Crown Lands Lease #415060027),
 - (iii) Mining Lease No. ML-255,
 - (iv) Industrial Surface Lease No. SIML2473,
 - (v) the freehold parcel of real estate identified by Property Identification Number 50072032, and
 - (vi) all right, title and interest in and to all additional exploration properties that are owned by, or under option to, Caribou,(collectively, the "**Properties**");
- (b) all right, title and interest of Caribou in and to the cash security deposit provided by Caribou to the Minister of Natural Resources of New Brunswick, the Minister of Environment for the Province of New Brunswick, and any other branch or agency of the government of New Brunswick, the total of which is approximately \$9,500,000 as at the date hereof;
- (c) to the extent assignable, all right, title and interest of Caribou in and to all agreements, licences, permits, approvals, consents, registrations, certificates and other authorizations issued to or held by Caribou in connection with the mining

and milling operations currently or formerly carried out at or relating to the Properties; and

(d) all other assets of Caribou not described in the foregoing paragraphs (a) to (c).

"Purchase Price" means \$18,250,000.00 (representing an amount as at June 30, 2010 equal to the outstanding secured debt owing to the Purchaser of approximately \$22,250,000.00, inclusive of accrued interest and fees, less \$4,000,000) plus any and all applicable sale, transfer or other taxes.

The Purchaser reserves the right to exclude any assets of Caribou, including all mining and surface leases relating to the Restigouche Mine, if it determines not to acquire such assets at the time of closing and, if it so determines, the definition of "Assets" shall exclude such assets but the Purchase Price shall not be adjusted.

The Purchaser hereby offers to purchase the Assets for the Purchase Price on the terms and conditions contained in this letter and those attached hereto (the "Additional Terms").

This Offer shall remain open for acceptance until 5 p.m. (EST) on Tuesday, August 10, 2010 unless further extended by the Purchaser.

The Purchase Price (including any deposit required pursuant to the Additional Terms) shall be paid by partial reduction of the Purchaser's secured claims as against the Assets and Caribou. Applicable taxes will be paid in cash on closing. If the purchase is made by a subsidiary of the Purchaser, the Purchase Price shall be paid by the Purchaser and such subsidiary shall be indebted to the Purchaser for the payment of the Purchase Price.

All amounts referred to herein are in Canadian dollars.

The Purchaser will assume any liability for royalty payments owed to the Fern Trust and any Crown liability for royalty payments or otherwise with respect to any Assets acquired, and shall correspondingly obtain an assignment of all security or other deposits posted with the Province of New Brunswick in connection with the Assets or other governmental departments in existence as at the date of this Offer.

There shall be no material adverse change in the Assets between the date of this Offer and closing.

Caribou and the Purchaser shall agree to make a joint successor election under the *Income Tax Act* with respect to the resource properties transferred.

The Purchaser and Caribou shall allocate the Purchase Price between the Properties, as resource properties (CDE), and any depreciable assets forming part of the Assets, as they may agree, acting reasonably.

PWC, as Caribou's insolvency representative, shall execute and provide all conveyancing documents and agreements customarily used in the Province of New Brunswick for transactions of this nature in an insolvency transaction and shall, at the request of the Purchaser, assist the Purchaser in obtaining any required consents or approvals from relevant governmental authorities. All costs associated with PWC's assistance of the Purchaser shall be paid by the Purchaser.

Closing shall occur on or before September 25, 2010, or such other date as the parties mutually agree (the "Closing Date").

Prior to closing, the parties shall obtain a further Order of the Court vesting ownership of and title to the Assets in the name of the Purchaser, free and clear of all claims, charges, liens, actions and writs, in accordance with the terms and conditions of this Offer in a form and substance satisfactory to the Purchaser.

This Offer is not subject to any corporate or board approval, financing or any due diligence conditions.

If Breakwater Resources Ltd. purports to exercise any right of first refusal it may have to acquire the Assets from Caribou on or before the Closing Date, the parties will seek further directions from the Court in respect thereof.

