



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

**CONSOLIDATED FINANCIAL STATEMENTS**

**Years ended September 30, 2011 and 2010**

## **Independent Auditor's Report**

To the Shareholders of  
Bear Lake Gold Ltd.

**Raymond Chabot Grant Thornton LLP**  
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We have audited the accompanying consolidated financial statements of Bear Lake Gold Ltd., which comprise the consolidated balance sheets as at September 30, 2011 and 2010 and the consolidated statements of operations and comprehensive loss, shareholders' equity, cash flows and deferred exploration expenses for the years then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Bear Lake Gold Ltd. as at September 30, 2011 and 2010 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 S.E.N.C.R.L.<sup>1</sup>

Montréal, Canada  
December 14, 2011

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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, 2011	September 30, 2010
	\$	\$
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents (Note 4)	3,928,359	3,406,876
Marketable securities (Note 6)	13,000	14,250
Sales taxes receivable	52,233	66,191
Short-term portion of investments (Note 7)	-	985,619
Prepaid expenses and deposits	8,861	30,951
	<b>4,002,453</b>	<b>4,503,887</b>
Investments (Note 7)	-	2,178,021
Reclamation bond	3,040	3,040
Plant and equipment (Note 8)	1,919,611	1,919,283
Mineral properties (Note 9)	9,303,421	9,430,019
Deferred exploration expenses (Note 9)	13,050,481	11,669,999
	<b>28,279,006</b>	<b>29,704,249</b>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	503,745	485,316
Short-term portion of credit facilities (Note 10)	-	1,023,044
	<b>503,745</b>	<b>1,508,360</b>
Credit facilities (Note 10)	-	2,411,173
Minority interest	11,770	11,770
	<b>515,515</b>	<b>3,931,303</b>
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (Note 11)	68,763,853	66,768,663
Contributed surplus	9,910,457	8,170,624
Deficit	(50,910,819)	(49,166,341)
	<b>27,763,491</b>	<b>25,772,946</b>
	<b>28,279,006</b>	<b>29,704,249</b>

Going concern (Note 1)

Contingencies (Note 17)

Subsequent events (Notes 17 and 20)

*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, 2011	Year ended September 30, 2010
	\$	\$
<b>Expenses</b>		
Stock-based compensation	597,530	83,078
Other remuneration	332,382	326,557
Management and administration	155,372	173,467
Office	126,749	138,089
Professional fees	259,380	92,910
Other property costs (Note 17)	13,026	89,790
Transfer agent and filing fees	36,189	32,917
Shareholder communications and travel	10,573	13,248
Depreciation	1,176	3,451
	<b>1,532,377</b>	<b>953,507</b>
<b>Other items</b>		
Interest income	(38,157)	(12,504)
Interest expense	39,557	46,558
Part XII.6 tax on flow-through financing	9,387	-
Gain on sale of marketable securities (Note 6)	-	(1,383)
Unrealized loss on marketable securities (Note 6)	1,250	16,250
Fair value adjustment of investments (Note 7)	(275,334)	(401,860)
Settlement of class-action and other related costs (Note 13)	-	284,295
Write-down of mineral properties and deferred exploration expenses (Note 9)	1,156,079	5,885,792
	<b>892,782</b>	<b>5,817,148</b>
Loss before income taxes	(2,425,159)	(6,770,655)
Future income tax recovery (Note 11 b)	680,681	-
<b>Net loss and comprehensive loss</b>	<b>(1,744,478)</b>	<b>(6,770,655)</b>
Basic and diluted loss per common share	(0.02)	(0.07)
Weighted average number of common shares - basic and diluted	112,947,143	95,468,480

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, 2010	110,223,879	66,768,663	8,170,624	(49,166,341)	25,772,946
Private placement (Note 11 a)	26,157,666	2,781,345	1,142,303	-	3,923,648
Share issue costs, net of income taxes of \$30,377, which have been devaluated (Note 11 a)	-	(105,474)	-	-	(105,474)
Income tax deductions renounced (Note 11 b)	-	(680,681)	-	-	(680,681)
Stock-based compensation	-	-	597,530	-	597,530
Net loss for the year	-	-	-	(1,744,478)	(1,744,478)
<b>Balance at September 30, 2011</b>	<b>136,381,545</b>	<b>68,763,853</b>	<b>9,910,457</b>	<b>(50,910,819)</b>	<b>27,763,491</b>
Balance at September 30, 2009	90,085,270	63,791,894	7,461,908	(42,395,686)	28,858,116
Private placements (Note 11b)	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 b)	-	(375,516)	116,861	-	(258,655)
Issuance of units in lieu of cash commission (Note 11 b)	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>

