

# BEAR LAKE GOLD LTD.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE 2<sup>ND</sup> QUARTER ENDED MARCH 31, 2010

*The following management's discussion and analysis ("MD&A") of the operations, results, and financial position of Bear Lake Gold Ltd. ("Bear Lake" or the "Company") dated May 13, 2010, covers the 2<sup>nd</sup> quarter ended March 31, 2010 and should be read in conjunction with the unaudited consolidated financial statements and related notes for the 2<sup>nd</sup> quarter ended March 31, 2010 (the "March 31, 2010 consolidated financial statements"). Readers should also refer to the Company's MD&A for the year ended September 30, 2009 and to its audited consolidated financial statements for the years ended September 30, 2009 and 2008.*

*The March 31, 2010 consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada ("Canadian GAAP") following the same accounting policies and methods of computations as the consolidated financial statements for the years ended September 30, 2009 and 2008, except for the adoption of new disclosure requirements with respect to fair value measurement of financial instruments as more fully described under the heading "Changes in Accounting Policies". All financial results are expressed in Canadian dollars unless otherwise indicated.*

### **BUSINESS OVERVIEW**

Bear Lake is engaged in the exploration for gold in North America. Its primary assets are (i) a 100% interest in the Bear Lake, Cheminis, Fernland and Barber Larder projects and a 75% interest in the Swansea property, all of which form the Larder Lake gold project located in the Larder Lake area of eastern Ontario, (ii) an option to earn a 75% interest from Hope Bay Mining Ltd. (a subsidiary of Newmont Mining Corporation) in two groups of claims located on the Hope Bay gold belt located in Nunavut, and (iii) an option from a privately-held company to earn a 60% interest in the Unity property located in Idaho, USA.

The Company has not yet determined whether its properties contain mineral resources or mineral reserves. To date, the Company has not generated any revenues from operations.

The Company has limited funds and has recently reached an agreement in principle to settle the class action lawsuit (see *Settlement of Class-Action Suit* section). The Company's prime objective is now to raise funds in order to recommence its exploration activities. The Company's ability to raise such funds may be impacted by, among others, the strength of the capital markets and the recent events that have affected the Company. While defending itself against the lawsuit, the Company had suspended all exploration activities and taken steps to minimize expenditures wherever possible.

### **Settlement of Class-Action Suit**

A 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. Under the lawsuit, general and special damages in the amount of \$20 million and punitive damages in the amount of \$5 million were being claimed. On April 5, 2010 and April 13, 2010, the Company announced that an agreement in principle had been reached to settle the class-action suit. The parties to the class-action suit have now executed a formal settlement agreement which will be submitted to the Superior Court of Justice of Ontario for approval. The Company has agreed to pay an amount of \$200,000 towards the settlement. The settlement is a compromise of disputed claims and is not an admission of liability, wrongdoing or fault on the part of any of the defendants.

## **Going Concern Assumption**

The Company's 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. Specifically, i) given that the Company has not yet found a mineral property containing mineral deposits that are economically recoverable, the Company has not generated any income or cash flows from operations and at March 31, 2010, had an accumulated deficit of \$42,817,625; ii) following the uncovering of the technical data inconsistencies in July 2009, the Company suspended all operations at the Larder Lake Property and as at this date has not yet recommenced such operations; iii) the Company is required to spend an additional amount of \$2,000,000 on the Hope Bay Project by October 31, 2010 in order to earn a 75% interest in the property; and iv) based on current available liquidities, the Company has insufficient cash resources to undertake an exploration program on any of its exploration properties.

At March 31, 2010, the Company had working capital of \$403,589 and while this amount is sufficient to meet all of its current commitments, the Company will require additional funding within the next 12 months to meet its earn-in commitment under the option agreement for the Hope Bay Project, to resume its exploration programs at Larder Lake, and to meet its corporate administrative expenses for the same period. 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 consolidated financial statements do not reflect any adjustments that would be necessary if the going concern assumption was not appropriate for these consolidated financial statements. If the going concern assumption was not appropriate for these consolidated financial statements, then adjustments to the carrying values of assets and liabilities and balance sheet classification, which could be material, may be necessary.