The Additional Terms shall form part of this Offer with such necessary modifications and alterations thereto such that the terms and conditions of this letter and the Additional Terms are not inconsistent with each other, with the terms and conditions of this letter prevailing in the event of any inconsistency.

The Purchaser reserves the right to assign any or all of its rights under this Offer to a subsidiary or affiliate or nominee but the Purchaser shall remain jointly liable to perform any obligations herein.

[Signature Lines Follow on Next Page]

PricewaterhouseCoopers
August 3, 2010
Page 4

Yours truly,

KIRKLAND INTERTRADE CORP.

Per: 

Maxim V. Finskiy
Director

This Offer to Purchase by Kirkland Intertrade Corp. is accepted as of this ____ day of August, 2010.

Blue Note Caribou Mines Inc., by its
court appointed Monitor and trustee in bankruptcy, PricewaterhouseCoopers Inc.

Per: 

Authorized Signatory

DAVID A. BOYD, C.A. BOARD

Counsel to Purchaser:

Attention: Marvin Singer
MACLEOD DIXON LLP
Toronto-Dominion Centre
TD Waterhouse Tower
79 Wellington Street West
Suite 2300, P.O. Box 128
Toronto, ON M5K 1H1

BLUE NOTE CARIBOU MINES INC. TERMS AND CONDITIONS

PRICEWATERHOUSECOOPERS INC.

MONITOR OF BLUE NOTE CARIBOU MINES INC.

TERMS AND CONDITIONS OF SALE

1. The Vendor is Blue Note Caribou Mines Inc., as may be appropriate, as represented by its Court appointed Monitor ("Vendor") in its capacity as Monitor and not in its personal capacity.
2. The Assets being offered for Sale, pursuant to these Terms and Conditions of Sale, consist of the Vendor's interest in the assets as described in the Invitation to Offer to Purchase Assets, property description and equipment list.
3. Offers marked "Offer – BN Caribou Mines" addressed to PricewaterhouseCoopers Inc., Suite 301, 44 Chipman Hill, Saint John, New Brunswick, E2L 4B9 attention Robert Smith, CA, CIRP, CFE.
4. Offers will be reviewed and considered as received.
5. Each offer must be accompanied by a certified cheque, bank draft or money order payable to "PricewaterhouseCoopers Inc. - In Trust", for an amount equal to \$1,000,000. If an offer is accepted and approved, the cheque, bank draft or money order shall be deemed a cash deposit and the balance of the purchase price shall be paid to the Vendor, at the times and on the terms and conditions herein set out.
6. All offers shall be submitted on the required Form of Offer, which is attached to these Terms and Conditions of Sale. The Monitor may reject offers that are not on the required Form of Offer.
7. In consideration of the Vendor making available these Terms and Conditions of Sale, other information and the opportunity of inspection and/or in consideration of the Vendor receiving offers, each prospective Acquirer agrees that its offer is irrevocable and cannot be retracted, withdrawn, varied or countermanded prior to acceptance or rejection thereof.
8. The highest or any offer shall not necessarily be accepted. Preference may be given to en bloc offers.

