



**BEAR LAKE GOLD LTD.**  
(an exploration stage company)

**CONSOLIDATED FINANCIAL STATEMENTS**

**Years ended September 30, 2010 and 2009**

## **Auditors' Report**

To the Shareholders of  
Bear Lake Gold Ltd.

**Raymond Chabot Grant Thornton LLP**  
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We have audited the consolidated balance sheets of Bear Lake Gold Ltd. (an exploration stage company) as at September 30, 2010 and 2009 and the consolidated statements of operations and comprehensive loss, shareholders' equity, cash flows and deferred exploration expenses for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2010 and 2009 and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

/S/ Raymond Chabot Grant Thornton LLP <sup>1</sup>

Montréal, Canada, December 16, 2010

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<sup>1</sup> Chartered accountant auditor permit no. 7023

**Bear Lake Gold Ltd.**  
(an exploration stage company)  
**Consolidated Balance Sheets**

	September 30, 2010	September 30, 2009
	\$	\$
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	3,406,876	1,224,989
Marketable securities (Note 6)	14,250	214,235
Sales taxes receivable	66,191	166,038
Short-term portion of investments (Note 7)	985,619	33,270
Prepaid expenses and deposits	30,951	27,216
	<b>4,503,887</b>	<b>1,665,748</b>
Investments (Note 7)	2,178,021	2,813,527
Reclamation bond	3,040	3,040
Plant and equipment (Note 8)	1,919,283	1,922,734
Exploration advance	-	57,392
Mineral properties (Note 9)	9,430,019	9,976,550
Deferred exploration expenses (Note 9)	11,669,999	16,200,191
	<b>29,704,249</b>	<b>32,639,182</b>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	485,316	544,165
Short-term portion of credit facilities (Note 10)	1,023,044	-
	<b>1,508,360</b>	<b>544,165</b>
Credit facilities (Note 10)	2,411,173	3,225,131
Minority interest	11,770	11,770
	<b>3,931,303</b>	<b>3,781,066</b>
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (Note 11)	66,768,663	63,791,894
Contributed surplus	8,170,624	7,461,908
Deficit	(49,166,341)	(42,395,686)
	<b>25,772,946</b>	<b>28,858,116</b>
	<b>29,704,249</b>	<b>32,639,182</b>

Going concern (Note 1)

Contingencies (Note 14)

Subsequent events (Note 17)

*The accompanying notes are an integral part of the consolidated financial statements.*

On behalf of the Board,

/s/ François Viens  
François Viens, Director

/s/ Elaine Bennett  
Elaine Bennett, Director

# Bear Lake Gold Ltd.

(an exploration stage company)

## Consolidated Operations and Comprehensive Loss

	Year ended September 30, 2010	Year ended September 30, 2009
	\$	\$
<b>Expenses</b>		
Remuneration (Note 11)	409,635	861,665
Management and administration	173,467	253,842
Office	138,089	136,194
Professional fees	92,910	78,261
Other property costs	89,790	-
Transfer agent and filing fees	32,917	32,689
Shareholder communications and travel	13,248	35,674
Depreciation	3,451	4,334
	<b>953,507</b>	<b>1,402,659</b>
<b>Other items</b>		
Interest income	(12,504)	(40,679)
Interest expense	46,558	46,174
Part XII.6 tax on flow-through financing (Note 11 (d))	-	23,997
Gain on sale of marketable securities (Note 6)	(1,383)	-
Unrealized loss on marketable securities (Note 6)	16,250	75,660
Fair value adjustment of investments (Note 7)	(401,860)	236,155
Settlement of class-action and other related costs (Note 2)	284,295	346,191
Write-down of mineral properties and deferred exploration expenses (Note 3)	5,885,792	15,266,700
	<b>5,817,148</b>	<b>15,954,198</b>
Loss before income taxes	(6,770,655)	(17,356,857)
Future income tax recovery (Note 13)	-	3,836,454
<b>Net loss and comprehensive loss</b>	<b>(6,770,655)</b>	<b>(13,520,403)</b>
Basic and diluted loss per common share	(0.07)	(0.16)
Weighted average number of common shares - basic (Note 11)	95,468,480	83,641,235
Weighted average number of common shares - diluted (Note 11)	95,468,480	84,192,614

The accompanying notes are an integral part of the consolidated financial statements.

# Bear Lake Gold Ltd.

(an exploration stage company)

## Consolidated Shareholders' Equity

	Number of shares	Capital stock \$	Contributed surplus \$	Deficit \$	Shareholders' equity \$
Balance at September 30, 2009	90,085,270	63,791,894	7,461,908	(42,395,686)	28,858,116
Private placement (Note 11 (a))	19,605,609	3,270,354	492,768	-	3,763,122
Share issue costs, net of income taxes of \$75,072, which have been devaluated (Note 11 (a))	-	(375,516)	116,861	-	(258,655)
Issuance of units in lieu of cash commission (Note 11 (a))	433,000	50,931	27,009	-	77,940
Shares issued on exercise of stock options	100,000	31,000	(11,000)	-	20,000
Stock-based compensation	-	-	83,078	-	83,078
Net loss for the year	-	-	-	(6,770,655)	(6,770,655)
<b>Balance at September 30, 2010</b>	<b>110,223,879</b>	<b>66,768,663</b>	<b>8,170,624</b>	<b>(49,166,341)</b>	<b>25,772,946</b>
Balance at September 30, 2008	63,983,039	58,857,010	5,470,670	(28,875,283)	35,452,397
Private placements (Note 11(b) and 11 (d))	23,929,025	6,423,256	982,724	-	7,405,980
Share issue costs, net of income taxes of \$173,806, which have been devaluated (Note 11 (b))	-	(706,751)	281,822	-	(424,929)
Units in lieu of broker commission (Note 11(b))	616,330	118,173	66,726	-	184,899
Shares issued for Kirkland-Wright property (Note 11(c))	10,000	2,500	-	-	2,500
Units as debt settlement (Note 11(e))	1,416,666	271,660	153,340	-	425,000
Shares issued on exercise of warrants	130,210	63,591	(23,351)	-	40,240
Stock-based compensation	-	-	529,977	-	529,977
Income tax deductions renounced	-	(1,237,545)	-	-	(1,237,545)
Net loss for the year	-	-	-	(13,520,403)	(13,520,403)
<b>Balance at September 30, 2009</b>	<b>90,085,270</b>	<b>63,791,894</b>	<b>7,461,908</b>	<b>(42,395,686)</b>	<b>28,858,116</b>

The accompanying notes are an integral part of the consolidated financial statements.

**Bear Lake Gold Ltd.**  
(an exploration stage company)  
**Consolidated Cash Flows**

	Year ended September 30, 2010	Year ended September 30, 2009
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net loss	(6,770,655)	(13,520,403)
Non-cash items		
Depreciation	3,451	4,334
Stock-based compensation	83,078	529,977
Unrealized loss on marketable securities	16,250	75,660
Gain on sale of marketable securities	(1,383)	-
Fair value adjustment of investments	(401,860)	236,155
Write-down of mineral properties and deferred exploration expenses	5,885,792	15,266,700
Future income tax recovery	-	(3,836,454)
Changes in non-cash working capital items	(313,438)	319,443
	<b>(1,498,765)</b>	<b>(924,588)</b>
<b>INVESTING ACTIVITIES</b>		
Marketable securities	185,118	-
Investments (Note 7)	85,017	351,434
Reclamation bond	-	7,468
Exploration advance	57,392	-
Mineral properties and deferred exploration expenses	(458,368)	(6,728,619)
	<b>(130,841)</b>	<b>(6,369,717)</b>
<b>FINANCING ACTIVITIES</b>		
Reimbursement of temporary bank loan	-	(1,702,932)
Proceeds from credit facilities	260,833	3,250,000
Reimbursement of credit facilities	(51,747)	(24,869)
Issuance of shares and warrants, net of costs (Note 11 (a))	3,582,407	6,992,144
Exercise of warrants	-	40,240
Exercise of stock options	20,000	-
	<b>3,811,493</b>	<b>8,554,583</b>
<b>Net increase in cash and cash equivalents</b>	<b>2,181,887</b>	<b>1,260,278</b>
Cash and cash equivalents (bank overdraft), beginning of year	1,224,989	(35,289)
Cash and cash equivalents, end of year	<b>3,406,876</b>	<b>1,224,989</b>
Interest paid	46,558	46,174
<b>Changes in other non-cash items</b>		
Accounts payable and accrued liabilities related to exploration projects	(350,701)	(1,916,361)
Issuance of common shares pursuant to mineral property agreements (Note 11 (c))	-	2,500
Issuance of units in lieu of broker commission (Note 11 (d))	77,940	184,899
Issuance of units as debt settlement (Note 11 (e))	-	425,000
Issuance of finder's warrants (Note 11 (a) (b) (d))	116,861	281,822

The accompanying notes are an integral part of the consolidated financial statements.