## **Larder Lake Property, Ontario, Canada**

Exploration activities at the Larder Lake Property were suspended on July 17, 2009, as soon as the data inconsistencies were uncovered, and have not yet recommenced. During the 2<sup>nd</sup> quarter ended March 31, 2010, the Company incurred expenditures of \$23,053 (\$94,049 during the six-month period ended March 31, 2010) on the Larder Lake Property, compared to \$1,402,443 during the 2<sup>nd</sup> quarter ended March 31, 2009 (\$2,263,513 during the six-month period ended March 31, 2009). Following the suspension of its activities, the Company has taken steps to minimize its expenditures as much as possible. Expenditures in the 2<sup>nd</sup> quarter ended March 31, 2010 include mostly administration costs.

### *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 has 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 to design and construct a temporary spillway and at the end of March 2010 had completed this work. 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.

## *Outlook*

Based on the results from the technical investigation completed in November 2009 (which results were made public in a press release dated November 3, 2009), the Company believes that the Bear Lake area represents a significant gold discovery for the Company and that additional drilling is warranted to fully investigate the potential extent and grade of mineralization. The Company aims to resume its activities at Larder Lake as soon as possible. In order to do so, the Company will need to raise additional funds. The Company's ability to raise such additional funds may be impacted by, among others, the strength of the capital markets and the recent events that have affected the Company. The Company is working on a geologic re-interpretation based on the restated exploration results (as established by Scott Wilson Roscoe Postle Associates and presented in a press release dated November 3, 2009) and is planning a drilling program which could commence as soon as additional funds become available. Should the Company be able to raise enough funds to initiate a drilling program, the program would mainly focus on the definition and expansion of the Bear Lake zone with the objective of completing a 43-101 compliant resource estimation as soon as sufficient data is available. Also, some drilling would investigate additional targets identified along the 13km trend along the Cadillac-Larder Lake break on its property. The Company is keeping its claims in good standing.

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

Under the terms of an option and joint venture agreement dated September 10, 2004 between the Company and Hope Bay Mining Ltd. ("HB Mining"), the Company can earn a 75% interest in the Chicago and Twin Peaks groups of claims in the Hope Bay gold belt in Nunavut by funding cumulative minimum exploration expenditures of \$7,250,000 by October 31, 2010. During the option period, exploration work at Hope Bay is performed by HB Mining under work programs and budgets prepared by HB Mining and approved by the Company. No work was done on the Hope Bay project during the 2<sup>nd</sup> quarter ended March 31, 2010 and the Company incurred no expenditures (\$1,531 during the 2<sup>nd</sup> quarter ended March 31, 2009). During the six-month period ended March 31, 2010, the Company incurred deferred exploration expenditures of \$111,250 on the Hope Bay Project, compared to \$2,139 during the comparative period in 2009. A cumulative amount of \$5,307,781 had been spent on the Hope Bay Project as at October 31, 2009, satisfying the requirement of the Company to have incurred a minimum amount of \$5,250,000 by October 31, 2009, in accordance with the Hope Bay Project option agreement.

The Company will need to spend an additional \$2,000,000 in 2010 to meet its obligations under the option agreement and become vested in the project. Planned exploration work at Hope Bay in 2010 would concentrate on the Twin Peaks/Discovery target to investigate the potential for greater volume of mineralization associated to the combination of lithologic contact and favorable structures. There is no assurance that the Company will have the funds to meet its spending obligations.

### **Unity Project, Idaho, USA**

On July 31, 2007, the Company had entered into an option agreement (with amendment dated April 2009) with Unity GoldSilver Mines Inc. (a privately-held company) ("Unity") to earn a 60% interest in the Unity property located in Idaho, USA. To earn its interest, the Company must incur US \$1,000,000 in exploration and development work and complete a positive feasibility study by February 16, 2012. At March 31, 2010, the Company had incurred a cumulative amount of \$973,686 on the Unity Project with no expenditure incurred during the 2<sup>nd</sup> quarter and the six-month periods ended March 31, 2010 (\$6,418 and \$277,729 incurred during the 2<sup>nd</sup> quarter and six-month periods ended March 31, 2009, respectively). Although the program completed to date confirmed the presence of gold-bearing veins, the results were not conclusive and a follow-up drilling program targeting the gold-rich veins at depth is being planned and may be executed in the summer of 2010. There is no assurance that the Company will have the funds to meet its spending obligations.

### **Qualified Person**

The disclosure in this MD&A of all technical information has been prepared by or under the supervision of Mr. François Viens, B.Sc. (Eng), President and Chief Executive Officer for the Company, a qualified person under NI 43-101.