BLUE NOTE CARIBOU MINES INC. TERMS AND CONDITIONS

9. If the Vendor accepts any offer, then such acceptance shall be communicated to the successful prospective Acquirer within ten (10) business days of the date fixed for the closing of receipt of offers. Such notice may be by telephone, email, facsimile or other means of recorded telecommunications or by registered mail or delivery. Notice of acceptance shall be deemed effectively given when so delivered, telephoned or sent by facsimile or other means of recorded telecommunication or on date of deposit in a post office if mailed by registered mail, as the case may be. Upon such acceptance, there shall be an Agreement of Purchase and Sale between the Vendor and the Acquirer on the terms contained herein and the offer, these Terms and Conditions of Sale, and the acceptance shall be sufficient evidence of such Agreement.
10. Certified cheques, bank drafts or money orders accompanying offers that are not accepted by the Vendor will be returned, without interest, to the address given in the offer within the later of ten (10) business days of the date fixed for the closing of receipt of offers and the Court approval of the sale of the assets.
11. The balance of the purchase price shall be paid to the Monitor by cash, wire transfer or bank draft upon closing, which closing shall occur within thirty days after acceptance of offers by the Monitor provided that where Court approval has not been obtained within 10 days of the date of acceptance, the closing date shall be extended until 30 days after Court approval, or on such other date as may be mutually agreed between the Monitor and Acquirer. Court approval is not required for the equipment and will be closed separately from the land and buildings.
12. Upon closing of the sale contemplated by the Agreement of Purchase and Sale, the Acquirer shall be entitled, upon receipt by the Vendor of the Purchase Price, only to such Deeds, Form 13 Transfers (Land Titles Act of New Brunswick), Bills of Sale or Assignments as may be considered necessary by the Vendor to convey the Assets to the Purchaser or the Assignee of the Purchaser provided that the Purchaser shall remain liable under the Agreement of Purchase and Sale, notwithstanding any assignment thereof by the Acquirer. Any such Deeds, Form 13 Transfers (Land Titles Act of New Brunswick), Bills of Sale or Assignments shall contain only a conveyance of the Vendor's interest in the Assets and shall not contain any covenant other than a covenant that the Vendor has done no act to encumber the Assets.
13. Real Property Taxes will be adjusted pro rata to the Closing Date in favour of the Acquirer. Acquirer's counsel will undertake to pay or otherwise satisfy all Real Property Taxes for 2009 and prior such that clear title is passed to the Acquirer.

BLUE NOT CARIBOU MINES INC. TERMS AND CONDITIONS

14. In addition to the Purchase Price for the Assets being purchased, the Acquirer shall pay to the Vendor on the Closing Date all applicable federal, provincial and other taxes unless all necessary Certificates to exempt the Acquirer therefrom are provided to the Vendor on or before the Closing Date. The Acquirer shall arrange its own insurance, and there shall be no adjustment of insurance. The Acquirer shall be responsible for all costs with respect to the obtaining of all Federal, Provincial, civic and other licenses necessary to carry on a business.
15. The obligation of the Vendor to sell, and the Acquirer to purchase, the Assets shall, at the option of the Vendor, terminate in the event that, prior to the Closing Date of the sale the Assets are substantially destroyed by fire, flood, the elements, Government action, or civil commotion or any other external cause beyond the control of the Vendor. Such option to terminate by the Vendor shall be exercised by giving notice in writing to the Acquirer that it intends to take the proceeds, if any, payable under any existing insurance policies and terminate the Agreement of Purchase and Sale. In such an event, the Agreement of Purchase and Sale shall automatically terminate and be deemed null and void and the deposit money shall be returned to the Acquirer without interest, cost, and compensation or deduction and no party shall be liable to another for any costs or damages whatsoever. If the Vendor does not exercise such option, the Acquirer, at his option may perform the Agreement of Purchase and Sale, such option to be exercised in writing, within seven (7) business days after notice to the Acquirer that the Vendor does not intend to exercise its option to terminate. In such event, the Acquirer shall be entitled only to an assignment of any proceeds payable under the existing insurance policies and transfer of any remaining Assets in full settlement of the Vendor's obligations to repair or replace the damaged assets and in full satisfaction of this Agreement of Purchase and Sale. If the Acquirer does not exercise its option, the Agreement of Purchase and Sale shall be automatically terminated and deemed null and void and the deposit money shall be refunded to the Acquirer without interest, costs, compensation or deduction and neither party shall be liable to the other for any costs or damages whatsoever.
16. The Vendor shall remain in possession of the Assets until the Closing Date and completion of the Agreement of Purchase and Sale. Title to the Assets shall not pass to the Acquirer, nor shall the Acquirer be entitled to possession of same, until the purchase price and all other payments to be made by the Acquirer pursuant to the Agreement of Purchase and Sale have been paid in full.
17. The Vendor may pay and discharge out of the monies to be paid by the Acquirer any liens or encumbrances not being assumed by the Acquirer.