**Bear Lake Gold Ltd.**  
(an exploration stage company)  
**Consolidated Deferred Exploration Expenses**

Year ended September 30, 2010

	Larder Lake, Ontario	Hope Bay, Nunavut	Unity, Idaho	Total
	\$	\$	\$	\$
<b>Balance, beginning of year</b>	<b>10,029,974</b>	<b>5,196,531</b>	<b>973,686</b>	<b>16,200,191</b>
Contractors and consultants	40,617	4,511	1,429	46,557
Drilling and assaying	403,214	-	-	403,214
Geology	480	2,179	1,134	3,793
Labour	84,104	-	4,098	88,202
Management and administration	76,455	107,571	25,870	209,896
Title and claim management	5,674	-	23,264	28,938
	<b>610,544</b>	<b>114,261</b>	<b>55,795</b>	<b>780,600</b>
	<b>10,640,518</b>	<b>5,310,792</b>	<b>1,029,481</b>	<b>16,980,791</b>
<b>Write-down of deferred exploration expenses (Note 3)</b>	<b>-</b>	<b>(5,310,792)</b>	<b>-</b>	<b>(5,310,792)</b>
<b>Balance, end of year</b>	<b>10,640,518</b>	<b>-</b>	<b>1,029,481</b>	<b>11,669,999</b>

Year ended September 30, 2009

	Larder Lake, Ontario	Hope Bay, Nunavut	Unity, Idaho	Total
	\$	\$	\$	\$
<b>Balance, beginning of year</b>	<b>5,965,092</b>	<b>4,358,957</b>	<b>679,542</b>	<b>11,003,591</b>
Contractors and consultants	96,971	53,024	19,851	169,846
Drilling and assaying	3,446,397	673,114	232,564	4,352,075
Geology	69,900	2,123	14,569	86,592
Labour	204,308	-	5,635	209,943
Management and administration	218,077	109,313	9,997	337,387
Title and claim management	29,229	-	11,528	40,757
	<b>4,064,882</b>	<b>837,574</b>	<b>294,144</b>	<b>5,196,600</b>
<b>Balance, end of year</b>	<b>10,029,974</b>	<b>5,196,531</b>	<b>973,686</b>	<b>16,200,191</b>

*The accompanying notes are an integral part of the consolidated financial statements.*

# **Bear Lake Gold Ltd.**

(an exploration stage company)

## **Notes to Consolidated Financial Statements**

**September 30, 2010 and 2009**

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### **1. GOVERNING STATUTES, NATURE OF OPERATIONS AND GOING CONCERN**

Bear Lake Gold Ltd. ("Bear Lake" or the "Company") was incorporated under the laws of Ontario, Canada. The Company is primarily engaged in the acquisition and exploration of mineral properties. To date, the Company has not earned significant revenues and is considered to be in the exploration stage. All financial results in these financial statements are expressed in Canadian dollars unless otherwise indicated.

On July 21, 2009, the Company announced that it had become aware of material inconsistencies regarding the Company's exploration data in respect of the Company's Larder Lake Property. Following the completion of a technical investigation undertaken by Scott Wilson Roscoe Postle Associates ("Scott Wilson RPA"), the Company confirmed on November 3, 2009 certain data inconsistencies disclosed during the period from November 27, 2008 to July 14, 2009 as well as three additional inconsistencies. Exploration activities at the Larder Lake Property were suspended on July 17, 2009, as soon as the data inconsistencies were uncovered, and recommenced on July 5, 2010 following the settlement of a class-action suit (Note 2) and the completion of a private placement (Note 11 <sup>(a)</sup>).

The Company has not yet determined whether its mineral properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for mineral properties and deferred exploration expenses is dependent upon the existence of economically recoverable reserves on these properties, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production from these reserves or sufficient proceeds from their disposal thereof. The Company will periodically have to raise additional funds to continue operations, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future.

Although the Company has taken steps to verify title to the mineral claims in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

These consolidated financial statements have been prepared with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. However, certain conditions may lend significant doubt as to the appropriateness of the going concern assumption. The Company is at an early stage of development and as is common with many exploration companies, it raises funds for its exploration activities through equity financing. Also, the Company has incurred a loss in the current and prior periods and has an accumulated deficit of \$49,166,341 at September 30, 2010.

At September 30, 2010, the Company had cash and cash equivalents of \$3,406,876 and believes this amount is sufficient to meet its planned exploration expenditures on the Larder Lake Property and to meet its corporate administrative expenses for the next 12 months. Longer term, the Company may pursue opportunities to raise additional funds and while the Company has been successful in raising funds in the past, there can be no assurance that adequate funding will be available in the future, or available under terms favorable to the Company. The Company's exploration activities at the Larder Lake Property have considerable scope for flexibility in terms of the amount and timing of exploration expenditures.

The consolidated financial statements do not reflect any adjustments that would be necessary if the going concern assumption were not appropriate for these consolidated financial statements. If the going concern assumption were not appropriate for these consolidated financial statements, adjustments to the carrying values of assets and liabilities and balance sheet classification, which could be material, may be necessary.

# **Bear Lake Gold Ltd.**

(an exploration stage company)

## **Notes to Consolidated Financial Statements**

**September 30, 2010 and 2009**

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### **2. SETTLEMENT OF CLASS-ACTION SUIT**

A proposed class action lawsuit was filed on August 25, 2009 in the Ontario Superior Court of Justice against the Company and certain of its current and former officers and directors, alleging certain misrepresentations were made during the period from July 18, 2006 to July 28, 2009 regarding Bear Lake's Larder Lake project. The proposed lawsuit claimed general and special damages in the amount of \$20 million and punitive damages in the amount of \$5 million.

A settlement agreement was entered into in April 2010 providing for the settlement, release and dismissal of all claims asserted against the Company and the individual proposed defendants and does not in any way contain or constitute any admission of liability by the Company or its officers, directors or employees. On August 10, 2010, the Ontario Superior Court of Justice approved the plaintiff's motion for certification and settlement of a proposed class action thereby dismissing the proposed lawsuit and all related claims. The opt-out deadline expired on October 29, 2010 and the settlement is now final. The total settlement amounted to \$1,300,000, of which \$1,100,000 was funded through insurance coverage.

Settlement and other related costs in the amount of \$284,295 were incurred during the year ended September 30, 2010, net of insurance proceeds (other related costs of \$346,191 were incurred during the year ended September 30, 2009). Other related costs include mostly legal and technical consulting fees.

### **3. WRITE-DOWN OF MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENSES**

Under an option agreement with a subsidiary of Newmont Mining Corporation to earn a 75% interest in a certain group of claims at Hope Bay (the "Hope Bay Project") (note 9), the Company was required to spend an additional amount of \$2 million on the Hope Bay Project by October 31, 2010. In completing a financing in June 2010, the Company had decided to prioritize and focus its exploration efforts on the more advanced Larder Lake Property. Following negotiations with the holder of the Hope Bay Project, the Company was not able to obtain an extension to the option agreement, which has, as a result, been terminated. Consequently, the Company charged to operations during the year ended September 30, 2010 an amount of \$575,000 as write-down of mineral properties and an amount of \$5,310,792 as write-down of deferred exploration expenses.

In accordance with appropriate accounting pronouncements, including Emerging Issues Committee Abstract EIC-174, *Mining Exploration Costs*, the Company charged to operations during the year ended September 30, 2009 an amount of \$15,200,000 as write-down of mineral properties, due to share-based payments made in prior years for certain mineral properties, at a time when the Company's share price was trading at a significantly higher level. Of the total write-down of mineral properties, an amount of \$14,700,000 was attributable to the Larder Lake Property and an amount of \$500,000 was attributable to the Hope Bay Project. Also, in September 2009, the Company abandoned its 100% interest in the Kirkland-Wright claims, which were part of the Larder Lake Property, as these claims did not fit into the Company's strategy for Larder Lake and consequently, charged an additional amount of \$66,700 to operations as write-down of mineral properties.