Mineral property and exploration expenses are detailed as follows:

	<b>March 31,</b>		<b>September 30,</b>	
	<b>2010</b>		<b>2009</b>	
<b>Mineral properties (1)</b>	<b>\$</b>		<b>\$</b>	
Larder Lake, Ontario, Canada	<b>9,303,421</b>		9,303,421	
Hope Bay, Nunavut, Canada	<b>575,000</b>		575,000	
Unity, Idaho, USA	<b>113,666</b>		98,129	
	<b>9,992,087</b>		<b>9,976,550</b>	
<b>Exploration expenses</b>				
	<b>2<sup>nd</sup> quarter ended</b>	<b>2<sup>nd</sup> quarter ended</b>	<b>Six-months ended</b>	<b>Six-months ended</b>
	<b>March 31, 2010</b>	<b>March 31, 2009</b>	<b>March 31, 2010</b>	<b>March 31, 2009</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Larder Lake, Ontario, Canada</b>				
Contractors and consultants	<b>600</b>	8,099	<b>22,171</b>	74,552
Drilling and assaying	-	1,222,937	<b>18,890</b>	1,893,009
Geology	-	20,683	<b>480</b>	42,218
Labour	<b>8,075</b>	59,811	<b>15,674</b>	99,786
Management and administration	<b>14,378</b>	85,215	<b>36,660</b>	148,250
Title and claim management	-	5,698	<b>174</b>	5,698
	<b>23,053</b>	<b>1,402,443</b>	<b>94,049</b>	<b>2,263,513</b>
<b>Hope Bay, Nunavut, Canada</b>				
Contractors and consultants	-	1,429	<b>4,511</b>	2,037
Drilling and assaying	-	-	-	-
Management and administration	-	102	<b>106,739</b>	102
	-	<b>1,531</b>	<b>111,250</b>	<b>2,139</b>
<b>Unity, Idaho, USA</b>				
Contractors and consultants	-	19,996	-	19,996
Drilling and assaying	-	(16,304)	-	232,564
Geology	-	2,726	-	13,894
Labour	-	-	-	1,278
Management and administration	-	-	-	9,997
	-	<b>6,418</b>	-	<b>277,729</b>
<b>Grand total</b>	<b>23,053</b>	<b>1,410,392</b>	<b>205,299</b>	<b>2,543,381</b>

(1) Amounts presented are net of a Write-down of mineral properties of \$15,200,000 charged to operations during the year ended September 30, 2009, due to share-based payments made in prior years at a time when the Company's share price was trading at significantly higher levels. 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.

## Selected Consolidated Financial Information

	March 31, 2010	September 30, 2009
	\$	\$
<b>Balance Sheets</b>		
Cash	683,993	1,224,989
Investments (1)	3,197,142	2,846,797
Bank loan	3,459,580	3,225,131
Mineral properties and deferred exploration expenses	26,397,577	26,176,741
Total assets	32,412,357	32,639,182
Shareholders' equity	28,451,007	28,858,116

	2 <sup>nd</sup> quarter ended		Six-months ended	
	March 31, 2010	March 31, 2009	March 31, 2010	March 31, 2009
	\$	\$	\$	\$
<b>Operations</b>				
Administration and other expenses	288,045	687,149	513,920	938,793
Interest income	(1,514)	(8,493)	(3,805)	(26,175)
Interest expense	9,805	11,196	19,952	26,886
Settlement of class-action and other related costs	169,353	-	298,255	-
Gain on sale of marketable securities	-	-	(1,383)	-
Loss (gain) on marketable securities	6,500	(11,707)	5,000	166,113
Impairment charge (recovery) on investments	(260,000)	-	(410,000)	443,000
Future income tax recovery	-	(74,856)	-	(150,691)
<b>Net loss</b>	<b>(212,189)</b>	<b>(603,289)</b>	<b>(421,939)</b>	<b>(1,397,926)</b>
<b>Basic and diluted loss per share</b>	<b>(0.00)</b>	<b>(0.01)</b>	<b>(0.00)</b>	<b>(0.02)</b>
<b>Cash flows</b>				
Operating activities	(322,783)	(292,336)	(722,720)	(341,301)
Investing activities	8,231	(658,074)	(52,725)	(2,853,357)
Financing activities	240,602	(49,641)	234,449	6,185,478

- (1) Notes held in Master Asset Vehicles II and III ("MAV II and III") replaced the Company's investment in asset-backed commercial paper ("ABCP") following the implementation on January 21, 2009 of the restructuring plan related to the Canadian third-party ABCP (see more detailed discussion under the *MAV II and III Notes and ABCP* section).