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, 2011	Year ended September 30, 2010
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net loss	(1,744,478)	(6,770,655)
Non-cash items		
Depreciation	1,176	3,451
Stock-based compensation	597,530	83,078
Unrealized loss on marketable securities	1,250	16,250
Gain on sale of marketable securities	-	(1,383)
Fair value adjustment of investments	(275,334)	(401,860)
Write-down of mineral properties and deferred exploration expenses	1,156,079	5,885,792
Future income tax recovery	(680,681)	-
Changes in non-cash working capital items (Note 16)	158,773	(313,438)
	<b>(785,685)</b>	<b>(1,498,765)</b>
<b>INVESTING ACTIVITIES</b>		
Marketable securities	-	185,118
Investments (Note 7)	2,428,444	85,017
Exploration advance	-	57,392
Acquisition of equipment	(1,504)	-
Mineral properties and deferred exploration expenses	(2,514,259)	(458,368)
	<b>(87,319)</b>	<b>(130,841)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from credit facilities	-	260,833
Reimbursement of credit facilities (Note 10)	(2,423,687)	(51,747)
Issuance of shares and warrants, net of costs (Note 11)	3,818,174	3,582,407
Exercise of stock options	-	20,000
	<b>1,394,487</b>	<b>3,811,493</b>
<b>Net increase in cash and cash equivalents</b>	<b>521,483</b>	<b>2,181,887</b>
Cash and cash equivalents, beginning of year	<b>3,406,876</b>	<b>1,224,989</b>
Cash and cash equivalents, end of year	<b>3,928,359</b>	<b>3,406,876</b>
Interest received	38,157	12,504
Interest paid	39,557	46,558
<b>Changes in other non-cash items</b>		
Ownership of investments transferred to lender (Note 7)	1,010,530	-
Accounts payable and accrued liabilities related to exploration projects	(104,296)	(350,701)
Issuance of units in lieu of broker commission (Note 11 b)	-	77,940
Issuance of finder's warrants (Note 11 b)	-	116,861

*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, 2011

	Larder Lake, Ontario	Unity, Idaho	Total
	\$	\$	\$
<b>Balance, beginning of year</b>	<b>10,640,518</b>	<b>1,029,481</b>	<b>11,669,999</b>
Contractors and consultants	109,321	-	109,321
Drilling and assaying	1,847,683	-	1,847,683
Geology	11,427	-	11,427
Labour	274,630	-	274,630
Management and administration	120,182	-	120,182
Title and claim management	46,720	-	46,720
	<b>2,409,963</b>	<b>-</b>	<b>2,409,963</b>
	<b>13,050,481</b>	<b>1,029,481</b>	<b>14,079,962</b>
<b>Write-down of deferred exploration expenses (Note 9)</b>	<b>-</b>	<b>(1,029,481)</b>	<b>(1,029,481)</b>
<b>Balance, end of year</b>	<b>13,050,481</b>	<b>-</b>	<b>13,050,481</b>

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 9)</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>

*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, 2011 and 2010**

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### **1. GOVERNING STATUTES AND NATURE OF OPERATIONS**

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. Bear Lake's common shares are listed on the TSX Venture Exchange ("TSXV") under the symbol BLG. All financial results in these financial statements are expressed in Canadian dollars unless otherwise indicated.

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 exist which result in uncertainties 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 \$50,910,819 at September 30, 2011. The Company has cash and cash equivalents of \$3,928,359 at September 30, 2011 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.

These 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, 2011 and 2010**

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### **2. ACCOUNTING POLICIES**

The accompanying consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), using the historical cost method, with the exception of certain financial instruments which are recognized at fair value. No disclosure of fair value is required when the carrying amount is a reasonable approximation of fair value. On initial recognition, all financial assets and liabilities are measured and recognized at fair value.

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

The preparation of financial statements in accordance with Canadian 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, plant and equipment, mineral properties and deferred exploration expenses, the assessment as to whether or not an asset retirement obligation should be accounted for, the valuation of stock-based compensation, warrants and income taxes.

#### ***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 available bid price at the date of reporting. 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***

Accounts payable and accrued liabilities and long-term debt are classified as other liabilities. They are measured at amortized cost using the effective interest rate method.