# **Bear Lake Gold Ltd.**

(an exploration stage company)

## **Notes to Consolidated Financial Statements**

### **September 30, 2010 and 2009**

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#### **4 ACCOUNTING POLICIES**

The accompanying consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

##### ***Accounting estimates***

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts recorded in the financial statements and notes to financial statements. These estimates and assumptions are based on management's best knowledge of current events and actions that the Company may undertake in the future. Actual results may differ from those estimates. Significant areas where management judgement is applied are the carrying value of investments, mineral properties and deferred exploration expenses and the valuation of asset retirement obligation and stock-based compensation.

##### ***Principles of consolidation***

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Inter-company transactions are eliminated on consolidation. The principal subsidiary of the Company is Maximus Ventures Ltd. ("Maximus").

##### ***Cash and cash equivalents***

Cash and cash equivalents include bank balances and short-term investments in money market instruments that are carried at fair value. They are classified as held-for-trading and changes in fair value are reported in operations.

##### ***Marketable securities***

Marketable securities are designated as held-for-trading and are recorded at their fair value, using the last bid price. Unrealized gains and losses are reported in operations.

##### ***Investments***

Investments in Master Asset Vehicles II and III ("MAV II and III"), which replaced the investments in asset-backed commercial paper ("ABCP"), are designated as held-for-trading (for the same reasons as for the ABCP described below) and are recorded at their fair value. Unrealized gains and losses are reported in operations. On initial recognition, the Company designated its ABCP as held-for-trading as the financial information generated by this classification is more relevant for decision-making and provides a better means for evaluating the Company's performance.

##### ***Other financial instruments***

Exploration advance is classified as loans and receivables and accounts payables and accrued liabilities and long-term debt are classified as other liabilities. They are measured at amortized cost using the effective interest method.

# **Bear Lake Gold Ltd.**

(an exploration stage company)

## **Notes to Consolidated Financial Statements**

**September 30, 2010 and 2009**

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### **4. ACCOUNTING POLICIES (continued)**

#### ***Plant and Equipment***

Plant and equipment relating to mineral properties are recorded at cost and amortization will begin when such equipment is put in use. At that time, mining equipment will be amortized on a rational and systematic manner over its useful life. Amortization of office furniture and equipment is calculated on a straight line basis over their estimated useful lives (3 years).

Plant and equipment is assessed for impairment when events and circumstances warrant such review. The carrying value of plant and equipment is impaired when the carrying amount exceeds the fair value. Such excess amount is then charged to operations.

#### ***Exploration projects***

Acquisition costs and expenses on mineral exploration programs are deferred until the commercial viability of the property is determined. If commercial production is achieved, the capitalized costs are amortized over the estimated useful life of the mine or on their anticipated useful life, if the useful life of the asset is less than the life of the mine. The Company reviews the carrying values of its exploration projects at least on an annual basis or whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be recoverable, by reference to project economics (including the timing of the exploration and / or development work), work programs and exploration results or if a property is abandoned. The recoverability of amounts for mineral properties and deferred exploration expenses is dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying property, the ability of the Company to obtain the necessary financing to complete the development and future profitable production or the disposal of the properties for proceeds in excess of their carrying value. When it becomes apparent that the carrying value of a property exceeds its estimated net recoverable amount, an impairment charge is recorded to operations.

#### ***Asset retirement obligation***

The Company recognizes the fair value of an estimated liability for the future closure and reclamation costs with a corresponding increase to the carrying value of the related long-lived asset. The Company defers the amount added to the asset until the commercial viability of the property is determined. If commercial production is achieved, the Company amortizes the amount added on the same basis as the depreciation method established for the related asset. The liability is adjusted at the end of each year to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. As at September 30, 2010 and 2009, the Company had no material asset retirement obligation.

# **Bear Lake Gold Ltd.**

(an exploration stage company)

## **Notes to Consolidated Financial Statements**

**September 30, 2010 and 2009**

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### **4. ACCOUNTING POLICIES (continued)**

#### ***Income taxes***

The Company uses the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined according to differences between the carrying amounts and the tax bases of assets and liabilities. They are measured by applying enacted or substantively enacted tax rates and laws at the date of the financial statements for the years in which temporary differences are expected to reverse. The Company establishes a valuation allowance against future tax assets if, based on available information, it is more likely than not that some or all of the future tax assets will not be realized.

The Company renounces to tax deductions relating to qualified resource expenditures that are financed by the issuance of flow-through shares, to the benefit of its shareholders, in accordance with current tax legislation. Future income taxes related to the temporary differences created by this renouncement are recorded at the time that the Company renounces to its right to these deductions with a corresponding reduction to capital stock.

#### ***Foreign currency translation***

Monetary assets and liabilities of the Company and of its integrated subsidiaries are translated into Canadian dollars at the exchange rate in effect at the balance sheet date, whereas non-monetary assets and liabilities are translated at the exchange rate in effect at the transaction date. Revenues and expenses are translated at the average rate in effect during the year with the exception of depreciation that is translated at the historical rate. Gains and losses on exchange arising from translation are recorded in earnings for the year.

#### ***Loss per share***

Loss per share is calculated using the weighted average number of shares outstanding during the year. The treasury-stock method is used to determine the dilutive effect of warrants and stock options. The diluted loss per share is the same as the basic loss per share due to the anti-dilutive effect of the outstanding warrants and options excluded from the calculation of the diluted loss per share as described in Note 11.

#### ***Stock option plan***

The Company measures the cost of stock options issued under employee and non-employee compensation plans using a fair value-based method. Compensation costs are measured based on the fair value of the award using the Black-Scholes option-pricing model with assumptions for risk-free interest rates, volatility, dividend yields and an expected life of the options. Stock-based compensation costs are recognized as an expense with a corresponding increase to contributed surplus over the related vesting period for stock options issued to employees and over the service period for stock options issued to non-employees. When stock options are exercised, the capital stock is increased by the sum of the consideration paid and the related portion previously included in contributed surplus at the time the compensation expense was charged to operations and comprehensive loss.

# **Bear Lake Gold Ltd.**

(an exploration stage company)

## **Notes to Consolidated Financial Statements**

### **September 30, 2010 and 2009**

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#### **4. ACCOUNTING POLICIES (continued)**

##### ***Allocation of proceeds on equity financing***

The Company allocates the proceeds from an equity financing between common shares and share purchase warrants based on the relative fair values of each instrument. The fair value of the common shares is calculated by using the TSX Venture Exchange ("TSXV") share price on the date of the issuance and the fair value of the share purchase warrants is determined using the Black-Scholes valuation model.

##### ***Share issue expenses***

Share issue expenses are recorded as a reduction of capital stock when incurred.

##### ***Changes in accounting policies***

In June 2009, the CICA amended **Section 3862, *Financial Instruments – Disclosures*** to introduce new financial disclosure requirements, particularly with respect to fair value measurement of financial instruments and entity exposure to liquidity risk. The amendments require all financial instruments measured at fair value to be classified within one of three levels that distinguish fair value measurement by the significance of the inputs used for valuation. In addition, the amendments require enhanced disclosure regarding the nature and extent of liquidity risk arising from financial instruments to which the Company is exposed. On October 1, 2009, the Company adopted the amendments to this section, which requirements are presented in Note 5 to these consolidated financial statements. These amendments had no impact on the Company's results of operations.

##### ***Recently issued accounting pronouncements***

In January 2009, the CICA issued **Section 1582, *Business Combinations*, Section 1601, *Consolidated Financial Statements* and Section 1602, *Non-Controlling Interests*** to replace Section 1581, *Business Combinations* and Section 1600, *Consolidated Financial Statements*. These sections are to be applied prospectively to business combinations on or after the beginning of the first annual reporting period after January 1, 2011, with earlier application permitted. The Company's management does not anticipate that the adoption of these standards will have a significant impact on its financial statements.

# Bear Lake Gold Ltd.

(an exploration stage company)

## Notes to Consolidated Financial Statements

September 30, 2010 and 2009

### 5. FINANCIAL INSTRUMENTS, RISK MANAGEMENT AND CAPITAL MANAGEMENT

#### *Fair value of financial instruments*

The Company's financial instruments consist of cash and cash equivalents, marketable securities, investments, exploration advance, accounts payable and accrued liabilities and credit facilities. Other than marketable securities, investments and credit facilities, the fair value of these financial instruments approximates their carrying value given that they will mature shortly. The fair value of investments was determined by using the discounted cash flow method, as fully described in Note 7 to these consolidated financial statements. The fair value of the credit facilities is estimated to be equal to book value due to the variable nature of the interest rate on the loans. A plus or minus 10% change in the value of the marketable securities at September 30, 2010 would affect earnings by \$1,425 (\$21,400 at September 30, 2009).