Since its incorporation, the Company has not paid any cash dividends on its outstanding common shares. Any future dividend payment will depend on the Company's financial needs to fund its exploration programs and any other factor that the board may deem necessary to consider. It is highly unlikely that any dividends will be paid in the near future.

## Results of Operations

During the 2<sup>nd</sup> quarter ended March 31, 2010, the Company reported a net loss of \$212,189 (nil per share) compared to a net loss of \$603,289 (\$0.01 per share) during the comparative period in 2009. During the six-month period ended March 31, 2010, the Company reported a net loss of \$421,939 (nil per share) compared to a net loss of \$1,397,926 (\$0.02 per share) during the comparative period in 2009. The significant changes in the 2010 periods compared to 2009 are as follows:

- Expenses totaled \$288,045 during the 2<sup>nd</sup> quarter ended March 31, 2010 (\$513,920 during the six-month period ended March 31, 2010) compared to \$687,149 during the 2<sup>nd</sup> quarter ended March 31, 2009 (\$938,793 during the six-month period ended March 31, 2009); the decrease in expenses during the periods in 2010 is mostly attributable to lower stock-based compensation expenses, other remuneration and management and administration expenses, partially offset by other property costs of \$42,935 related to the matter described under the *Emergency Order* section; stock-based compensation expenses of \$6,738 and \$14,830 incurred during the 2<sup>nd</sup> quarter and six-month periods ended March 31, 2010, respectively are significantly lower than during the comparative periods in 2009 (\$447,710 and \$452,743 incurred during the 2<sup>nd</sup> quarter and six-month periods ended March 31, 2009, respectively) due to the Company not having granted any stock options in 2010 compared to 2,272,500 stock options granted during the 2<sup>nd</sup> quarter ended March 31, 2009. Management and administration expenses are lower during the 2010 periods compared to the 2009 periods following steps taken by the Company during 2008 and 2009 to significantly reduce its corporate administration costs, including lowering its management and administration expenses paid to Reunion Gold Corporation.
- Interest income totaled \$1,514 during the 2<sup>nd</sup> quarter ended March 31, 2010 (\$3,805 during the six-month period ended March 31, 2010) compared to \$8,493 during the 2<sup>nd</sup> quarter ended March 31, 2009 (\$26,175 during the six-month period ended March 31, 2009); the lower income in 2010 results from lower cash balances and lower returns on liquidities held.
- Interest expense on the Company's bank loans totaled \$9,805 during the 2<sup>nd</sup> quarter ended March 31, 2010 (\$19,952 during the six-month period ended March 31, 2010) compared to \$11,196 during the 2<sup>nd</sup> quarter ended March 31, 2009 (\$26,886 during the six-month period ended March 31, 2009); the average bank loan during the six-month period ended March 31, 2010 totaled \$3.3 million at a cost of capital of 1.25% compared to an average bank loan of \$2.4 million during the comparative period in 2009, during which time the cost of capital was 2.30%.
- On April 5, 2010 and April 13, 2010, the Company announced that an agreement in principle had been reached to settle the class-action suit, as described under *Settlement of class-action suit* section. As part of the settlement, the Company has agreed to pay an amount of \$200,000. Settlement and other related costs in the amount of \$169,353 and \$298,255 were incurred during the 2<sup>nd</sup> quarter and six-month periods ended March 31, 2010, respectively, net of insurance proceeds (nil during the comparative periods in 2009). Other related costs include mostly legal and technical consulting fees.
- As discussed in *MAV II and III Notes and ABCP* section, the Company recorded during the 2<sup>nd</sup> quarter ended March 31, 2010 a valuation recovery of \$260,000 on investments held (a valuation recovery of \$410,000 during the six-month period ended March 31, 2010) compared to nil during the 2<sup>nd</sup> quarter ended March 31, 2009 (an impairment charge of \$443,000 during the six-month period ended March 31, 2009).

## Selected Quarterly Financial Information

Period ended	Revenues (\$000)	Net earnings	Net earnings
		(loss) (\$000)	(loss) per share (\$)
March 31, 2010	1.5	(212.1) <sup>(1)</sup>	(0.00)
December 31, 2009	2.3	(209.8) <sup>(2)</sup>	(0.00)
September 30, 2009	8.9	(11,914.5) <sup>(3)</sup>	(0.14)
June 30, 2009	5.6	(132.1)	(0.00)
March 31, 2009	8.5	(603.3) <sup>(4)</sup>	(0.01)
December 2008	17.7	(870.5) <sup>(5)</sup>	(0.01)
September 2008	0.9	(696.5) <sup>(6)</sup>	(0.02)
June 30, 2008	6.4	(321.2)	(0.01)

(1) Includes settlement and other related expenses of \$169,353 and a valuation recovery of \$260,000 on investments held.