BLUE NOTE CARIBOU MINES INC. TERMS AND CONDITIONS

18. If, on or before closing, it is found that there are property claims, encumbrances or charges against any of the Assets being offered for sale which the Acquirer has not agreed to assume in addition to, or as part of its offer, and which the Vendor is not willing to discharge, then, subject to the Vendor's consent, the offer may be reduced by the Acquirer by the amount of the value of the claimed or encumbered assets (calculated by prorating the value of the encumbered assets based on the actual offered price) or the Vendor at its own option may rescind the agreement to sell the assets in question and the Acquirer shall be entitled solely to the return of the cash deposit without interest and without any other compensation of any kind or nature whatsoever for any loss, damages or other costs.
19. In addition to all other normal closing adjustments, there shall be the following closing adjustments as set out in the invitation to offer:
 - Inventory of fuel on site at the date of closing.
20. If the Acquirer fails to comply with these Terms and Conditions of Sale, the deposit shall be forfeited to the Vendor on account of liquidated damages and the Assets may be resold by the Vendor in such manner and on such terms as the Vendor in its sole discretion determines and the Acquirer shall pay to the Vendor (i) an amount equal to the amount, if any, by which the Purchase Price under the Agreement of Purchase and Sale exceeds the net purchase price received by the Vendor pursuant to such resale, and (ii) an amount equal to all costs and expenses incurred by the Vendor in respect of or occasioned by the Acquirer's failure to comply with the Agreement of Purchase and Sale.
21. By submitting an offer, the Acquirer acknowledges that it has inspected the Assets and that the Assets are sold on an "as is, where is" basis at the time of closing and that no representation, warranty or condition is expressed or implied as to title, description, environmental conditions, fitness for purpose, merchantability, quantity, condition, cost, or quality thereof or in respect of any other matter or thing whatsoever. Without limitation, the Assets are specifically offered as they exist on closing and with no adjustments to be allowed the Acquirer for changes in conditions, qualities or quantities of the Assets from the date hereof to the Closing Date except as specifically provided for in the Terms and Conditions of Sale. Each Acquirer acknowledges that the Vendor is not required to inspect or count, or provide any inspection or counting, of the Assets.
22. PricewaterhouseCoopers Inc. acts in its capacity as Monitor as aforesaid and shall have no personal or corporate liability hereunder or from any Agreement of Purchase and Sale of contemplated hereby or as a result of any sale contemplated hereby.
23. In the event that some of the offers submitted are substantially in the same terms and/or amounts, the Vendor may in its sole discretion call upon those prospective Acquirers to submit further offers.
24. The Terms and Conditions contained herein shall not merge on closing, but shall survive such closing and remain in full force and effect and be binding on the Acquirer thereafter.

BLUE NOTE CARIBOU MINES INC. TERMS AND CONDITIONS

25. The submission of an offer by a resident of the province of Quebec will be deemed to constitute the declaration and acknowledgement by such resident that it has requested these Terms and Conditions of Sale, the Form of Offer referred to herein and all other documentation relating to its offer and the acceptance thereof to be drawn up in the English language.
26. In the event that disruption occurs with respect to the Canadian or other postal service, all notices contemplated by these Terms and Conditions of Sale may be forwarded by telegram, facsimile or electronic transmission (email).
27. The validity and interpretation of these Terms and Conditions of Sale, and of each provision and part thereof, and of any Agreement of Purchase and Sale defined herein, shall be governed by the laws of Province of New Brunswick, and the Courts of the Province of New Brunswick shall have exclusive jurisdiction with respect to any disputes arising out of these Terms and Conditions of Sale or any Agreement of Purchase and Sale entered into pursuant to these Terms and Conditions of Sale.
28. The Vendor at its own discretion may waive any or all of the Terms and Conditions of Sale herein.
29. If there is any conflict between these conditions and the advertised Invitation to Offer, the terms contained in these Terms and Conditions of Sale shall prevail.
30. The Agreement of Purchase and Sale entered into pursuant to these Terms and Conditions of Sale shall endure to the benefit of and be binding upon the parties thereto, and their respective successors and assigns.
31. All stipulations as to time are strictly of the essence.