The following table summarizes the fair value hierarchy under which the Company's financial instruments are valued:

Level 1 – includes unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – includes inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 – includes inputs for the asset or liability that are not based on observable market data; a reconciliation from the beginning balance to the ending balance is provided.

	September 30, 2010		
	Level 1	Level 2	Level 3
	\$	\$	\$
Cash and cash equivalents	3,406,876	-	-
Marketable securities	14,250	-	-
Investments	-	-	3,163,640

	Reconciliation of Level 3 investments
	\$
Balance, beginning of year	2,846,797
Fair value adjustment included in net loss	401,860
Interest income received	(33,270)
Partial redemption of investments	(51,747)
Balance, end of year	3,163,640

**Bear Lake Gold Ltd.**  
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**5. FINANCIAL INSTRUMENTS, RISK MANAGEMENT AND CAPITAL MANAGEMENT (continued)**

***Risk management***

The Company thoroughly examines the various financial risks to which it is exposed and assesses the impact and likelihood of those risks. Where material, these risks are reviewed and monitored by the Board of Directors.

***Credit risk***

Credit risk is the risk of an unexpected loss if a party to its financial instrument fails to meet its contractual obligations. At September 30, 2010 and 2009, the Company's financial assets exposed to credit risk are primarily composed of cash and cash equivalents and investments. To mitigate exposure to credit risk, the Company has revised its investment policy to limit the concentration of credit risk, to ensure counterparties demonstrate minimum acceptable worthiness, and to ensure liquidity of available funds. The Company's cash and cash equivalents is held with large Canadian financial institutions. At September 30, 2010, cash and cash equivalents includes term deposits of \$1,050,000 maturing by October 22, 2010 and bearing interest at an average rate of 0.70%. The Company's investments are exposed to credit risk as fully described in Note 7 to these financial statements.

***Liquidity risk***

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its financing activities. At September 30, 2010, the Company's working capital totals \$2,995,527 (\$1,121,583 at September 30, 2009). Current liabilities of \$1,569,372 at September 30, 2010 are due within the next 12 months. The Company regularly evaluates its cash position to ensure preservation and security of capital as well as maintenance of liquidity.

The following are the contractual maturities of the Company's financial liabilities as at September 30, 2010:

	Less than 1 year	1 year	2-5 years
	\$	\$	\$
Accounts payable and accrued liabilities	485,316	-	-
Credit facilities (a) (b)	1,023,044	-	2,411,173
Interest payments (c)	61,012	48,223	144,670
	<b>1,569,372</b>	<b>48,223</b>	<b>2,555,843</b>

(a) Under certain conditions, these credit facilities can each be extended to a total period of up to 7 years.

(b) The Company has an option to transfer to its lender the ownership of the ineligible notes held (with a value of \$985,619 at September 30, 2010) in payment of the principal amount of the Second Credit Facility – see Notes 7 and 10.

(c) The estimated interest payable on the floating-rate credit facilities was based on the interest rate in effect as at September 30, 2010.

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### **5. FINANCIAL INSTRUMENTS, RISK MANAGEMENT AND CAPITAL MANAGEMENT (continued)**

#### ***Currency risk***

The Company has limited exposure to financial risk arising from fluctuations in foreign exchange rates and the degree of volatility of these rates, as the amount of expenditures in foreign currency is not significant (approximately US\$54,180 (\$55,795) during the year ended September 30, 2010 and US \$280,000 (\$330,500) during the year ended September 30, 2009). The Company does not use derivative instruments to reduce its exposure to foreign currency risk. As at September 30, 2010, financial assets include cash of US\$22,733 (\$23,393) (US\$36,597 (\$39,184) as at September 30, 2009) and financial liabilities include accounts payable and accrued liabilities of US \$21,362 (\$21,980) (US\$3,500 (\$3,747) as at September 30, 2009).

#### ***Interest rate risk***

Interest rate risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has not entered into any derivative contracts to manage this risk.

The Company's policy as it relates to its cash balances is to invest excess cash in highly liquid, low-risk, money market instruments, with maturities of 180 days or less from the original date of acquisition. The Company is also exposed to interest rate changes on its investments that are expected to pay interest. The Company's exposure to interest rate risks arising from its investments is fully described in Note 7 to these consolidated financial statements.

The long-term debt bears interest at a floating rate and therefore, the Company is exposed to the cash flow risks resulting from interest rate fluctuations. Based on the amount outstanding under the credit facilities at September 30, 2010, a plus or minus 1% change in the prime lending rate would affect earnings by approximately \$34,300 over a 12-month period.

#### ***Commodity price risk***

The Company currently has no direct exposure to price risk for fluctuation in the market price of gold.

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**5. FINANCIAL INSTRUMENTS, RISK MANAGEMENT AND CAPITAL MANAGEMENT (continued)**

**Capital management**

The Company defines capital that it manages as credit facilities and shareholders' equity. When managing capital, the Company's objective is to ensure the entity continues as a going concern as well as to achieve optimal returns to shareholders and benefits for other stakeholders. Management adjusts the capital structure as necessary in order to support the acquisition, exploration and development of mineral properties. As long as the Company is in the exploration stage, it is not the intention of the Company to contract debt obligations to finance its work programs, except in exceptional circumstances, as has occurred in the case of contracting credit facilities secured by the Company's investments. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management team to sustain the future development of the business. As at September 30, 2010, total loans and shareholders' equity [managed capital] was \$29,207,163 (September 30, 2009 - \$32,083,247).

The Company's properties are currently in the exploration stage. As such, the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. Management has chosen to mitigate the risk and uncertainty associated with raising additional capital in current economic conditions by minimizing discretionary disbursements and reducing or eliminating exploration expenditures that are of limited strategic value.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is appropriate. There were no changes in the Company's approach to capital management during the year ended September 30, 2010. The Company is not subject to any externally imposed capital requirements at September 30, 2010. The Company expects that its current capital resources will be sufficient to discharge its current liabilities as at September 30, 2010.

**6. MARKETABLE SECURITIES**

	Cost	Unrealized losses	September 30, 2010 Fair value	September 30, 2009 Fair value
	\$	\$	\$	\$
Shares of Eoro Resources Ltd.	-	-	-	183,735
Shares held in other companies	77,800	(63,550)	14,250	30,500
	<b>77,800</b>	<b>(63,550)</b>	<b>14,250</b>	<b>214,235</b>

In November 2009, the Company sold all of the shares that it held in Eoro Resources Ltd. ("Eoro"), a publicly-held company listed on the TSXV, related by virtue of a common director, for net proceeds of \$185,118, resulting in a gain of \$1,383.

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**7. INVESTMENTS**

On September 30, 2010, the Company held investments in Master Asset Vehicles II and III (“MAV II and III”), which had initially been invested in Canadian third-party asset-backed commercial paper (“ABCP”). These investments, which have been designated as held-for-trading, are accounted for at their fair value. The detail of these investments are as follows:

	September 30,		September 30,	
	2010		2009	
	\$	\$	\$	\$
<b>Eligible notes - nominal amount (a)</b>				
MAV II Senior A-1 notes	1,883,015		1,884,438	
MAV II Senior A-2 notes	1,059,785		1,059,785	
MAV II Subordinated B notes	192,381		192,381	
MAV II Subordinated C notes	97,160		97,160	
	3,232,341		3,233,764	
<b>Fair value adjustment</b>	<b>(1,054,321)</b>	<b>2,178,020</b>	<b>(1,157,949)</b>	<b>2,075,815</b>
<b>Ineligible notes - nominal amount (a)</b>				
MAV II Ineligible Class 1 tracking notes	-		415,026	
MAV III Class 34 tracking notes	252,431		303,041	
MAV III Class 35 tracking notes	264,702		264,702	
MAV III Class 36 tracking notes	145,537		145,537	
	662,670		1,128,306	
<b>Fair value adjustment (b)</b>	<b>322,950</b>	<b>985,620</b>	<b>(357,324)</b>	<b>770,982</b>
		<b>3,163,640</b>		<b>2,846,797</b>
<b>Less: short-term portion of investments</b>		<b>985,619</b>		<b>33,270</b>
		<b>2,178,021</b>		<b>2,813,527</b>

(a) Senior A-1 and A-2 notes pays interest and Subordinated B and C notes accrue interest with payments to be made only after the Senior A-1 and A-2 notes have been fully repaid. The Interest yield for the Senior A-1, A-2 and B notes is based on the bankers' acceptance rate less 0.5% and for the C notes is based on the bankers' acceptance rate plus 20%. Ineligible notes do not pay interest. The Ineligible notes track the performance and repayment of the related underlying assets in certain conduits that have significant exposure to the US residential mortgage market. The maturity date of these notes provide for a maturity similar to that of the underlying assets.