# **Bear Lake Gold Ltd.**

(an exploration stage company)

## **Notes to Consolidated Financial Statements**

**September 30, 2011 and 2010**

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### **2. 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 of 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 the 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.

The Company recognizes government assistance in the form of mineral exploration and mining tax credits when the amounts to be received can be reasonably estimated and collection can be reasonably assured. The amount of mineral exploration and mining tax credits is presented as a reduction of deferred exploration expenses.

#### ***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, 2011 and 2010, the Company had no material asset retirement obligation.

#### ***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 revenues and expenses relating to non-monetary assets and liabilities, which are translated at the historical rate. Gains and losses on exchange arising from translation are recorded in operations for the year.

# **Bear Lake Gold Ltd.**

(an exploration stage company)

## **Notes to Consolidated Financial Statements**

**September 30, 2011 and 2010**

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

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

The Company uses the 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 income 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.

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

Basic loss per share is calculated using the weighted-average number of common shares outstanding during the year. The Company uses the treasury stock method to compute the dilutive effect of stock options and warrants. Under this method the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon the exercise of stock options and warrants. It assumes that the proceeds would be used to purchase common shares at the average market price during the year. For the year ended September 30, 2011, this calculation proved to be anti-dilutive due to losses incurred by the Company and consequently, there is no difference between the basic and the diluted loss per share.

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

The Company measures the compensation cost of stock options issued under its 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.

#### ***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 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.

# Bear Lake Gold Ltd.

(an exploration stage company)

## Notes to Consolidated Financial Statements September 30, 2011 and 2010

### 3. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, marketable securities, investments, 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 at September 30, 2010 was determined by using the discounted cash flow method (Note 7). The fair value of the credit facilities at September 30, 2010 was 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, 2011 would affect earnings by \$1,300 (\$1,425 at September 30, 2010).

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, 2011		
	Level 1	Level 2	Level 3
	\$	\$	\$
Cash and cash equivalents	3,928,359	-	-
Marketable securities	13,000	-	-

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

(a) The reconciliation of the investments from the beginning balance to the ending balance is presented in Note 7.

# **Bear Lake Gold Ltd.**

(an exploration stage company)

## **Notes to Consolidated Financial Statements**

**September 30, 2011 and 2010**

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### **4. 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. Generally, the carrying amount of the Company's financial assets exposed to credit risk, net of applicable provisions for losses, represents the maximum amount of exposure to credit risk. At September 30, 2011, the Company's financial assets exposed to credit risk are primarily composed of cash and cash equivalents (cash and cash equivalents and investments at September 30, 2010). 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 included term deposits of \$1,050,000, which matured on October 22, 2010 and bore interest at an average rate of 0.70%. The Company's investments at September 30, 2010 were exposed to credit risk as described in Note 7.

#### ***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, 2011, the Company's working capital totals \$3,498,708 (\$2,995,527 at September 30, 2010). Accounts payable and accrued liabilities of \$503,745 at September 30, 2011 are due within the next 3 months. The Company regularly evaluates its cash position to ensure preservation and security of capital as well as maintenance of liquidity.

#### ***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\$30,966 (\$29,266) during the year ended September 30, 2011 and US \$54,180 (\$55,795) during the year ended September 30, 2010). The Company does not use derivative instruments to reduce its exposure to foreign currency risk. As at September 30, 2011, financial assets include cash of US\$309,032 (\$323,928) (US\$22,733 (\$23,393) as at September 30, 2010) and financial liabilities include accounts payable and accrued liabilities of US \$5,000 (\$5,241) (US\$21,362 (\$21,980) as at September 30, 2010).

# **Bear Lake Gold Ltd.**

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## **Notes to Consolidated Financial Statements September 30, 2011 and 2010**

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### **4. RISK MANAGEMENT (continued)**

#### ***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. In 2010, the Company was also exposed to interest rate changes on its investments, as described in Note 7. The long-term debt at September 30, 2010 bore interest at a floating rate and therefore, the Company was exposed to the cash flow risks resulting from interest rate fluctuations.

### **5. 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, 2011, total loans and shareholders' equity [managed capital] was \$27,763,491 (September 30, 2010 - \$29,207,163).

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, 2011. The Company is not subject to any capital requirements imposed by a lending institution. However, the Company is subject to requirements related to the use of funds obtained by flow-through share arrangement. These funds are to be incurred for eligible exploration expenses in Canada. The Company was in compliance with the requirements related to the use of flow-through funds throughout the reporting period. The Company expects that its current capital resources will be sufficient to discharge its current liabilities as at September 30, 2011.