PricewaterhouseCoopers Inc.
Monitor of Blue Note Caribou Mines Inc.
Suite 301, 44 Chipman Hill
Saint John, New Brunswick, Canada
E2L 4B9

EXHIBIT "D"

This is Exhibit "D" referred to
in the Affidavit of David A. Boyd,
sworn before me this 23rd day
of August, 2010.

A handwritten signature in black ink, appearing to read "Gavin D.F. MacDonald", is written over a horizontal line.

A Notary Public, in and for the
Province of Nova Scotia

Gavin D.F. MacDonald

SMITH & SMITH
BARRISTERS & SOLICITORS
155 PLEASANT STREET
MIRAMICHI, NEW BRUNSWICK

GERALD F. SMITH, Q.C., P.C.
DAVID G. SMITH, B.B.A., LL.B.
JANICE E. SMITH, B.A., B.ED., LL.B.

MAILING ADDRESS
P. O. BOX 100
MIRAMICHI, N.B.
CANADA
E1V 3M2

TEL: (506) 622-0722
FAX: (506) 622-7499

Writer's Email Address:
sslawgs@nb.aibn.com

Via Email
August 10, 2010

Mr. Drew K. Allen
MacLeod Dixon LLP
79 Wellington St. W. – Ste. 2300
Toronto, ON M5K 1H1

Dear Mr. Allen:

Re: Sale of Blue Note Caribou Mines Inc.

Further to your correspondence of August 4, 2010, be advised that our clients, J. S. Redpath Limited and Boart Longyear Canada, both Mechanics' Lien Claimants, oppose the sale as proposed. It will adversely affect all such claimants who have preserved their liens under the *Mechanics' Lien Act* (the "Act").

The *Act* provides the Lien Claimants with statutory protection and supremacy over the CCAA. This limits the scope of the Vesting Order contemplated. In order to remove the Liens at this stage, the *Act* requires the deposit into court of the full amount of the Liens or a Bond.

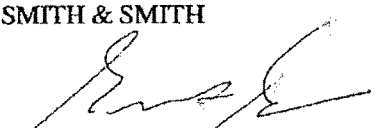
The use of debt to pay the purchase price in these circumstances is improper where priorities remain an issue. After the priorities are determined (under the *Act*), the credit bid would be limited to the amount of the priority, as determined by the court.

It is our position the Monitor cannot accept a credit bid without making provision for the payment of the Lien Claimants in full.

Please advise as to your clients' intentions regarding the Mechanics' Liens.

Yours very truly,

SMITH & SMITH


Gerald F. Smith, Q.C.

GFS/st
cc: David A. Boyd

EXHIBIT "E"

This is Exhibit "E" referred to
in the Affidavit of David A. Boyd,
sworn before me this 23rd day
of August, 2010.



A Notary Public, in and for the
Province of Nova Scotia

Gavin D.F. MacDonald

NOTICE OF SALE

TO: **BLUE NOTE CARIBOU MINES INC.**

AND TO: **BREAKWATER RESOURCES LTD.**

AND TO: **ALL OTHERS TO WHOM IT MAY CONCERN**

PUBLIC NOTICE is hereby given under and by virtue of the provisions of the *Property Act*, R.S.N.B. 1973, c. P-19, and the Power of Sale contained in certain debentures made between **BLUE NOTE CARIBOU MINES INC.** ("Blue Note") a corporation existing under the laws of Canada and **COMPUTERSHARE TRUST COMPANY OF CANADA**, a trust company existing under the laws of Canada, such debentures being registered in the Restigouche County Registry Office on the 3rd day of May, 2007 as Document Numbers 23774723 and 23774749, and such debentures being assigned to **KIRKLAND INTERTRADE CORP.**, a company existing under the laws of the British Virgin Islands, such assignments being registered in the Restigouche County Registry Office on the 6th day of July, 2010 as Document Number 28939107 and on the 26th day of July, 2010 as Document Number 29018257.