(b) The fair value of the ineligible notes at September 30, 2010 was established based on the discounted value of the Second Credit Facility (Note 11) as the Company was granted an option to transfer to its lender on or after May 12, 2011 the ownership of the ineligible notes in full payment of the principal amount then owing under the Second Credit Facility. Given that the Company has not made a request to extend for an additional one-year period the original maturity date of the Second Credit Facility and intends to exercise, on or after the maturity date, its option to transfer to its lender the ownership of those ineligible notes held, in payment of the principal amount then owing under the Second Credit Facility, the amount of ineligible notes held was presented as short-term portion of investments.

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**7. INVESTMENTS** (continued)

The Company received an amount of \$33,270 in November 2009 representing the final tranche of interest earned on the ABCP. During the year ended September 30, 2010, the Company also received a total amount of \$51,747 as partial redemption of the MAV II Senior A-1 notes and the MAV III Class 34 tracking notes. These amounts were applied as a reduction of the Company's investments. In September 2010, amounts held under MAV II Ineligible Class 1 tracking notes, with a nominal value of \$415,026, were fully written-down following their redemption for cash proceeds of nil.

During the year ended September 30, 2009, the Company received a total amount of \$260,551, representing the Company's portion of net interest earned on the ABCP for the period from August 2007 to January 21, 2009. which amount was accounted for as a reduction of the Company's investments. The Company also received an amount of \$90,883 as partial redemption of the MAV I Senior A-1 notes and MAV III Class 34 tracking notes. These amounts were applied as a reduction of the related notes. In September 2009, amounts held under MAV II Ineligible Class 2 tracking notes, with a nominal value of \$332,021, were fully written-down following their redemption for cash proceeds of nil.

At September 30, 2010 and 2009 the Company established the fair value of the MAV II and III notes that it holds by estimating discounted future cash flows for each category of notes received, using discount rates of between 5.0% and 16.6% (discount rates of between 3.0% and 17.4% in 2009), by taking into account that the Company has the option to transfer to its lender on or after May 12, 2011 the ownership of the ineligible notes in payment of the principal amount then owing under the Second Credit Facility, by estimating that certain notes will pay interest at a rate of 0.5% less than the bankers' acceptance rate and by considering the best available market data. This estimation of fair value resulted in a gain of \$401,860 for the year ended September 30, 2010 (a loss of \$236,155 in 2009). A variation of 1% in discount rates would impact the fair value of investments by approximately \$125,500.

There are limited market quotations available for the MAV II and III notes. Therefore, there is a significant amount of uncertainty in estimating the amount and timing of cash flows associated with these notes. Since the fair value of the MAV II and III notes held is determined based on the Company's assessment of market conditions as at September 30, 2010, the fair value reported may change materially in subsequent periods.

**8. PLANT AND EQUIPMENT**

	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>September 30, 2010 Net</b>	September 30, 2009 Net
	\$	\$	\$	\$
Mining equipment at the Larder Lake Property	1,918,000	-	1,918,000	1,918,000
Office furniture and equipment	13,002	11,719	1,283	4,734
	<b>1,931,002</b>	<b>11,719</b>	<b>1,919,283</b>	1,922,734

# Bear Lake Gold Ltd.

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## Notes to Consolidated Financial Statements

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### 9. MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENSES

	September 30, 2010		September 30, 2009	
	Mineral Properties (1)	Deferred exploration expenses (2)	Mineral Properties (1)	Deferred exploration expenses
	\$	\$	\$	\$
Larder Lake, Ontario	9,303,421	10,640,518	9,303,421	10,029,974
Hope Bay, Nunavut	-	-	575,000	5,196,531
Unity, Idaho	126,598	1,029,481	98,129	973,686
	<b>9,430,019</b>	<b>11,669,999</b>	9,976,550	16,200,191

(1) Amounts presented are net of a write-down of mineral properties of \$575,000 charged to operations during the year ended September 30, 2010 (\$15,266,700 in 2009). The total write-down of mineral properties in 2010 was attributable to the Hope Bay Project (\$500,000 and \$14,766,700 were respectively attributable to the Hope Bay Project and to the Larder Lake Property in 2009). See note 3 for details on Write-down.

(2) Amounts presented are net of a write-down of deferred exploration expenses of \$5,310,792 attributable to the Hope Bay Project and charged to operations during the year ended September 30, 2010 (nil in 2009). See note 3 for details on Write-down.

#### Larder Lake, Ontario

At September 30, 2010, the Company owns a 100% interest in the Bear Lake, Cheminis, Cheminis North and Fernland properties which consists of 55 patented claims, 1 claim for surface rights and 2 licenses of occupation in McGarry and McVittie Townships near Kirkland Lake, Ontario; a 100% interest in the Barber Larder property which consists of 7 patented claims and 2 licenses of occupation in McGarry Township, Ontario; a 75% interest in the Swansea property which consists of 5 mining leases covering 28 claims in McVittie Township, Ontario (Note 17); a 100% interest in the McVittie McGarry properties which consists of 10 mining claims in McVittie Township, Ontario, 2 mining claims in McGarry Township, Ontario and 1 mining claim in Gauthier Township near Kirkland Lake, Ontario; and a 100% interest in the McVittie property which consists of 2 mining claims in McVittie Township, Ontario.

Royalty commitments on the Larder Lake properties consist of a 1% net smelter return royalty on the McVittie McGarry properties, of which the Company has the option to purchase 0.5% for an amount of \$500,000 and on which Eloro also owns directly a net smelter return royalty of 0.5%; and a 0.5% net smelter royalty on the McVittie property, of which the Company has the option to purchase 0.25% for an amount of \$250,000.

# **Bear Lake Gold Ltd.**

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### **9. MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENSES (continued)**

**Larder Lake, Ontario** (continued)

#### **Data inconsistencies at Larder Lake**

On July 21, 2009, the Company announced that it had become aware of material inconsistencies regarding the Company's exploration data that appeared to compromise the Company's prior reporting of exploration results in respect of the Company's Larder Lake Property. Upon learning of these matters, the Company immediately commenced an investigation. Scott Wilson Roscoe Postle Associates ("Scott Wilson RPA") led the technical investigation and Stikeman Elliott LLP led the legal aspects of the investigation. The Company's Board of Directors established a Technical Committee to supervise the investigation, review internal technical procedures and make recommendations to the Board of Directors.

On November 3, 2009, the Company announced that Scott Wilson RPA had substantially completed its technical investigation into the Larder Lake exploration data. Scott Wilson RPA issued a report to the Company and its Board of Directors dated November 2, 2009 (the "Report") which confirmed certain data inconsistencies disclosed during the period from November 27, 2008 to July 14, 2009 as well as three additional inconsistencies initially disclosed on December 20, 2007, June 4, 2008 and September 4, 2008, as identified in the Report.

As part of the November 3, 2009 press release, the Company included a table showing the restated intercepts for the Bear Lake area of the Company's Larder Lake Property (the "Restated Exploration Results"), which included a comparison to the intercepts as originally released. The Restated Exploration Results included a total of 58 intercepts within the Bear Lake area of the Larder Lake property. Of the 58 intercepts, 24 intercepts (41%) were affected by the unsupported assays while 34 intercepts (59%) were unaffected or had only minor changes and corrections. Of the 24 intercepts affected by unsupported assays, 7 retain a significant intercept after using verified data.

Exploration activities at the Larder Lake Property were suspended on July 17, 2009, as soon as the data inconsistencies were uncovered, and recommenced on July 5, 2010 following the settlement of a class-action suit (Note 2) and the completion of a private placement (Note 11 (a)).

#### **Hope Bay, Nunavut**

Pursuant to an agreement dated September 10, 2004 and subsequent amendments, Hope Bay Mining Ltd. ("HB Mining") (a subsidiary of Newmont Mining Corporation) and the Company, had entered into an option agreement whereby the Company could earn a 75% interest in the Chicago Claim Group and Twin Peaks areas, located in Hope Bay, Nunavut. To earn its interest, the Company was required to: a) issue to HB Mining 2,500,000 of its common shares; and b) incur \$7,250,000 in expenditures over six years, with scheduled minimum cumulative expenditures of \$5,250,000 by October 31, 2009 (which amount has been spent) and \$7,250,000 by October 31, 2010. Given that the Company has not spent the remaining \$2 million to earn its interest in the project, the option agreement was terminated. Consequently, the Company charged to operations during the year ended September 30, 2010 an amount of \$575,000 as write-down of mineral properties and an amount of \$5,310,792 as write-down of deferred exploration expenses (Note 3).