# Bear Lake Gold Ltd.

(an exploration stage company)

## Notes to Consolidated Financial Statements

September 30, 2011 and 2010

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### 6. MARKETABLE SECURITIES

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	Cost	Unrealized losses	September 30, 2011 Fair value	September 30, 2010 Fair value
	\$	\$	\$	\$
Shares of public companies	77,800	(64,800)	13,000	14,250

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In November 2009, the Company sold all of the shares that it held in Eloro Resources Ltd. ("Eloro"), 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**

Until April 2011, 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 had been designated as held-for-trading and were accounted for at fair value.

On April 6, 2011, following the exercise of a put option, the Company transferred to its lender the ownership of all ineligible MAV III notes that it held, in full payment of the principal amount of \$1,010,530 then owing under the Second Credit Facility (Note 10). On April 29, 2011, the Company sold all of its eligible MAV II notes for cash proceeds of \$2,415,930. This amount was applied to fully repay the principal amount then owing under the First Credit Facility (Note 10).

Investments are detailed as follows:

	September 30, 2011	September 30, 2010 (a)
	\$	\$
Nominal amount of eligible MAV II notes	-	3,232,341
Nominal amount of ineligible MAV II notes	-	662,670
Fair value adjustment	-	(731,371)
	-	3,163,640
Short-term portion of notes held	-	985,619
Long-term portion of notes held	-	2,178,021
	-	3,163,640

	Eligible MAV II notes	Ineligible MAV III notes	Total
	\$	\$	\$
Fair value at September 30, 2009	2,075,815	770,982	2,846,797
Interest earned on the ABCP	(33,270)	-	(33,270)
Cash received from the partial redemption of investments	(1,423)	(50,324)	(51,747)
Fair value adjustment	136,898	264,962	401,860
Fair value at September 30, 2010	2,178,020	985,620	3,163,640
Cash received from the partial redemption of investments	-	(12,514)	(12,514)
Fair value adjustment	237,910	37,424	275,334
Ownership of investments transferred to lender (Note 10)	-	(1,010,530)	(1,010,530)
Cash proceeds from sale of investments	(2,415,930)	-	(2,415,930)
Fair value at September 30, 2011	-	-	-

(a) At September 30, 2010, the Company established the fair value of the MAV II and III notes that it held by estimating discounted future cash flows for each category of notes received, using discount rates of between 5.0% and 16.6%, by taking into account that the Company had the option to transfer to its lender on or after May 12, 2011 the ownership of the ineligible notes held in payment of the principal amount then owing under the Second Credit Facility, by estimating that certain notes would pay interest at a rate of 0.5% less than the bankers' acceptance rate and by considering the best available market data.

# Bear Lake Gold Ltd.

(an exploration stage company)

## Notes to Consolidated Financial Statements

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### 8. PLANT AND EQUIPMENT

	Cost	Accumulated Depreciation	September 30, 2011 Net	September 30, 2010 Net
	\$	\$	\$	\$
Mining equipment at the Larder Lake Property	1,918,000	-	1,918,000	1,918,000
Office furniture and equipment	14,506	12,895	1,611	1,283
	<b>1,932,506</b>	<b>12,895</b>	<b>1,919,611</b>	<b>1,919,283</b>

### 9. MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENSES

	September 30, 2011		September 30, 2010	
	Mineral properties	Deferred exploration expenses	Mineral properties	Deferred exploration expenses
	\$	\$	\$	\$
Larder Lake, Ontario	9,303,421	13,050,481	9,303,421	10,640,518
Unity, Idaho	-	-	126,598	1,029,481
	<b>9,303,421</b>	<b>13,050,481</b>	<b>9,430,019</b>	<b>11,669,999</b>

#### Larder Lake, Ontario

- a) At September 30, 2011, 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; a 100% interest in the McVittie McGarry properties which consists of 10 mining claims in McVittie Township, Ontario; and a 100% interest in the McVittie property which consists of 2 mining claims in McVittie Township, Ontario.
- b) 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.
- c) On October 22, 2010, the Company, Newstrike Resources Ltd. ("Newstrike") and Odyssey Resources Limited ("Odyssey") had entered into an option agreement (the "Option") under which Odyssey had the option to acquire from Newstrike and the Company (the "owners") a 25% interest in the Swansea property (the "Property") by spending \$1,100,000 on the Property by March 31, 2011. A cumulative amount of \$1,050,793 was spent by Odyssey on this Property. However, given that no significant results were obtained, Odyssey determined not to pursue the program and in March 2011 advised the owners that it was terminating the Option.