There will be sold for the purpose of satisfying the monies secured by the said debentures, default having been made in payment thereof, at a public auction (the "Sale"), at or in the Bathurst Court House, 1st Floor Lobby, 254 Patrick Street, Bathurst, New Brunswick, on September 25, 2010 at 10:00am AST (the "Date of Sale") all of Blue Note's interest in those lands and premises being located in Restigouche County, New Brunswick and being known as Property Identification Numbers 50072032 (located near Route 180, in the County of Restigouche and the Parish of Colborne), 50237924 (located near Woods Road in the County of Restigouche and the Parish of Colborne), and 50252766 (located near Route 180, in the County of Restigouche and the Parish of Balmoral) (the "Lands"), which consists of the freehold parcel of land identified by PID 50072032, as well as mining leases and industrial surface leases affecting the Lands, and any other interests of Blue Note in the Lands.

FURTHER NOTICE is given that if a sufficient offer of purchase is not received for the said lands and premises, the same will be withdrawn from said sale and will be disposed of by private contract without further notice being given.

DATED at Calgary, in the Province of Alberta, this 11th day of August, 2010.

KIRKLAND INTERTRADE CORP.

A handwritten signature in black ink, appearing to read "Howard A. Gorman", written over a horizontal line.

Per: Howard A. Gorman
MACLEOD DIXON
Solicitors for Kirkland Intertrade
Corp.

EXHIBIT "F"

This is Exhibit "F" referred to
in the Affidavit of David A. Boyd,
sworn before me this 28th day
of August, 2010.



A Notary Public, in and for the
Province of Nova Scotia

Gavin D.F. MacDonald

REVISED NOTICE OF SALE

TO : **BLUE NOTE CARIBOU MINES INC.**

AND TO **BREAKWATER RESOURCES LTD.**

AND TO **ALL OTHERS TO WHOM IT MAY CONCERN**


PUBLIC NOTICE is hereby given under and by virtue of the provisions of the *Property Act*, R.S.N.B. 1973, c. P-19, and the Power of Sale contained in certain debentures made between **BLUE NOTE CARIBOU MINES INC. ("Blue Note")** a corporation existing under the laws of Canada and **COMPUTERSHARE TRUST COMPANY OF CANADA**, a trust company existing under the laws of Canada, such debentures being registered in the Restigouche County Registry Office on the 3rd day of May, 2007 as Document Numbers 23774723 and 23774749, and such debentures being assigned to **KIRKLAND INTERTRADE CORP.**, a company existing under the laws of the British Virgin Islands, such assignments being registered in the Restigouche County Registry Office on the 6th day of July, 2010 as Document Number 28939107 and on the 26th day of July, 2010 as Document Number 29018257.

There will be sold for the purpose of satisfying the monies secured by the said debentures, default having been made in payment thereof, at a public auction (the "**Sale**"), at or in the Bathurst Court House, 1st Floor Lobby, 254 Patrick Street, Bathurst, New Brunswick, on September 28, 2010 at 9:00am AST (the "**Date of Sale**") all of Blue Note's interest in those lands and premises being located in Restigouche County, New Brunswick and being known as Property Identification Numbers 50072032 (located near Route 180, in the County of Restigouche and the Parish of Colborne), 50237924 (located near Woods Road in the County of Restigouche and the Parish of Colborne), and 50252766 (located near Route 180, in the County of Restigouche and the Parish of Balmoral) (the "**Lands**"), which consists of the freehold parcel of land identified by PID 50072032, as well as mining leases and industrial surface leases affecting the Lands, and any other interests of Blue Note in the Lands.

FURTHER NOTICE is given that if a sufficient offer of purchase is not received for the said lands and premises, the same will be withdrawn from said sale and will be disposed of by private contract without further notice being given.

DATED at Calgary, in the Province of Alberta, this 11th day of August, 2010.

KIRKLAND INTERTRADE CORP.

A handwritten signature in black ink, appearing to read 'Howard A. Gorman', written over a horizontal line.

Per Howard A. Gorman
MACLEOD DIXON
Solicitors for Kirkland Intertrade
Corp.

EXHIBIT "G"

This is Exhibit "G" referred to
in the Affidavit of David A. Boyd,
sworn before me this 22nd day
of August, 2010.



