

# **NOTICE TO SHAREHOLDERS**

## **EASTMAIN RESOURCES INC.**

### **INTERIM CONSOLIDATED FINANCIAL STATEMENTS Six months ended April 30, 2011 (Unaudited – Prepared by Management)**

#### Responsibility for Interim Consolidated Financial Statements:

The accompanying interim consolidated financial statements for Eastmain Resources Inc. have been prepared by management in accordance with Canadian generally accepted accounting principles and approved by the Audit Committee. The Company's most significant accounting principles are set out in the October 31, 2010 audited financial statements. Only changes in accounting information have been discussed in the current interim consolidated financial statements. These statements are presented on the accrual basis of accounting. Accordingly, a precise determination of many assets and liabilities is dependant upon future events. Therefore, using careful judgment, estimates and approximations have been made. Recognizing that the Company is responsible for both the integrity and objectivity of the interim consolidated financial statements, management is satisfied that these interim consolidated financial statements have been fairly presented.

#### Auditors' involvement

The auditors of Eastmain Resources Inc. have not performed any review of the unaudited interim financial statements for the six months ended April 30, 2011 and April 30, 2010.

# EASTMAIN RESOURCES INC.

INTERIM CONSOLIDATED BALANCE SHEETS  
(PREPARED BY MANAGEMENT – UNAUDITED)

	April 30, 2011 (unaudited)	October 31, 2010 (audited)
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 16,479,284	\$ 14,472,115
Marketable securities maturing in one year (Note 2)	2,244,756	1,721,066
Prepaid and sundry receivables	493,196	950,217
	19,217,236	17,143,398
Marketable securities (Note 2)	1,458,981	1,512,406
Equipment (Note 3)	107,046	94,510
Mineral properties (Note 4)	35,950,007	30,785,659
	\$ 56,733,270	\$ 49,535,973
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,480,264	\$ 1,204,686
Future tax liability	3,158,402	-
	4,638,666	1,204,686
Shareholders' equity		
Capital stock (Note 5)	56,752,924	53,419,042
Warrants (Note 7)	140,676	102,276
Contributed surplus (Note 10)	9,812,866	9,541,856
	66,706,466	63,063,174
Deficit	(14,413,792)	(14,486,397)
Accumulated other comprehensive loss (Note 12)	(198,070)	(245,490)
	52,094,604	48,331,287
	\$ 56,733,270	\$ 49,535,973

The attached notes form an integral part of these financial statements.

# EASTMAIN RESOURCES INC.

## INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS

(PREPARED BY MANAGEMENT – UNAUDITED)

	Three Months Ended		Six Months Ended	
	April 30,		April 30,	
	2011	2010	2011	2010
<b>EXPENSES</b>				
Amortization	\$ 7,873	\$ 5,830	\$ 14,964	\$ 10,921
General and administration	189,010	213,940	408,607	415,875
Professional fees	24,261	28,593	42,822	47,665
Stock option compensation (Note 6)	224,250	251,250	268,850	251,250
	<u>445,394</u>	<u>499,613</u>	<u>735,243</u>	<u>725,711</u>
Loss for the period before the following:	(445,394)	(499,613)	(735,243)	(725,711)
Gain on the sale of investments	-	-	1,791	-
Interest and other income	68,148	97,548	145,174	125,025
	<u>(377,246)</u>	<u>(402,065)</u>	<u>(588,278)</u>	<u>(600,686)</u>
NET LOSS FOR THE PERIOD BEFORE INCOME TAXES				
Future income tax recovery	660,883	-	660,883	-
	<u>283,637</u>	<u>(402,065)</u>	<u>72,605</u>	<u>(600,686)</u>
NET INCOME (LOSS) FOR THE PERIOD				
DEFICIT, Beginning of period	(14,697,429)	(12,163,329)	(14,486,397)	(11,964,708)
	<u>\$ (14,413,792)</u>	<u>\$ (12,565,394)</u>	<u>\$ (14,413,792)</u>	<u>\$ (12,565,394)</u>
DEFICIT, End of period				
<b>INCOME (LOSS) PER SHARE</b>				
BASIC	\$ 0.00	\$ (0.00)	\$ 0.0	\$ (0.01)
DILUTED	\$ 0.00	\$ (0.00)	\$ 0.0	\$ (0.01)
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING</b>				
BASIC	93,368,878	87,766,335	93,368,878	87,766,335
DILUTED	<u>97,941,623</u>	<u>87,766,335</u>	<u>97,941,623</u>	<u>87,766,335</u>