# **Bear Lake Gold Ltd.**

(an exploration stage company)

## **Notes to Consolidated Financial Statements**

**September 30, 2011 and 2010**

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

#### **Larder Lake, Ontario (continued)**

d) 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 13) and the completion of a private placement (Note 11 b).

#### **Unity, Idaho**

On July 31, 2007, the Company entered into an option agreement, with subsequent amendments, with Unity GoldSilver Mines Inc. (a privately-held company) ("Unity") to earn a 60% interest in the Unity mineral property located in Idaho, USA. 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, 2011) and complete a positive feasibility study by February 28, 2013 (as amended by the parties on May 31, 2011). During the earn-in period, the Company will manage all exploration-related activities.

Given that the Company has not conducted any field work on the property since the summer of 2009 and that funds from the private placement completed in August 2011 have been designated to be spent principally at Larder Lake, the Company has charged to operations at September 30, 2011, in accordance with accounting guidelines, an amount of \$1,156,079 as write-down of mineral properties and deferred exploration expenses.

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

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"), the Company was required to spend an 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 \$5,885,792 as write-down of mineral properties and deferred exploration expenses.

# Bear Lake Gold Ltd.

(an exploration stage company)

## Notes to Consolidated Financial Statements

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### 10. CREDIT FACILITIES

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 bore interest at prime less 1% (2.0% as at September 30, 2010), subject to the respect of certain conditions, were available initially for 2 and 3-year periods, respectively and under certain conditions could each be further extended to a total period of 7 years.

On April 6, 2011, the amount owing under the Second Credit Facility, which then totaled \$1,010,530, was repaid in full by the Company through the transfer by the Company to its lender of the ownership of all of the ineligible MAV III notes that it held (Note 7), following the exercise of a put option held by the Company to that effect. On April 29, 2011, the Company sold all of its eligible MAV II notes for cash proceeds of \$2,415,930. This amount was used to fully repay the principal amount then owing under the First Credit Facility of \$2,411,173.

	September 30, 2011	September 30, 2010
	\$	\$
Revolving credit facilities		
First Credit Facility (a)	-	2,411,173
Second Credit Facility (b) (c) (d)	-	1,023,044
	-	3,434,217
Due within the next year	-	1,023,044
	-	2,411,173

(a) The first Credit Facility was made available in two tranches. The tranche A facility (initially available for a 3-year period) was secured by the Company's investments in those eligible notes (Note 7) and the tranche B facility was secured by those eligible notes as well as a general security interest in the universality of all of Maximus' assets.

(b) The second Credit Facility (initially available for a 2-year period) was secured by the Company's investments in those ineligible notes (Note 7).

(c) During the year ended September 30, 2010, the Company borrowed the final amount available under the credit facilities of \$260,833.

(d) During the year ended September 30, 2011, the Company received a total amount of \$12,514 (\$51,747 in 2010) as partial redemption of some of the notes held. Amounts received were applied as a reduction of the related borrowings.

# Bear Lake Gold Ltd.

(an exploration stage company)

## Notes to Consolidated Financial Statements

September 30, 2011 and 2010

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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 August 2011, the Company completed a non-brokered private placement for total gross proceeds of \$3,923,648 (the "2011 Financing"). The Company issued a total of 11,499,333 "flow-through" units ("FT Units") at a price of \$0.15 per FT Unit and 14,658,333 units ("Units") at a price of \$0.15 per Unit. Each FT Unit consists of one common share and one half of one common share purchase warrant ("FT Warrant") and each Unit issued consists of one common share and one common share purchase warrant ("Warrant"), with each full FT Warrant and each Warrant being exercisable to acquire one common share of the Company at a price of \$0.20 per share for a period of 24 months from the closing date of the 2011 Financing. The FT Warrants and 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 six months 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 \$1,142,303 was allocated to such share purchase warrants and was presented as part of contributed surplus. As part of the 2011 Financing, the Company paid \$105,474 in cash commission and other expenses. FT Warrants and Warrants were measured based on the Black-Scholes option pricing model using a risk-free interest rate of 1.00%, an expected life of the Warrants of 2 years, an annualized volatility of 119% and a dividend rate of 0%.