A Notary Public, in and for the
Province of Nova Scotia

Gavin D.F. MacDonald



95 WELLINGTON STREET WEST, SUITE 950
TORONTO, ONTARIO M5J 2N7

TEL: (416) 363-4798 FAX: (416) 363-1315
www.breakwater.ca

August 16, 2010

Mr. David A. Boyd, CA, CIRP
Senior Vice President
Advisory Services
PricewaterhouseCoopers Inc.
Summit Place
1601 Lower Water Street, Suite 400
Halifax, Nova Scotia
B3J 3B6

Dear Mr. Boyd:

In connection with your letter dated August 9, 2010, Breakwater Resources Ltd. ("Breakwater") is reviewing its alternatives with respect to the offer to purchase assets of Blue Note Caribou Mines Inc. ("BNC") received by PricewaterhouseCoopers Inc. ("PwC") from Kirkland Intertrade Corp. ("Kirkland") (the "Offer"). In order to assess the Offer, please clarify the following:

Item (c)

Has Kirkland identified which assets are to be excluded from the Offer? Specifically, has Kirkland excluded any of the mining and surface leases relating to the Restigouche Mine? If Kirkland has not specified any excluded assets, what is the deadline for Kirkland to make that declaration so that Breakwater can evaluate the Offer?

Item (b)

Has the New Brunswick government agreed to transfer to Kirkland the approximately \$9.5 million cash security deposit? Is there any allocation of the cash security deposit between the Restigouche and Caribou properties? If Kirkland excludes the Restigouche Mine, has the New Brunswick government indicated that the amount of the cash security deposit to be transferred will be reduced?

Per the attached letter to Blue Note Mining Inc. ("BNM"), BNM has alleged ownership of certain base metal exploration properties in and around the BNC properties. Based on the limited documentation Breakwater has available, Breakwater's position is that the exploration properties referred to were transferred from BNM to BNC and therefore form part of the ongoing BNC CCAA process. Since BNM has not provided the evidence of ownership requested and Breakwater does not have access to all of the documentation supporting the transfer of assets from BNM to BNC, please provide a list of the properties conveyed to PwC by BNC which are included in the Offer.



Answers to the above questions will have a significant impact on Breakwater's evaluation of the Offer. In order to avoid further motions for time extensions to determine the final terms of the Offer, your prompt response is requested.

Thank you in advance for your assistance with these matters.

Yours truly,
BREAKWATER RESOURCES LTD.

A handwritten signature in dark ink, appearing to read "D. Langille". The signature is fluid and cursive, written over the printed name below.

Dave Langille
Vice President, Finance & Chief Financial Officer



95 WELLINGTON STREET WEST, SUITE 950
TORONTO, ONTARIO M5J 2N7

TEL: (416) 363-4798 FAX: (416) 363-1315
www.breakwater.ca

July 28, 2010

Mr. John Martin
President and Chief Operating Officer
Blue Note Mining Inc.
1 Place Ville Marie
Suite 1511
Montréal, Québec
H3B 2B5

Dear Mr. Martin:

I confirm receipt of your email of July 26, 2010 including your letter dated July 26, 2010 addressed to Mr. Jensen of Breakwater Resources Ltd. ("BWR").

BWR denies the assertion in paragraph three of your letter that BWR was aware that Blue Note Mining Inc. ("BNM") had transferred anything less than 100% of the mining claims (the "Mining Claims") (as those claims are detailed in Schedule 1.1(6) to the Asset Purchase Agreement dated July 26, 2006 between CanZinco Ltd. and Blue Note Metals Inc.) to Blue Note Caribou Mines Inc. ("BNC") as of June 2007.

BWR has no knowledge that anything less than 100% of the Mining Claims was transferred. Further, the actions of both BNM and BNC indicate that 100% of the Mining Claims were transferred to BNC and BWR requests evidence that ownership of certain of the Mining Claims were not transferred to BNC by Friday, August 6, 2010.

Please be advised that pursuant to the ruling of the Honourable Mr. Justice J. A. Réginald Léger of the Court of Queen's Bench of New Brunswick dated March 11, 2010, BWR has a 20% proprietary interest in the Mining Claims.