The attached notes form an integral part of these financial statements.

# EASTMAIN RESOURCES INC.

## INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(PREPARED BY MANAGEMENT – UNAUDITED)

	Three Months Ended April 30,		Six Months Ended April 30,	
	2011	2010	2011	2010
NET INCOME (LOSS) FOR THE PERIOD	\$ 283,637	\$ (402,065)	\$ 72,605	\$ (600,686)
OTHER COMPREHENSIVE INCOME (LOSS)				
Unrealized gain (loss) on available-for-sale financial assets arising during the period (net of income taxes and taxes recovered of \$32,565 for the three months ended April 30, 2011 and \$13,515 for the six months ended April 30, 2011)	(114,262)	(49,302)	47,420	16,030
COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	\$ 169,375	\$ (451,367)	\$ 120,025	\$ (584,656)

## INTERIM CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

AS AT APRIL 30, 2011

(PREPARED BY MANAGEMENT – UNAUDITED)

	Share Capital	Warrants	Contributed Surplus	Accumulated Other Comprehensive Income (loss)	Deficit	Total Shareholders' Equity
As at October 31, 2010 (audited)	\$ 53,419,042	\$ 102,276	\$ 9,541,856	\$ (245,490)	\$ (14,486,397)	\$ 48,331,287
Share capital issued	6,940,827	-	-	-	-	6,940,827
Flow-through tax effect	(3,819,285)	-	-	-	-	(3,819,285)
Stock-based compensation	-	-	521,750	-	-	521,750
Options exercised	250,740	-	(250,740)	-	-	-
Warrants issued	(38,400)	38,400	-	-	-	-
Fair-market-value gain on available-for-sale financial assets	-	-	-	47,420	-	47,420
Net income for the period	-	-	-	-	72,605	72,605
As at April 30, 2011 (unaudited)	\$ 56,752,924	\$ 140,676	\$ 9,812,866	\$ (198,070)	\$ (14,413,792)	\$ 52,094,604

The attached notes form an integral part of these financial statements.

# EASTMAIN RESOURCES INC.

## INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (PREPARED BY MANAGEMENT – UNAUDITED)

	Three Months Ended April 30,		Six Months Ended April 30,	
	2011	2010	2011	2010
Cash provided by (used in)				
<b>OPERATING ACTIVITIES</b>				
Loss for the period	\$ 283,637	\$ (402,065)	\$ 72,605	\$ (600,686)
Adjustments not affecting cash:				
Amortization	7,873	5,830	14,964	10,921
Stock option compensation (Note 6)	224,250	251,250	268,850	251,250
Recovery of future income taxes	(660,883)	-	(660,883)	-
Change in non-cash working capital items	819,296	162,480	732,599	(235,883)
	674,173	17,495	428,135	(574,398)
<b>FINANCING ACTIVITIES</b>				
Proceeds on issue of common shares	-	5,000,000	5,181,000	5,415,835
Proceeds on exercise of stock options	-	363,400	453,600	427,400
Share issue costs	(26,161)	(383,261)	(413,771)	(403,081)
	(26,161)	4,980,139	5,220,829	5,440,154
<b>INVESTING ACTIVITIES</b>				
Mining properties and deferred exploration expenditures	(1,913,586)	(686,904)	(3,545,402)	(1,549,822)
Government resource credits	344,059	(22,955)	353,954	(22,955)
Purchase of equipment	(27,500)	-	(27,500)	-
Purchase of marketable securities	(12,805)	(80,701)	(1,163,761)	(782,327)
Net proceeds from the sale and redemptions of marketable securities	-	63,000	742,705	760,323
	(1,609,832)	(727,560)	(3,640,004)	(1,594,781)
Change in cash and cash equivalents	(961,820)	4,272,074	2,007,169	3,270,974
Cash and cash equivalents, beginning of period	17,441,104	10,935,486	14,472,115	11,936,585
Cash and cash equivalents, end of period	\$ 16,479,284	\$ 15,207,560	\$ 16,479,284	\$ 15,207,559