(2) Includes investigation-related expenses of \$128,902 and a valuation recovery of \$150,000 on investments held.

(3) Includes a write-down of mineral properties of \$15,266,700, income tax recovery of \$3,836,454 and investigation-related expenses of \$346,191.

(4) Includes stock-based compensation cost of \$447,719, an unrealized gain on marketable securities of \$11,707 and a future income tax recovery of \$74,856.

(5) Includes an impairment charge on ABCP of \$443,000 and an unrealized loss on marketable securities of \$177,820.

(6) Includes stock-based compensation cost of \$206,228, an impairment charge on ABCP of \$100,000 and an unrealized loss on marketable securities of \$94,130.

### MAV II and III Notes and ABCP

On March 31, 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"). An amount of \$33,270 was received in November 2009, representing the final tranche of interest earned on the ABCP. This amount was accounted for as a reduction of the Company's investments. In October 2009 and January 2010, the Company also received a total amount of \$26,385 as partial redemption of the MAV II Senior A-1 notes and the MAV II Class 1 and MAV III Class 34 tracking notes. This amount was applied as a reduction of the related notes.

At March 31, 2010, the Company estimated the fair value of the MAV II and III notes held to be \$3,197,142. The fair value of these notes was established by estimating discounted future cash flows for each category of notes held, using discount rates of between 5.0% and 17.6% (discount rates of between 3.0% and 17.4% at September 30, 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 (see *Credit Facilities* section), 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 fair value recovery of \$260,000 for the 2<sup>nd</sup> quarter ended March 31, 2010 compared to nil during the 2<sup>nd</sup> quarter ended March 31, 2009 (a recovery adjustment of \$410,000 during the six-month period ended March 31, 2010 compared to an impairment charge of \$443,000 during the six-month period ended March 31, 2009). A variation of 1% in discount rates would impact the fair value of investments by approximately \$129,000.

There are currently no 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 March 31, 2010, the fair value reported may change materially in subsequent periods.

## **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 \$3,510,833, 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%, 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.

The first Credit Facility (initially available for a 3-year period) is made available in two tranches. The tranche A facility is secured by the Company's investments in those eligible notes held and the tranche B facility is secured by those eligible notes held 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 held. 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.

Cash proceeds from the sale of the MAV II and III notes are automatically applied, at that time, to the amount of the outstanding related borrowings. In October 2009 and January 2010, the Company received a total amount of \$26,385 as partial redemption of some of the notes held. This amount was applied as a reduction of the related borrowings.

## **Liquidity and Capital Resources**

The Company had a working capital of \$403,589 at March 31, 2010 compared to a working capital of \$1,121,583 at September 30, 2009. During the six-month period ended March 31, 2010, the Company had a negative operating cash flow of \$722,720, it received proceeds of \$185,188 from the sale of the shares that it held in Eloro Resources Ltd. and it received an amount of \$59,655 related to its investments, of which \$33,270 represent the Company's final tranche of net interest earned on the ABCP and \$26,385 consist of proceeds from the partial redemption of some of the notes held, and it disbursed a total of \$297,498 related to its mineral properties.

At March 31, 2010, the Company had cash of \$683,993 to settle its current trade liabilities in the amount of \$490,000. Given its limited financial resources, the Company's ability to continue funding its exploration programs (including the necessity to spend an additional amount of \$2,000,000 on the Hope Bay Project by October 31, 2010 in order to earn a 75% interest in the property and to resume its exploration activities at the Larder Lake Project) and to meet its corporate and administrative obligations is dependent on the Company's ability to obtain additional financing, through various means including but not limited to equity financing. The amount and timing of additional funding will be impacted by, among others, the strength of the capital markets. While the Company has been successful in the past in obtaining required financing, there can be no assurance that the Company will be able to access such financing or that it will be available on acceptable terms.

## **Capital Management**

The Company defines capital that it manages as debt 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. 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 and development stages of its mining properties, 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 March 31, 2010, total loans and shareholders' equity [managed capital] was \$31,910,587 (September 30, 2009 - \$32,083,247).