The gross proceeds from the sale of the FT Shares, in the amount of \$1,724,900, are being used to incur Canadian Exploration Expenses on the Larder Lake Property. These funds are to be expended by December 31, 2012. At September 30, 2011, an amount of \$271,336 of such funds had been spent.

In accordance with the flow-through share agreement, the Company intends to renounce during the 2<sup>nd</sup> quarter ending March 31, 2012, the tax deductions related to the flow-through portion of the 2011 Financing, estimated at \$490,000, with such tax deduction renouncement to then be recorded.

# Bear Lake Gold Ltd.

(an exploration stage company)

## Notes to Consolidated Financial Statements

September 30, 2011 and 2010

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### 11. CAPITAL STOCK (continued)

#### Issuance of shares (continued)

(b) In June 2010, the Company completed in two tranches a non-brokered private placement for total gross proceeds of \$3,763,122 (the "2010 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 2010 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 2010 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 2010 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 such 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 2010 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 2010 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, were used to incur Canadian Exploration Expenses on the Larder Lake Property. At September 30, 2011, these funds had all been expended.

In accordance with the flow-through share agreement, the Company renounced 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 \$680,681, with a corresponding increase to future income tax liability.

**Bear Lake Gold Ltd.**  
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**11. CAPITAL STOCK (continued)**

**Warrants**

	Year ended September 30, 2011	Year ended September 30, 2010
<b>Number of warrants</b>		
Balance, beginning of year	19,521,243	10,041,898
Issued	20,407,999	9,479,345
Expired	(7,050,403)	-
Balance, end of year	32,878,839	19,521,243

At September 30, 2011, the outstanding number of warrants exercisable into common shares is as follows:

	Number of Warrants		Number of warrants		Price	Expiry date
	Sept 30, 2010	Issued	Expired	Sept 30, 2011	per share	
					\$	
Private placement – August 2011	-	20,407,999	-	20,407,999	0.20	2013-08-23
Private placement – June 2010	7,900,009	-	-	7,900,009	0.30	2012-06-21
In lieu of cash commission – June 2010	433,000	-	-	433,000	0.30	2012-06-21
Finder's warrants – June 2010	1,146,336	-	-	1,146,336	0.25	2012-06-21
Private placement – October 2008 (a)	2,991,495	-	-	2,991,495	0.40	2011-10-23
Private placement – June 2009 (b)	3,787,879	-	(3,787,879)	-	-	-
Broker warrants - June 2009 (b)	530,303	-	(530,303)	-	-	-
Broker warrants - October 2008 (c)	699,225	-	(699,225)	-	-	-
In lieu of cash commission (c)	616,330	-	(616,330)	-	-	-
As debt settlement (c)	1,416,666	-	(1,416,666)	-	-	-
	19,521,243	20,407,999	(7,050,403)	32,878,839	0.25	

(a) Following TSXV approval, the expiry date of the October 2008 warrants was extended from October 23, 2010 to October 23, 2011 (Note 20).

(b) These warrants expired unexercised on June 4, 2011.

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

# Bear Lake Gold Ltd.

(an exploration stage company)

## Notes to Consolidated Financial Statements September 30, 2011 and 2010

### 12. STOCK OPTIONS

At September 30, 2011, the Company had unexercised stock options under two 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 “BLG Stock Option Plan”); and b) the stock option plan of Maximus which existed prior to the business combination (the “Maximus Option Plan”) and which governs all outstanding Maximus stock options as at September 15, 2008. In 2010, the Company also had unexercised stock options under a third plan, being the NFX stock option plan (the “NFX Option Plan”), which was the Company’s plan prior to the business combination. All remaining stock options under the NFX Option Plan expired unexercised on September 15, 2010. No further options can be granted pursuant to the NFX 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.

#### ***BLG Option Plan***

The BLG Option Plan is a rolling stock option plan providing for the grant of stock options to directors, officers, employees and consultants of the Company and of its subsidiaries and affiliates. The BLG Option Plan is subject to the policies of the TSXV and is submitted annually to the shareholders for approval. The plan was last amended in March 2011. The BLG 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 BLG 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.

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

The Maximus 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 and vesting periods were at the discretion of the Board of Directors. No further options can be granted under the Maximus Option Plan.