The attached notes form an integral part of these financial statements.

# EASTMAIN RESOURCES INC.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

APRIL 30, 2011

### 1. NATURE AND CONTINUANCE OF OPERATIONS

Eastmain Resources Inc. (the "Company" or "Eastmain") and its wholly-owned subsidiary, Eastmain Mines Inc., are engaged in the acquisition and exploration of resource properties within Canada. The Company is a publicly-held company incorporated under the Business Corporations Act (Ontario) and its common shares are listed on the Toronto Stock Exchange.

The company is in the process of exploring its mineral properties and has not yet determined whether its properties contain reserves that are economically recoverable. The recuperation of the amounts spent for mineral properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of its properties, and upon future profitable production or proceeds from the disposition of the properties. 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. To date the Company has not earned significant revenues and is considered a company in the exploration stage. Although the Company has taken steps to verify title to 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 titles may be subject to unregistered prior agreements and may be non-compliant with regulatory requirements.

These interim unaudited consolidated financial statements have been prepared in accordance with accounting principles applicable to a going concern, which assumes continuity of operations, realization of assets and the settlement of liabilities in the normal course of business in the foreseeable future. In assessing whether the going concern assumption is appropriate, management takes into consideration all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. As at April 30, 2011, the Company had working capital of \$17,736,972, net income of \$72,605 and an accumulated deficit of \$14,413,792. While the Company has sufficient funds to meet its current commitments, the Company will require additional funding for its operations and exploration of its mineral resource properties. Management is aware in making its assessment, that material uncertainties related to events or conditions may cast a doubt upon the ability to continue as a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern, and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business, and at amounts different from those in the accompanying consolidated financial statements.

### 2. MARKETABLE SECURITIES

#### a) Marketable Securities

Bonds and other securities are recorded at current market values in accordance with CICA Section 3855 on financial instruments. The Company has classified all of its investments in marketable securities, including the investments below, as available-for-sale in the current year. Investments in bonds bear interest at annual rates ranging from 1.30% to 5.75%, maturing between June 15, 2011 and June 15, 2016. Investments in public companies consist of shares in Dianor Resources Inc., which were acquired in exchange for geological data; shares of Threegold Resources Inc., received as a dividend from Dianor Resources Inc.; shares in Western Uranium Corporation received in exchange for prospecting permits and mineral claims; and shares in Western Lithium Corporation resulting from a spin-out of Western Uranium Corporation.

#### Marketable Securities

GIC's and investment grade bonds	\$ 2,970,347
Dianor common shares	20,000
Three Gold common shares	4,271
Western Uranium Corporation common shares	512,369
Western Uranium Corporation warrants	-
Western Lithium Corporation common shares	196,750
	<hr/>
	3,703,737
Less current portion	2,244,756
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	\$ 1,458,981

#### b) Hedging Activities

The Company does not engage in hedging activities nor does it hold or issue any derivative financial instruments.