# Bear Lake Gold Ltd.

(an exploration stage company)

## Notes to Consolidated Financial Statements

September 30, 2010 and 2009

### 9. MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENSES (continued)

#### Unity, Idaho

On July 31, 2007, the Company entered into an option agreement with Unity GoldSilver Mines Inc. (a privately-held company) ("Unity") to earn a 60% interest in the Unity mineral property located in Idaho, USA. On April 6, 2009, the Company and Unity entered into an agreement to amend some of the provisions of the option agreement. To earn its interest, the Company must incur US\$1,000,000 in exploration and development work (an amount of US\$975,284 has been spent as at September 30, 2010) and complete a positive feasibility study, by February 16, 2012. During the earn-in period, the Company will manage all exploration-related activities. In the event that a positive feasibility study is completed and that a favourable Board decision is obtained to begin construction, the Company and Unity would fund such construction expenditures in accordance with their respective participation in the project. In the event that Unity decides not to participate in the funding of the construction costs, the Company will finance all construction costs and receive an additional 5% participation in the project from Unity.

### 10. CREDIT FACILITIES

	September 30, 2010	September 30, 2009
	\$	\$
Revolving credit facilities		
First Credit Facility		
Tranche A	1,444,301	1,445,437
Tranche B	966,872	966,872
Second Credit Facility	1,023,044	812,822
	3,434,217	3,225,131
Due within the next year	1,023,044	-
	2,411,173	3,225,131

On May 12, 2009, the Company, through its wholly-owned subsidiary Maximus Ventures Ltd. ("Maximus"), entered into two credit facility agreements with its lender, for a total loan amount of \$3,576,810, in replacement of the temporary bank loan that had been entered into in August 2007, to fund working capital requirements following the liquidity disruption that affected the Canadian third-party ABCP market. The term facilities, which bear interest at prime less 1% (2.0% as at September 30, 2010), subject to the respect of certain conditions, are available initially for 2 and 3-year periods, respectively and under certain conditions can each be further extended to a total period of 7 years.

# **Bear Lake Gold Ltd.**

(an exploration stage company)

## **Notes to Consolidated Financial Statements**

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### **10. CREDIT FACILITIES** (continued)

The first Credit Facility (initially available for a 3-year period) was made available in two tranches. The tranche A facility is secured by the Company's investments in those eligible notes (Note 7) and the tranche B facility is secured by those eligible notes as well as a general security interest in the universality of all of Maximus' assets. The second Credit Facility (initially available for a 2-year period) is secured by the Company's investments in those ineligible notes (Note 7). In respect of the Second Credit Facility, the Company has not made a request to extend for an additional one-year period the original maturity date as provided for in the credit facility agreement and intends to exercise, on or after the maturity date, its option to transfer to its lender the ownership of those ineligible notes held, in payment of the principal amount then owing under the Second Credit Facility. Consequently, the amount owed under the Second Credit Facility at September 30, 2010 was presented as current liabilities on the consolidated balance sheets.

During the year ended September 30, 2010, the Company borrowed the final amount available under the credit facilities of \$260,833. Cash proceeds from the sale of the MAV II and III notes are automatically applied to the amount of the outstanding related borrowings. During the year ended September 30, 2010, the Company received total amounts of \$51,747 (\$24,869 in 2009) as partial redemption of some of the notes held. These amounts were applied as a reduction of the related borrowings.

# **Bear Lake Gold Ltd.**

(an exploration stage company)

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### **11. CAPITAL STOCK**

#### **Issued and fully paid**

The Company is authorized to issue an unlimited number of common shares without par value.

#### **Issuance of shares**

(a) In June 2010, the Company completed in two tranches a non-brokered private placement for total gross proceeds of \$3,763,122 (the "Financing"). Under the Financing, the Company issued a total of 11,705,600 "flow-through" common shares ("FT Shares") at a price of \$0.20 per FT Share and 7,900,009 units ("Units") at a price of \$0.18 per Unit. Each Unit issued consists of one common share and one common share purchase warrant ("Warrant"), with each Warrant exercisable to acquire one common share of the Company at a price of \$0.30 per share for a period of 24 months from the closing date of the Financing. The Warrants are subject to a right of accelerated expiry at the Company's option where the closing price of the common shares on the TSXV exceeds \$0.50 for twenty consecutive trading days at any time after four months and one day from closing of the Financing. Proceeds of the Units were allocated between common shares and Warrants based on their relative fair values. The fair value of the common shares was calculated by using the TSXV share price on the date of the issuance and the value of the Warrants was measured based on the Black-Scholes option pricing model. An amount of \$492,768 was allocated to such share purchase warrants and was presented as part of contributed surplus. As part of the Financing, the Company paid a cash commission of \$142,667 and issued 433,000 Units in lieu of a cash commission, with each such Unit comprised of one common share and one Warrant, with each Warrant entitling the holder to acquire one common share of the Company at \$0.30 per share for a period of 24 months from the closing date of the Financing. These warrants have been recorded at a fair value of \$27,009 and presented as part of contributed surplus. The Company also issued finder's warrants entitling the holder to purchase up to 1,146,336 common shares of the Company at a price of \$0.25 per share for a period of 24 months from the closing date of the Financing. These finder's warrants have been recorded at a fair value of \$116,861. Warrants and finder's warrants were measured based on the Black-Scholes option pricing model using a risk-free interest rate of 1.70%, an expected life of the Warrants of 2 years, an annualized volatility of 125% and a dividend rate of 0%.

The gross proceeds from the sale of the FT Shares, in the amount of \$2,341,120, are being used to incur Canadian Exploration Expenses on the Larder Lake Property. These funds are to be expended by December 31, 2011. At September 30, 2010, an amount of \$495,787 of such funds had been spent and an amount of \$1,845,333 remains available to incur such eligible Canadian Exploration Expenses.

In accordance with the flow-through share agreement, the Company intends to renounce during the 2<sup>nd</sup> quarter ending March 31, 2011, the tax deductions related to the flow-through portion of the Financing, estimated at \$702,000, with a corresponding increase to future income tax liability.

# **Bear Lake Gold Ltd.**

(an exploration stage company)

## **Notes to Consolidated Financial Statements**

**September 30, 2010 and 2009**

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### **11. CAPITAL STOCK (continued)**

#### **Issuance of shares (continued)**

(b) On June 4, 2009, the Company completed a bought deal private placement for gross proceeds of \$2,500,000 (the "Offering"). A total of 7,575,758 units (the "Units") at \$0.33 per Unit were issued. Each Unit issued consists of one common share and one-half of one common share purchase warrant, with each whole warrant exercisable to acquire one common share of the Company at \$0.40 per share until June 4, 2011, subject to the Company's right to accelerate the expiry of the warrants if the closing price of the common shares on the TSX Venture Exchange ("TSXV") exceeds \$0.50 for twenty consecutive trading days at any time after four months and one day from closing of the Offering. Proceeds of the private placement were allocated between common shares and share purchase warrants based on their relative fair values. The fair value of the common shares was calculated by using the TSXV share price on the date of the issuance and the value of the common share purchase warrants was measured based on the Black-Scholes option pricing model. An amount of \$657,579 was allocated to such share purchase warrants and was presented as part of contributed surplus. As part of the financing, the Agents received a total cash commission of \$175,000 and non-transferable broker warrants entitling the Agents to purchase up to 530,303 Units of the Company at a price of \$0.33 per Unit until June 4, 2011. Each Unit issuable upon exercise of the broker warrants will have the same terms as the Units of the Offering. These broker warrants have been recorded at a fair value of \$129,440 and presented as part of contributed surplus. Common share purchase warrants and broker warrants were measured based on the Black-Scholes option pricing model using a risk-free interest rate of 1.20%, an expected life of the warrants of 2 years, an annualized volatility of 158% and a dividend rate of 0%.

(c) In April 2009, the Company issued 10,000 of its common shares to the vendor of the Kirkland-Wright properties, which consist of 16 mining claims in McGarry, Hearst and McFadden Townships, Ontario, pursuant to the May 2006 purchase and sale agreement; these shares were valued at \$2,500 at that date.