The following table sets out the activity in stock options:

	Year ended September 30, 2011		Year ended September 30, 2010	
	Number	Average exercise price \$	Number	Average exercise price \$
Balance, beginning of year	4,271,000	0.53	7,277,500	0.60
Granted	5,250,000	0.30	13,500	0.24
Exercised	-	-	(100,000)	(0.20)
Cancelled / expired	(1,437,500)	(0.38)	(2,920,000)	(0.72)
Number of options outstanding, end of year	8,083,500	0.41	4,271,000	0.53
Number of options exercisable, end of year	4,406,833		4,271,000	

# Bear Lake Gold Ltd.

(an exploration stage company)

## Notes to Consolidated Financial Statements September 30, 2011 and 2010

### 12. STOCK OPTIONS (continued)

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 will 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 options will vest 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 per share, the closing price of the Company's shares on October 15, 2010. The fair value of the options granted during the period was estimated at \$0.28 per option by applying the Black-Scholes option pricing model, using an expected time-period of 5 years, a semi-annual weighted-average risk-free interest rate of 1.95%, a volatility rate of 162% and a 0% dividend factor. Following a review by the compensation and corporate governance committee of the board of directors of the Company conducted in October 2011, 550,000 of the performance-based options vested and 150,000 options were cancelled.

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 closing price of the Company's shares on the day preceding the grant. The fair value of the options granted was estimated at \$0.20 per option by applying the Black-Scholes option pricing model, using an expected time-period of 5 years, a semi-annual weighted-average risk-free interest rate of 3.2%, a volatility rate of 125% and a 0% dividend factor.

At September 30, 2011, an amount of \$205,364 remains to be charged as stock-based compensation, related to unvested stock options granted on October 18, 2010 (nil at September 30, 2010). Stock options are detailed as follows:

Grant date	Exercise price	Balance, Sept 30, 2010	Granted	Exercised	Cancelled (1)	Balance, Sept 30, 2011	Number of options exercisable	Residual exercise period (in years)
<b>BLG Option Plan</b>								
Sept 20, 2008	0.70	100,000	-	-	(100,000)	-	-	-
Jan 30, 2009	0.28	1,872,500	-	-	(300,000)	1,572,500	1,572,500	2.3
April 21, 2010	0.24	13,500	-	-	-	13,500	13,500	3.5
October 18, 2010	0.30	-	5,250,000	-	(800,000)	4,450,000	773,333	4.0
<b>Maximus Option Plan</b>								
Mar 28, 2006	0.60	100,000	-	-	(100,000)	-	-	-
Nov 14, 2006	0.64	450,000	-	-	(100,000)	350,000	350,000	0.1
Dec 27, 2006	0.80	500,000	-	-	-	500,000	500,000	0.3
May 23, 2007	0.58	100,000	-	-	-	100,000	100,000	0.7
Dec 14, 2007	0.84	175,000	-	-	-	175,000	175,000	1.2
Jan 4, 2008	0.80	400,000	-	-	-	400,000	400,000	1.3
Jan 25, 2008	0.76	187,500	-	-	-	187,500	187,500	1.3
Mar 4, 2008	0.68	372,500	-	-	(37,500)	335,000	335,000	1.4
	0.41	4,271,000	5,250,000	-	(1,437,500)	8,083,500	4,406,833	

(1) A total of 1,437,500 stock options were cancelled during the year following the resignation of two directors of the Company.

# **Bear Lake Gold Ltd.**

(an exploration stage company)

## **Notes to Consolidated Financial Statements September 30, 2011 and 2010**

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### **13. 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 include mostly legal and technical consulting fees.

### **14. RELATED PARTY TRANSACTIONS**

During the year ended September 30, 2011, the Company paid or accrued administration expenses of \$113,340 to Reunion Gold Corporation (\$147,633 in 2010), a company with a common director and management, providing administrative services. During the year ended September 30, 2011, the Company also paid or accrued consulting fees of \$14,500 (nil in 2010), to a company controlled by a director of the Company, for geological services related to the option agreement on the Swansea property (Note 9), which amount was charged back to Odyssey, a related party by virtue of common management and director.

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.

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**15. INCOME TAXES**

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

	Year ended September 30, 2011	Year ended September 30, 2010
	\$	\$
Loss before income taxes	(2,425,159)	(6,770,655)
Expected income tax recovery	(697,682)	(2,102,288)
Non-deductible expenses	152,192	25,796
Change in future tax rates	19,964	397,923
Variation in valuation allowance	(71,866)	1,666,820
Other	(83,289)	11,749
Future income tax recovery	(680,681)	-

Represented by:

Future income tax recovery	(680,681)	-
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The variation in valuation allowance of the future income tax assets of \$30,377 (\$75,072 in 2010) related to the share issue costs was applied against the deficit.