**EASTMAIN RESOURCES INC.**

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

APRIL 30, 2011

**3. EQUIPMENT**

The equipment is recorded at cost and is comprised as follows:

	Cost	Accumulated Amortization	Net Book Value April 30, 2011
Computer equipment	\$ 39,576	\$ 29,503	\$ 10,073
Field equipment	324,023	227,050	96,973
	\$ 363,599	\$ 256,553	\$ 107,046

**4. MINERAL PROPERTIES**

As at April 30, 2011, the Company has outstanding refund claims for mining duties and resource investment tax credits from the Ministry of Natural Resources (Québec) and Revenue Québec, with respect to claims filed up to October 31, 2010, amounting to approximately \$650,000. Since the amounts have not been confirmed, they have not been included in the financial statements.

The mineral property acquisition costs and exploration expenditures are expensed as incurred. If a property is abandoned or continued exploration is not deemed appropriate in the foreseeable future, the related costs and expenditures are removed.

The mineral properties are recorded at cost and are comprised as follows:

FOR THE SIX MONTHS ENDED APRIL 30, 2011

Project	Drilling & Assays	Technical Surveys	Project Acquisition & Maintenance	Gross Expenditures	Grants	2011 Net Expenditures
Clearwater	\$ 1,334,044	\$ 639,565	\$ 2,751,817	\$ 4,725,426	\$ (206,369)	\$ 4,519,057
Eastmain Mine	269,359	145,157	-	414,516	(9,895)	404,621
Éléonore South	110,539	91,148	5,377	207,064	(10,610)	196,454
Ruby Hill	-	4,100	74,633	78,733	(126,436)	(47,703)
Radisson	-	2,848	19,500	22,348	-	22,348
Reservoir	2,331	3,364	-	5,695	-	5,695
Other	-	50,170	14,350	64,520	(644)	63,876
<b>Total</b>	<b>\$ 1,716,273</b>	<b>\$ 936,352</b>	<b>\$ 2,865,677</b>	<b>\$ 5,518,302</b>	<b>\$ (353,954)</b>	<b>\$ 5,164,348</b>

The following is a summary breakdown of the cumulative expenditures on mineral property acquisition and exploration for the Company's significant projects:

CUMULATIVE EXPENDITURES FOR THE SIX MONTHS ENDED APRIL 30, 2011

Project	Balance October 31, 2010	2011 Net Expenditures	Write-Downs	Balance April 30, 2011
Clearwater	\$ 12,205,603	\$ 4,519,057	\$ -	\$ 16,724,660
Eastmain Mine	8,374,730	404,621	-	8,779,351
Éléonore South	4,512,219	196,454	-	4,708,673
Ruby Hill	1,825,476	(47,703)	-	1,777,773
Xstrata JV	1,268,284	-	-	1,268,284
Radisson	490,857	22,348	-	513,205
Reservoir	423,930	5,695	-	429,625
Other	1,684,560	63,876	-	1,748,436
	\$ 30,785,659	\$ 5,164,348	\$ -	\$ 35,950,007

# EASTMAIN RESOURCES INC.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

APRIL 30, 2011

### 5. CAPITAL STOCK

Authorized – unlimited common shares

Issued:

	Shares	Amount
Issued and outstanding, October 31, 2010 (audited)	91,454,933	\$ 53,419,042
Private placement (i)	1,819,000	5,002,250
Cost of issue (i)		(375,189)
Issue of warrants – Black-Scholes valuation		(38,400)
Private placement (ii)	65,000	178,750
Cost of issue (ii)		(10,894)
Exercise of stock options	630,000	453,600
Exercise of stock options – Black-Scholes valuation		250,740
Flow-through tax effect (iii)		(3,819,285)
Issue of shares for exploration properties (iv)	1,000,000	1,720,000
Cost of issue (iv)		(27,690)
Issued and outstanding, April 30, 2011 (unaudited)	94,968,933	\$ 56,752,924