Yours truly,
BREAKWATER RESOURCES LTD.

A handwritten signature in dark ink, appearing to read "D. Langille".

Dave Langille
Vice President, Finance and Chief Financial Officer

EXHIBIT "H"

This is Exhibit "H" referred to
in the Affidavit of David A. Boyd,
sworn before me this 28th day
of August, 2010.



A Notary Public, in and for the
Province of Nova Scotia

Gavin D.F. MacDonald

August 17, 2010

Atten: David Langille
Breakwater Resources Limited
95 Wellington St West
Suite 950
Toronto, ON M5J 2N7

Dear Mr. Langille:

PwC ref.: Sale Notice under Joint Venture Agreement of Offer to Purchase Assets of Blue Note Caribou Mines Inc. ("BNC")

Thank you for your letter dated August 16, 2010. I can advise as follows:

Item (c)

Breakwater Resources Ltd.'s ("BWR") right of first refusal, if any, is a right to adopt the transaction proposed by Kirkland. If BWR's right of first refusal exists and is exercised, the Monitor would take the position that this would include the right of BWR, to exclude assets at its option, in accordance with the terms of the Kirkland offer and without reduction of the purchase price. Subject to the Court's direction on the point, it is the Monitor's view that under the offer Kirkland may, up to closing, choose to exclude any of BNC's assets from the transaction. If BWR has the right to adopt Kirkland's offer and it exercises that right, then it too would have the option prior to closing to exclude assets if it wished to do so. To date, no assets have been excluded. In order for BWR to evaluate its options, it must then consider whether it wishes to adopt the offer at the same purchase price and whether it wants to exclude any of BNC's assets.

Item (b)

Kirkland's offer is for all of the interest of BNC in the mining assets. We are not privy to the positions of either Kirkland or the Province of New Brunswick with respect to the reclamation deposit and how it is to be allocated or if it is to be allocated at all. Please direct your inquiries to Kirkland or the Province of New Brunswick. Under the offer, the responsibility for these items rests with the purchaser.

With respect to the allegations by Blue Note Mining Inc. of continuing ownership of certain mineral claims, as the proposed transaction is for the sale of all of BNC's interest in and to all of BNC's assets and undertaking, without warranty, the Monitor has not investigated title nor has it been asked to warrant title to anything to anyone.

Of course, the Monitor has no better claim to any assets than did BNC. It appears that Kirkland has adjudged this satisfactory for the purposes of making its offer and has assumed the burden of determining precisely what BNC owns and the quality of its title thereto. We have not assisted Kirkland in the investigation of title to any of BNC's assets but assume it has investigated ownership of and title to BNC's mineral claims, if any, with the Recorder of Mines in accordance with the Mining Act (New



Atten: David Langille

PwC ref.: Sale Notice under Joint Venture Agreement of Offer to Purchase Assets of Blue Note Caribou Mines Inc. ("BNC")

August 17, 2010

Brunswick); a service available to the public. Having made the offer in the terms it has, Kirkland has assumed all of the burdens of any defect in title or any insufficiency in any of the assets. Any person, including BWR, seeking to step into the position of the purchaser, would be required to satisfy itself on these issues as well.

As the enforceability and validity of the Joint Venture Agreement dated October 17, 2008 between Breakwater Resources Ltd. and Blue Note Mining Inc. (the "Joint Venture Agreement"), and/or certain provisions thereof, has not been finally determined, nothing herein should be taken as confirmation thereof by the Monitor.

Yours truly,
PricewaterhouseCoopers Inc.,
as Monitor and Trustee of Blue Note Caribou Mines Inc.
and not in its personal capacity

A handwritten signature in black ink, appearing to read 'D.A. Boyd', with a horizontal line underneath.

Per: _____
David A. Boyd, CA, CIRP
Senior Vice President, Advisory Services

- c. Stephen Hutchison, Stewart McKelvey
Howard Gorman & Marvin Singer, Macleod Dixon LLP
George Cooper & Josh McElman, Cox & Palmer
Bob Creamer & Jeffrey Burgess, Lawson Creamer