# Bear Lake Gold Ltd.

(an exploration stage Company)

## Notes to Consolidated Financial Statements

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### 11. CAPITAL STOCK (continued)

(d) On October 23, 2008, the Company completed a brokered private placement for total gross proceeds of \$4,905,980. A total of 13,350,000 flow-through common shares (the "FT Shares") at \$0.30 per FT Share and 3,003,267 units (the "Units") at \$0.30 per Unit have been issued. Each Unit issued consists of one common share and one non-transferable common share purchase warrant, with each warrant exercisable to acquire one common share at \$0.40 per share until October 23, 2010. Proceeds of the private placement were allocated between common shares and share purchase warrants based on their relative fair values. The fair value of the common shares was calculated by using the TSXV share price on the date of the issuance and the value of the common share purchase warrants was measured based on the Black-Scholes option pricing model. An amount of \$325,145 was allocated to such share purchase warrants and was presented as part of contributed surplus. As part of the financing, the agents elected to receive their 5% cash commission in a combination of \$60,400 in cash and 616,330 Units of the Company at a price of \$0.30 per unit, with each such unit comprised of one common share of the Company and one non-transferable common share purchase warrant entitling the holder to acquire one common share at \$0.40 per share until October 23, 2010. These warrants have been recorded at a fair value of \$66,726 and presented as part of contributed surplus. The agents also received non-transferable broker warrants to purchase up to 817,663 common shares of the Company at a price of \$0.30 per share until October 23, 2010. These broker warrants have been recorded at a fair value of \$152,382. Common share purchase warrants and broker warrants were measured based on the Black-Scholes option pricing model using a risk-free interest rate of 2.12%, an expected life of the warrants of 2 years, an annualized volatility of 122% and a dividend rate of 0%. The proceeds of the flow-through financing were used to incur Canadian exploration expenditures and had all been expended by September 30, 2009. Part XII.6 tax in the amount of \$23,997 related to the flow-through financing was charged to operations during the year ended September 30, 2009. On December 31, 2008, in accordance with the flow-through share agreement, the Company renounced the related tax deductions in an amount of \$1,237,545 with a corresponding increase to future income tax liability.

(e) On October 22, 2008, the Company entered into an agreement with each of its financial advisors to settle amounts owed to them for fees charged to the Company in connection with the business combination completed on September 16, 2008. In settlement of the amounts owed, totalling \$425,000, the Company issued an aggregate of 1,416,666 Units of the Company at a price of \$0.30 per Unit, with each Unit comprised of one common share of the Company and one non-transferable share purchase warrant entitling the holder to acquire one common share at \$0.40 per share until October 23, 2010. These warrants have been recorded at a fair value of \$153,340 based on the Black-Scholes option pricing model using a risk-free interest rate of 2.12%, an expected life of the warrants of 2 years, an annualized volatility of 122% and a dividend rate of 0%.

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**11. CAPITAL STOCK (continued)**

**Warrants**

	Year ended September 30, 2010	Year ended September 30, 2009
<b>Number of warrants</b>		
Balance, beginning of year	10,041,898	6,351,633
Issued	9,479,345	10,172,108
Exercised	-	(130,210)
Expired	-	(6,351,633)
Balance, end of year	19,521,243	10,041,898

At September 30, 2010, the outstanding number of warrants exercisable into common shares is as follows:

	Number of Warrants		Number of warrants		Price	Expiry date
	Sept 30, 2009	Issued	Expired	Sept 30, 2010	per share	
	\$					
Private placement – June 2010	-	7,900,009	-	7,900,009	0.30	2012-06-22
In lieu of cash commission – June 2010	-	433,000	-	433,000	0.30	2012-06-22
Finder's warrants – June 2010	-	1,146,336	-	1,146,336	0.25	2012-06-22
Private placement – June 2009	3,787,879	-	-	3,787,879	0.40	2011-06-04
Broker warrants - June 2009	530,303	-	-	530,303	0.33	2011-06-04
Private placement – October 2008 (a)	2,991,495	-	-	2,991,495	0.40	2011-10-23
Broker warrants - October 2008 (b)	699,225	-	-	699,225	0.30	2010-10-23
In lieu of cash commission (b)	616,330	-	-	616,330	0.40	2010-10-23
As debt settlement (b)	1,416,666	-	-	1,416,666	0.40	2010-10-23
	10,041,898	9,479,345	-	19,521,243	0.34	

(a) Following TSXV approval, the expiry date of the October 2008 warrants was extended from October 23, 2010 to October 23, 2011 (Note 17).

(b) These warrants expired unexercised on October 23, 2010.

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### **11. CAPITAL STOCK (continued)**

#### **Stock options**

The Company has the following three (3) stock option plans: a) a “rolling” stock plan, which governs the grant of all options starting on September 16, 2008, the date of the business combination between NFX and Maximus (the “2008 Stock Option Plan”); b) the stock option plan of NFX which existed prior to the business combination (the “NFX stock Option Plan”) and which governs all outstanding NFX stock options as at September 15, 2008; and c) the stock option plan of Maximus which existed prior to the business combination (the “Maximus Stock Option Plan”) and which governs all outstanding Maximus stock options as at September 15, 2008. No further options are granted pursuant to the NFX Stock Option Plan and the Maximus Stock Option Plan. The number of shares of Bear Lake reserved for issuance at any time pursuant to all three plans is not to exceed 10% of the then issued and outstanding shares of the Company.

#### ***2008 Stock Option Plan***

On September 11, 2008, the shareholders of the Company approved a new rolling stock option plan for certain directors, officers, employees and consultants of the Company and of its subsidiaries and affiliates, which became effective on September 16, 2008. The 2008 Stock Option Plan is administered either directly by the Board of Directors or through one of its committees. The exercise price of an option granted under the 2008 Option Plan is not to be lower than the price permitted by the TSXV. The options shall be granted for such periods as the Board determines up to a maximum of ten (10) years. The Board may, at its discretion, determine the time during which any options may vest.

#### ***NFX Stock Option Plan***

The NFX Stock Option Plan was a fixed plan, which provided that the exercise price of each option would not be less than the closing price of NFX’s common shares on the TSXV on the last trading day immediately preceding the date of grant of the stock option, less the applicable discount permitted by the TSXV. All remaining outstanding stock options under the NFX Stock Option Plan expired on September 15, 2010.

#### ***Maximus Stock Option Plan***

The Maximus Stock Option Plan authorized the grant of options to directors, senior officers, employees and consultants to acquire up to 20% of the then issued and outstanding common shares of Maximus. Under the plan, the exercise price of each option could not be less than the market price of the Company’s stock as calculated on the date of grant less the applicable discount. The options could be granted for a maximum of 5 years. Vesting periods was at the discretion of the Board of Directors.

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**11. CAPITAL STOCK** (continued)

**Stock options** (continued)

The following table sets out the activity in stock options:

	Year ended September 30, 2010	Year ended September 30, 2009
<b>Number of Options</b>		
Balance, beginning of year	7,277,500	5,930,000
Granted	13,500	2,272,500
Exercised	(100,000)	-
Cancelled / expired	(2,920,000)	(925,000)
Number of options outstanding, end of year	4,271,000	7,277,500
Number of options exercisable, end of year	4,271,000	6,619,167

The Company granted to an employee of the Company a total of 13,500 stock options in April 2010 following a year-end performance review; these options are exercisable for a period of five years at \$0.24 per share, the market closing price on the day preceding the grant. The fair value of the options granted was estimated at \$2,755 using an expected time-period of 5 years, a semi-annual risk-free interest rate of 3.2%, a volatility rate of 125% and a 0% dividend factor.

For the year ended September 30, 2010, stock-based compensation expenses of \$83,078 were included as part of the remuneration expense on the consolidated statement of operations (\$529,977 for the year ended September 30, 2009).