- i) In December 2010, the Company issued 1,819,000 flow-through shares in a private placement at \$2.75 per share for gross proceeds of \$5,002,250. Issue costs in connection with the private placement were \$375,189. A brokerage commission of 6% of gross proceeds was paid and 109,140 broker warrants were issued. Each warrant entitles the holder to purchase one common share at a price of \$1.85 until December 7, 2011. The Black-Scholes value associated with these warrants was \$38,400.
- ii) In December 2010, the Company issued 65,000 flow-through shares in a private placement to directors, officers, employees and service providers at \$2.75 per share for gross proceeds of \$178,750. Issue costs in connection with this private placement were \$10,894.
- iii) The Company has adopted EIC-146, whereby the Company recognizes the future tax liability and reduces shareholders' equity accordingly, on the date that the Company renounces the tax credits associated with expenditures from flow-through proceeds. The future income tax liability can be offset against unrecognized future income tax assets, if certain criteria are met. As a result, the Company has recorded future income taxes recoverable of \$3,819,285 of which \$660,883 was applicable to income in the current year and \$3,158,402 was recorded as future income taxes payable.
- iv) In March 2011 the Company purchased the 2% net smelter royalty on the Clearwater property for 1,000,000 common shares valued at \$1,720,000 using the five-day volume-weighted average trading price and a cash payment of \$1,000,000. Issue costs were \$27,690.

### 6. STOCK OPTIONS

The Company has a stock option plan available to directors, officers, employees and other service providers of the Company. Under the plan, the Company may issue options, up to a maximum of 10% of the common shares outstanding, at prices not less than the market price of the common shares at the close of the trading day on the day immediately preceding the date of the grant. The number of common shares reserved for issuance to any one person may not exceed 5% of the issued and outstanding common shares at the date of such grant. Options granted must be exercised no later than ten years from date of grant or such lesser period as determined by the Company's Board of Directors. Vesting of options is made at the discretion of the Board of Directors at the time the options are granted. During 2011, all options granted vested at the date they were granted. The Company applies the fair-value method of accounting for all stock-based compensation awards. Accordingly, stock option compensation of \$521,750 was recorded; \$297,500 being the cost of extending the term from 5 years to 10 years on 250,000 options with 2011 expiry dates and \$224,250 being the cost of 250,000 options granted as Director stock option compensation. \$268,850 was apportioned to operating expenses and \$252,900 to mineral properties.

For purposes of the options granted or expiry date extended, the fair value of each option was estimated on the date of grant using the Black-Scholes option pricing model applying the following assumptions:

Dividend yield	\$0.0
Expected volatility	36.3% - 54.7%
Risk free interest rate	1.71% - 2.89%
Expected term – years	2.5 - 7.5



**EASTMAIN RESOURCES INC.**

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

APRIL 30, 2011

**6. STOCK OPTIONS (Continued)**

	Number of Options	Weighted Average Exercise Price
Outstanding, October 31, 2010 (audited)	4,639,605	\$ 0.82
Granted during the period	250,000	\$ 1.51
Exercised during the period	(630,000)	\$ 0.72
Outstanding, April 30, 2011 (unaudited)	4,259,605	\$ 1.08

As at April 30, 2011, the following options were outstanding and exercisable:

Exercise Price Range	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable
\$0.51 - \$1.00	2,134,605	1.22 years	\$0.85	2,134,605
\$1.01 - \$1.50	1,875,000	7.89 years	\$1.28	1,875,000
\$1.51 - \$2.00	250,000	10.00 years	\$1.51	250,000

Stock options outstanding as at April 30, 2011:

Expiry date	Black-Scholes Value (\$)	Number of Options	Exercise Price (\$)
June, 2012	277,217	863,605	0.78
June, 2012	31,500	100,000	0.77
September, 2013	386,925	825,000	0.96
April, 2014	52,992	96,000	0.96
June, 2014	468,800	800,000	1.25
January, 2016	397,000	250,000	0.72
April, 2020	192,750	250,000	1.35
June, 2020	536,250	750,000	1.27
September, 2020	62,400	75,000	1.46
April, 2021	224,250	250,000	1.51
	2,630,084	4,259,605	1.08