The Company invests all capital not required for its immediate needs in short-term, liquid and highly rated financial instruments, such as cash and other short-term guaranteed deposits, all held with major financial institutions.

The Company's exploration properties are in the exploration stage. As such, the Company is dependent on external financing to fund its activities. In order to carry out exploration work, the Company will need to raise additional funds. Until it is in a position to raise such funds, management has taken decisions to minimize discretionary disbursements and to reduce or eliminate 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 2<sup>nd</sup> quarter ended March 31, 2010. The Company is not subject to any externally imposed capital requirements at March 31, 2010. The Company expects that its current capital resources will be sufficient to discharge its current liabilities as at March 31, 2010.

### **Off-Balance Sheet Arrangements**

As of March 31, 2010, the Company has no off-balance sheet arrangements.

### **Related Party Transactions**

During the 2<sup>nd</sup> quarter ended March 31, 2010, the Company paid or accrued administration expenses of \$40,221 (\$62,784 during the 2<sup>nd</sup> quarter ended March 31, 2009) to Reunion Gold Corporation, a company with a common director and management, providing administrative services. During the six-month period ended March 31, 2010, the Company paid or accrued administration expenses of \$89,835 to Reunion Gold Corporation (\$139,027 during the six-month period ended March 31, 2009), a company with a common director and management, providing administrative services. An amount of \$3,019 was due to Reunion Gold Corporation at March 31, 2010 (nil at September 30, 2009). Amounts due are non-interest bearing and have no specific repayment terms.

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.

### **Financial Instruments**

The Company's financial instruments consist of cash, marketable securities, amounts receivable, investments, accounts payable and accrued liabilities and long-term debt. Other than marketable securities, investments and long-term debt, 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 the *MAV II and III Notes and ABCP* section. The fair value of long-term debt 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 would affect earnings by approximately \$2,550 (\$21,400 at September 30, 2009).

### **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 had no impact on the Company's results of operations.

## Conversion to International Financial Reporting Standards

In January 2006, the CICA's Accounting Standards Board ("AcSB") formally adopted the strategy of replacing Canadian GAAP with IFRS for Canadian enterprises with public accountability. On February 13, 2008, the AcSB confirmed that the use of IFRS will be required in 2011 for publicly accountable profit-oriented enterprises. For these entities, IFRS will be required for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company will be required to have prepared, in time for its first quarter of fiscal 2011 filing, comparative financial statements in accordance with IFRS for the three months ended December 31, 2010. The Company has developed an IFRS implementation plan to prepare for this transition. To date, the Company has completed an assessment of the key areas where changes to current accounting policies may be required. Analysis will be required for all current accounting policies, but the initial key areas of assessment include:

- Exploration and development expenditures;
- Property, plant and equipment (measurement and valuation);
- Provisions, including asset retirement obligations;
- Accounting for joint ventures;
- Accounting for income taxes; and
- First-time adoption of International Financial Reporting Standards (IFRS 1).

As the analysis of each of the key areas progresses, other elements of the IFRS implementation plan will also be addressed including: the implication of changes to accounting policies, processes or financial statement note disclosures on information technology, internal controls, contractual arrangements and employee training. The table below summarizes the expected timing of activities related to the Company's transition to IFRS.

Initial analysis of key areas for which changes to accounting policies may be required.	Completed during the year ended September 30, 2009
Detailed analysis of all relevant IFRS requirements and identification of areas requiring accounting policy changes or those with accounting policy alternatives.	Throughout the year ended September 30, 2010
Assessment of first-time adoption (IFRS 1) requirements and alternatives.	Throughout the year ended September 30, 2010
Final determination of changes to accounting policies and choices to be made with respect to first-time adoption alternatives.	Period from July 1, 2010 to December 31, 2010
Resolution of the accounting policy change implications on information technology, internal controls and contractual arrangements.	Period from July 1, 2010 to December 31, 2010
Management and employee education and training.	Throughout the transition process
Quantification of the Financial Statement impact of changes in accounting policies.	Period from July 1, 2010 to December 31, 2010

While the Company has begun assessing the impact of the adoption of IFRS on its financial statements, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

## **Outstanding Share Data**

As at May 13, 2010, the Company has:

- a) 90,085,270 common shares issued and outstanding;
- b) 10,041,898 share purchase warrants outstanding with exercise prices ranging from \$0.30 to \$0.40 per share, expiring by June 2011; and
- c) 6,283,500 stock options outstanding with exercise prices ranging from \$0.20 to \$1.60 and expiring between August 2010 and January 2014.