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

	September 30, 2011	September 30, 2010
	\$	\$
Future income tax assets		
Mineral properties	876,992	1,128,461
Non-capital loss carryforwards	2,893,920	2,742,981
Financing costs	147,922	224,974
Capital loss carryforwards	129,859	66,766
	<b>4,048,693</b>	4,163,182
Future income tax liabilities		
Plant and equipment	(426,379)	(426,689)
Mineral properties	-	-
Others	-	(27,577)
Valuation allowance	(3,622,314)	(3,708,916)
Total future income tax asset (liability)	-	-

During the year ended September 30, 2011, the Company renounced exploration expenditures of \$2,341,120 which resulted in a charge against capital stock of \$680,681 and a corresponding increase to future income tax liability.

# Bear Lake Gold Ltd.

(an exploration stage company)

## Notes to Consolidated Financial Statements

September 30, 2011 and 2010

### 15. INCOME TAXES (continued)

The Company has non-capital tax losses, which are available to reduce income taxes in future years. They total \$10,966,948 and expire as follows:

	\$
2013	803,907
2014	430,650
2025	778,962
2026	1,676,995
2027	3,319,684
2028	129,859
2029	1,047,342
2030	1,530,561
2031	1,248,988
Total	10,966,948

### 16. SUPPLEMENTAL CASH FLOW INFORMATION

	Year ended September 30, 2011 \$	Year ended September 30, 2010 \$
<b>Changes in non-cash working capital items</b>		
Sales taxes receivable	13,958	99,847
Prepaid expenses and deposits	22,090	(3,735)
Accounts payable and accrued liabilities	122,725	(409,550)
	158,773	(313,438)

# **Bear Lake Gold Ltd.**

(an exploration stage company)

## **Notes to Consolidated Financial Statements**

**September 30, 2011 and 2010**

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### **17. CONTINGENCIES**

#### ***MNDMF Order***

On December 6, 2011, the Ontario Ministry of Northern Development, Mines and Forestry ("MNDMF") issued a Director's Order pursuant to section 147 of the Ontario *Mining Act* ordering five companies, including Bear Lake, to file by June 6, 2012 a closure plan to rehabilitate mine hazards on the Upper and Lower Kerr Tailings site located in McGarry and McVittie Townships, Ontario. The MNDMF had issued an Emergency Order on December 4, 2009 to five companies with respect to a dam and spillway located on the Kerr Tailings site which was in need of repair. The dam and spillway are not located on the Company's claims. By April 2010, the MNDMF had completed the construction of a temporary spillway and the Emergency Order was lifted but the MNDMF claimed that the costs constituted a debt due to the Crown by the five companies. The Company has denied liability related to this issue. However, the Company has been conducting appropriate preventive work on its claims and has informed the MNDMF of the work done.

The Company intends to appeal the Director's Order. At this time, the Company cannot estimate the potential cost for dealing with this issue. Expenses in the amount of \$13,026 were incurred during the year ended September 30, 2011, regarding this matter (\$89,790 in 2010). 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. The Company does not believe that potential costs for dealing with this issue will be significant.

# Bear Lake Gold Ltd.

(an exploration stage company)

## Notes to Consolidated Financial Statements

September 30, 2011 and 2010

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### 18. 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:

	September 30, 2011	September 30, 2010
	\$	\$
Canada	24,273,513	21,863,222
United States of America	-	1,156,079
	<b>24,273,513</b>	<b>23,019,301</b>

### 19. COMPARATIVE FIGURES

Certain comparative figures provided for the year ended September 30, 2010 have been reclassified to conform to the presentation adopted for the year ended September 30, 2011.

### 20. SUBSEQUENT EVENTS

#### Expiry of 2008 warrants

A total of 2,991,495 warrants, originally issued under the October 2008 private placement, expired unexercised on October 23, 2011.

#### Grant of stock options

On December 14, 2011, the Company granted an aggregate of 1,320,000 stock options to officers and employees of the Company. Of this total, 800,000 options are subject to the achievement of certain defined performance objectives. The balance of 520,000 options vest over a two-year period. The options have a five-year term and are exercisable at a price of \$0.08 per share, the closing price of the Company's shares on December 13, 2011.