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**11. CAPITAL STOCK (continued)**

**Stock options (continued)**

Stock option transactions are detailed as follows:

Grant date	Exercise price	Balance, Sept 30, 2009	Granted	Exercised	Cancelled / Expired (1)	Balance, Sept 30, 2010	Number of options exercisable	Residual exercise period
	\$							(in years)
<b>2008 Stock Option Plan</b>								
Sept 20, 2008	0.70	100,000	-	-	-	100,000	100,000	3.0
Jan 30, 2009	0.28	2,272,500	-	-	(400,000)	1,872,500	1,872,500	3.3
April 21, 2010	0.24	-	13,500	-	-	13,500	13,500	4.6
<b>NFX Stock Option Plan</b>								
Dec 16, 2005	0.60	112,500	-	-	(112,500)	-	-	-
Jan 30, 2006	1.10	150,000	-	-	(150,000)	-	-	-
Aug 17, 2007	0.70	850,000	-	-	(850,000)	-	-	-
Sept 19, 2007	0.82	100,000	-	-	(100,000)	-	-	-
Nov 9, 2007	1.60	450,000	-	-	(450,000)	-	-	-
<b>Maximus Stock Option Plan</b>								
Nov 12, 2004	0.24	250,000	-	-	(250,000)	-	-	-
Aug 31, 2005	0.20	350,000	-	(100,000)	(250,000)	-	-	-
Mar 28, 2006	0.60	100,000	-	-	-	100,000	100,000	0.5
Nov 14, 2006	0.64	450,000	-	-	-	450,000	450,000	1.1
Dec 27, 2006	0.80	500,000	-	-	-	500,000	500,000	1.3
Feb 22, 2007	0.70	200,000	-	-	(200,000)	-	-	-
May 23, 2007	0.58	100,000	-	-	-	100,000	100,000	1.7
Dec 14, 2007	0.84	262,500	-	-	(87,500)	175,000	175,000	2.2
Jan 4, 2008	0.80	400,000	-	-	-	400,000	400,000	2.3
Jan 25, 2008	0.76	212,500	-	-	(25,000)	187,500	187,500	2.3
Mar 4, 2008	0.68	417,500	-	-	(45,000)	372,500	372,500	2.4
	0.53	7,277,500	13,500	(100,000)	(2,920,000)	4,271,000	4,271,000	

(1) A total of 485,000 stock options were cancelled following the termination in November 2009 of the Company's former Vice President, Exploration, 250,000 stock options expired unexercised in November 2009, 250,000 stock options expired unexercised in August 2010, 1,662,500 stock options expired unexercised in September 2010, 77,500 stock options expired in January 2010 following the resignation of the Company's Manager, Investor Relations and 195,000 stock options were cancelled in April 2010 following a year-end performance review completed by the Compensation Committee of the Board.

**Diluted earnings per share**

Excluded from the calculation of the diluted earnings per share for the year ended September 30, 2010 are 19,521,243 warrants (8,812,370 in 2009) and 4,271,000 stock options (4,405,000 in 2009) because to include them would be anti-dilutive.

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**12. RELATED PARTY TRANSACTIONS**

During the year ended September 30, 2010, the Company paid or accrued administration expenses of \$147,633 to Reunion Gold Corporation (\$264,595 in 2009), a company with a common director and management, providing administrative services.

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

**13. INCOME TAXES**

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	Year ended September 30, 2010	Year ended September 30, 2009
	\$	\$
Loss before income taxes	<b>(6,770,655)</b>	(17,356,857)
Expected income tax recovery	<b>(2,102,288)</b>	(5,363,270)
Non-deductible expenses	<b>25,796</b>	200,772
Change in future tax rates	<b>397,923</b>	(390,396)
Variation in valuation allowance	<b>1,666,820</b>	1,066,199
Other	<b>11,749</b>	650,241
Future income tax recovery	-	(3,836,454)
Represented by:		
Future income tax recovery	-	(3,836,454)

The variation in valuation allowance of the future income tax assets of \$75,072 (\$173,806 in 2009) related to the share issue costs was applied against the deficit.

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**13. INCOME TAXES (continued)**

The significant components of the Company's future income tax assets and liabilities are as follows:

	September 30, 2010	September 30, 2009
	\$	\$
Future income tax assets		
Mineral properties	1,128,461	-
Non-capital loss carryforwards	2,742,981	2,570,220
Financing costs	224,974	300,339
Capital loss carryforwards	66,766	30,381
	<b>4,163,182</b>	<b>2,900,940</b>
Future income tax liabilities		
Plant and equipment	(426,689)	(443,783)
Mineral properties	-	(490,133)
Others	(27,577)	-
Valuation allowance	(3,708,916)	(1,967,024)
Total future income tax asset (liability)	-	-

During the year ended September 30, 2009, the Company renounced exploration expenditures of \$4,005,000 which resulted in a charge against capital stock of \$1,237,545 and a corresponding increase to future income tax liability.

The Company has non-capital tax losses, which are available to reduce income taxes in future years. They total \$10,395,667 and expire as follows:

	\$
2013	1,181,611
2014	587,539
2025	778,962
2026	1,768,455
2027	3,286,723
2028	129,859
2029	1,047,342
2030	1,615,176
Total	<b>10,395,667</b>

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**14. CONTINGENCIES**

***Emergency order***

The Ontario Ministry of Northern Development, Mines and Forestry (“MNDMF”) issued an Emergency Order on December 4, 2009 to five companies, including Bear Lake, with claims in McGarry Township, in the area where the Upper and Lower Kerr Mine Tailings Ponds are located. The MNDMF had found that a dam and spillway on a claim which is not held by the Company was in need of immediate repair. In light of this situation, the MNDMF undertook and completed in early 2010 the design and construction of a temporary spillway. In April 2010, the MNDMF confirmed to each of the five companies that their obligations under the Emergency Order had thus been cancelled but that the costs for the work conducted by the MNDMF constituted a debt due to the Crown by the five companies. The MNDMF is also looking to the five companies for a plan and schedule indicating how and when the mine hazards associated with the Upper and Lower Kerr Mine Tailings Ponds will be rehabilitated. The Company believes that it does not have any liability related to the dam and spillway referred to in the Emergency Order, on the basis that these are located on property owned and controlled by others. The Company has been conducting appropriate preventive work on its claims and has informed the MNDMF of the work done by the Company. At this time, the Company cannot estimate the potential cost for dealing with this issue, but it does not believe that it will be significant. Expenses in the amount of \$89,790 were incurred during the year ended September 30, 2010, regarding this matter. Such expenses include mainly technical consulting fees.

***Statement of claim***

On May 25, 2010, the Company was served with a statement of claim initiated by a former supplier of the Company, whereby damages totalling \$3.25 million are being sought. The Company is of the view that this claim has no merit and is vigorously defending itself in this matter before the Ontario Superior Court of Ontario. The Company does not believe that potential costs for dealing with this issue will be significant.

**15. SEGMENTED INFORMATION**

The Company has one reportable operating segment being the acquisition and exploration of mineral properties. Mineral properties, deferred exploration expenses and capital assets are located in the following geographic locations:

	<b>September 30, 2010</b>	September 30, 2009
	\$	\$
Canada	<b>21,863,222</b>	27,027,660
United States of America	<b>1,156,079</b>	1,071,815
	<b>23,019,301</b>	28,099,475

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## **Notes to Consolidated Financial Statements**

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### **16. COMPARATIVE FIGURES**

Certain comparative figures provided for the year ended September 30, 2009 have been reclassified to conform to the presentation adopted for the year ended September 30, 2010.

### **17. SUBSEQUENT EVENTS**

#### **Extension of 2008 warrants**

Following receipt of the consent of the TSXV, the Company extended the term of 2,991,495 share purchase warrants issued on October 23, 2008 as part of a brokered private placement of its securities. These warrants are now exercisable until October 23, 2011 and the exercise price of \$0.40 remains unchanged.

#### **Grant of stock options**

The Company granted on October 18, 2010 an aggregate of 5,250,000 stock options to directors, officers, employees and consultants of the Company. Of this total, 1,630,000 options are subject to the achievement of certain performance objectives and vest only if the 20-day volume weighted average price of the Company's common shares on the TSXV is \$0.90 per share or above; and 700,000 are subject to the achievement of certain defined performance objectives. The balance of 2,920,000 options vest over a two-year period. The options have a five-year term and are exercisable at a price of \$0.30, the closing price of the Company's stock on October 15, 2010.

#### **Option agreement on the Swansea property**

The Company, Newstrike Resources Ltd. ("Newstrike") and Odyssey Resources Limited ("Odyssey") entered into an option agreement dated October 22, 2010 (the "Option") under which Odyssey may acquire a 25% interest in the Swansea property in Northeastern Ontario (the "Property") by spending \$1.1 million on the Property by March 31, 2011. Bear Lake and Newstrike respectively own an interest of 75% and 25% in the Property. Pursuant to the Option, Odyssey is entitled, subject to the terms and conditions of the Option, to acquire an 18.75% interest from Bear Lake and a 6.25% interest from Newstrike for a total interest of 25%. Given that the Executive Chairman and the Chief Financial Officer of the Company also hold the same positions, respectively with Odyssey and that a director of Odyssey is also the Chief Financial Officer of Newstrike, the Company has sought and obtained approval from the TSXV in relation to this agreement.