## **Financial Risk Factors**

The Company thoroughly examines the various financial risks to which it is exposed and assesses the impact and likelihood of those risks. These risks include liquidity risk, credit risk, currency risk and interest rate risk. Where material, these risks are reviewed by the Board of Directors.

### ***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 manages its liquidity needs by carefully monitoring cash outflows due in day-to-day business. Liquidity needs are monitored in various time bands, including 30-day projection, 180-day and 360-day lookout periods. At March 31, 2010, the Company's working capital totals \$403,589. Current liabilities of \$490,000 are due within the next 12 months. Given its limited financial resources, the Company's ability to continue funding its exploration programs (including the necessity to spend an additional amount of \$2,000,000 on the Hope Bay Project by October 31, 2010 in order to earn a 75% interest in the property and to resume its exploration activities at the Larder Lake Project) and to meet its corporate and administrative obligations is dependent on the Company's ability to obtain additional financing through various means including but not limited to equity financing. The amount and timing of additional funding will be impacted by, among others, the strength of the capital markets and the recent events that have affected the Company. There can be no assurance that the Company will be successful in obtaining such additional financing.

### ***Credit risk***

Credit risk is the risk of an unexpected loss if a party to its financial instrument fails to meet its contractual obligations. The Company's financial assets exposed to credit risk are primarily composed of cash, accounts receivable and investments. To mitigate exposure to credit risk, the Company has revised its 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 is held with major Canadian financial institutions. The Company's investments are exposed to credit risk as fully described in the *MAV II and III Notes and ABCP* section.

### ***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 \$7,500 (\$7,801) during the 2<sup>nd</sup> quarter ended March 31, 2010 and US \$15,000 (\$15,723) during the six-month period ended March 31, 2010). The Company does not use derivative instruments to reduce its exposure to foreign currency risk. As at March 31, 2010, financial assets include cash of US\$22,512 (\$22,866) and financial liabilities include accounts payable and accrued liabilities of US \$5,575 (\$5,664).

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

Interest rate risk is the risk that 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, short-term interest-bearing investments (such as banker's acceptances, term deposits, guaranteed investment certificates or treasury bills) 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 the *MAV II and III Notes and ABCP* section.

The credit facility bears interest at a floating rate. Based on the amount outstanding under the credit facility at March 31, 2010, a plus or minus 1% change in the prime lending rate would affect earnings by approximately \$34,600 over a 12-month period.

### ***Trends***

The Company anticipates that it will continue to experience net losses as a result of ongoing exploration and general and administrative costs until such time, if any, as revenue generating activity is commenced. The Company's future financial performance is dependent on many external factors. Both the price of, and the market for, precious metals are volatile, difficult to predict and subject to changes in domestic and international political, social and economic environments. Circumstances and events, such as the class-action suit filed against the Company and others, the recent economic crisis and ongoing volatility in the capital markets, could materially affect the future financial performance of the Company. Other factors and risks that have affected, and which in the future may affect the Company and its financial position are described in the following section.

### **Other Risks and Uncertainties**

#### Litigation risks

The Company is named as a defendant in a class action lawsuit filed by certain shareholders of the Company. Although the Company and the other defendants have reached an agreement in principle to settle the class action, the agreement in principle remains subject to final settlement documentation and court approval. The Company was also the object of an Emergency Order by the MNDMF. Although the Emergency Order has been lifted and the Company is denying any liability, the Company cannot estimate the potential cost for dealing with this issue. However, the Company does not believe that such costs will be significant. The Company cannot predict the timing of development and outcome in these matters.

#### Exploration and mining risks

The exploration for and development of mineral deposits involves significant risks, which even a combination of careful evaluation, experience and knowledge may not eliminate. Unprofitable efforts may result from the failure to discover mineral deposits or if mineral deposits are found, such deposits may be insufficient in quantity and quality to return a profit from production. There are currently no known bodies of commercial ore on the Company's projects and it is impossible to ensure that the exploration programs planned by the Company will result in a profitable commercial mining operation. Substantial expenses will be required to establish mineral resources through drilling, to develop metallurgical processes, to construct mining and processing facilities and to extract the metal from the mineral resources.

### Financial risk

The Company has no history of earnings. The Company's projects are in the exploration stage only. The Company does not expect to receive revenues from operations in the foreseeable future, if at all. The Company expects to incur losses until such time as its projects or any other properties the Company may acquire enter into commercial production and generate sufficient revenues to fund its continuing operations. Given the nature of capital market demand for speculative investment opportunities, the negative effect of the data inconsistencies on the Company and the class action lawsuit that ensued against the Company, there is no assurance that additional financing will be available at all or available on terms acceptable to the Company. There are currently no markets for the restructured notes received in exchange of the ABCP. Therefore, there is a significant amount of uncertainty in estimating the amount and the timing of cash flows that the Company may be able to receive from the disposal of these restructured notes.

### Risk on uncertainty of title

Although the Company has taken steps to verify title to the mineral properties 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.

### Environmental risk

The Company is subject to various environmental incidents that can occur during exploration work. The Company maintains an environmental management system including operational plans and practices.

### Gold Price Volatility

The market price of the Company's common shares, its financial results and its exploration, development and mining activities may in the future be significantly and adversely affected by declines in the price of gold. Gold prices are volatile, can fluctuate widely and are affected by numerous factors beyond the control of the Company. The price of gold has fluctuated widely in the past and future price declines in the market value of gold could cause continued exploration, development of and commercial production from the Company's properties to be uneconomical.

### Permits and licences

Although the Company is entitled to carry out its current drilling programs, the Company cannot be certain that it will receive the necessary permits on acceptable terms to conduct further exploration and to develop its projects. The failure to obtain such permits, or delays in obtaining such permits, could increase the Company's costs and delay its activities, and could adversely affect the operations of the Company.

### Competition and Agreements with Other Parties

The mining industry is intensely competitive in all of its phases, and the Company competes with many companies possessing greater financial resources and technical facilities than itself. Competition in the precious metals mining industry is primarily for mineral rich properties which can be developed and can produce economically. Such competition may result in the Company being unable to acquire desired properties, to recruit or retain qualified employees or to acquire the capital necessary to develop its properties. The Company's inability to compete with other mining companies for these resources would have a material adverse effect on the Company's results of operation and business.

## Conflicts of Interest

Certain directors of the Company are also directors, officers or shareholders of other natural resource companies. Situations may arise where the directors of the Company may be in competition with the Company. Any conflicts of interest will be subject to and governed by the law applicable to directors' conflicts of interest. In the event that a conflict of interest arises at a meeting of the Company's directors, a director who has a conflict will abstain from voting on the matter in respect of which he is in a position of conflict. In accordance with applicable laws, the directors and officers of the Company are required to act honestly, in good faith and in the best interests of the Company. In determining whether or not the Company will participate in a particular program and the interest therein to be acquired by it, the directors will primarily consider the degree of risk to which the Company may be exposed and its financial position at that time.

## **Forward Looking Statements**

This MD&A may contain forward-looking information, within the meaning of Canadian securities laws. Forward-looking information does not relate to historical facts; it reflects the current internal projections, expectations or beliefs of management of the Company based on information available to them as of the date of this MD&A and is subject to a number of known and unknown risks and uncertainties beyond the Company's control. These include, without limitation, uncertainties related to: the ability to raise sufficient funds to conduct exploration programs and meet its earn-in commitments, the final settlement of the class action lawsuit related to the data inconsistencies, potential mineralization on its exploration projects, exploration results, completion of work programs in a timely manner and on acceptable terms, the estimation of the amount and timing of cash flows that the Company may be able to receive from the disposals of the notes received in exchange of the ABCP, the outcome of the requests made by the MNDMF in relation with the previously issued emergency order issued by the MNDMF and future plans and objectives of the Company. Resource exploration, development and operations are highly speculative, characterized by a number of significant risks, which even a combination of careful evaluation, experience and knowledge may not eliminate, including, among other things, unprofitable efforts resulting not only from the failure to discover mineral resources but from finding mineral deposits which, though present, are insufficient in quantity and quality to return a profit from production. There can be no assurance that such forward looking information will prove to be accurate and actual results could differ materially from those suggested by these forward-looking information for various reasons discussed from time to time in filings made by the Company with securities regulatory authorities.

## **Additional Information and Continuous Disclosure**

This MD&A has been prepared as at May 13, 2010. Additional information on the Company is available through regular filings of press releases and financial statements on SEDAR ([www.sedar.com](http://www.sedar.com)) and on the Company's website ([www.bearlakegold.com](http://www.bearlakegold.com)).