**7. WARRANTS**

	Number of Warrants	Weighted Average Exercise Price
Outstanding, October 31, 2010 (audited)	204,000	\$ 1.84
Issued during the period	109,140	\$ 1.85
Outstanding, April 30, 2011 (unaudited)	313,140	\$ 1.84

Warrants outstanding as at April 30, 2011:

Expiry date	Black-Scholes Value (\$)	Number of Warrants	Exercise Price (\$)
February, 2012	62,040	120,000	2.00
September, 2012	40,236	84,000	1.60
December, 2011	38,400	109,140	1.85
	140,676	313,140	1.84

## **EASTMAIN RESOURCES INC.**

### **NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

APRIL 30, 2011

#### **8. CAPITAL MANAGEMENT**

The Company's objectives in managing capital are to ensure that there are adequate resources to sustain operations and to continue as a going concern; to maintain adequate levels of funding to support acquisition and exploration of mineral properties; to maintain investor and market confidence and to provide returns to shareholders. Funds are primarily secured through equity capital raised by way of private placements. The Board of Directors does not establish quantitative return on capital criteria for management, but relies on the expertise of the Company's management to sustain future development of the business.

Exploration involves a high degree of risk and substantial uncertainties about the ultimate ability of the Company to achieve positive cash flow from operations. Consequently, management reviews its capital management approach on an ongoing basis. As a part of this review, management considers the cost of capital and the risks associated with each class of capital. Based on recommendations from management, the directors balance overall capital structure through new share issues.

Management believes it will be able to raise equity capital as required in the long term, but recognizes there will be risks involved that may be beyond their control. Management intends to continue to use various strategies to minimize its dependence on equity capital, including the securing of joint venture partners where appropriate. Management considers its capital structure to consist of equity attributable to equity holders of the Company, comprising issued share capital, contributed surplus, warrants and accumulated losses.

There were no changes in management's approach to capital management during the quarter ended April 30, 2011. The Company is not subject to externally imposed capital requirements.

#### **9. FINANCIAL RISK FACTORS**

The Company's exposure to risk factors and their impact on the Company's financial instruments are summarized below:

##### **a) Fair Value**

Fair value represents the amount of which a financial instrument could be exchanged between willing parties, based on current markets for instruments with the same risk, principal and remaining maturity. Fair-value estimates are based on quoted market values and other valuation methods.

##### **b) Credit Risk**

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to cash and cash equivalents, marketable securities and receivables included in prepaid and sundry receivables. The Company has no significant concentration of credit risk arising from operations. Cash and cash equivalents are held with the Royal Bank of Canada, from which management believes the risk of loss to be minimal. Financial instruments included in prepaid and sundry receivables consist of other receivables. Management believes that the credit risk concentration with respect to financial instruments included in prepaid and sundry receivables is minimal.

##### **c) 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 approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at April 30, 2011, the Company had cash and cash equivalents of \$16,479,284 to settle current liabilities of \$1,480,264. During the six months ended April 30, 2011, the Company raised net proceeds of \$5,220,829 through the issue of common shares, flow-through shares, and through the exercise of stock options. In management's opinion, there are sufficient funds to support the planned exploration program for the foreseeable future. All of the company's financial liabilities have contractual maturities of 30 days or less and are subject to normal trade terms. The Company is also committed to spending \$13,401,000 in flow-through expenditures between February 26, 2010 and December 31, 2011, of which \$9,195,849 has been spent as at April 30, 2011. If the Company fails to spend the entire amount of these funds in compliance with the Government of Canada's flow-through regulations, it may be subject to litigation from various counterparties. Management believes that the Company will be able to fulfill all of its flow-through commitments within the given time constraints.

##### **d) Market Risk**

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

# EASTMAIN RESOURCES INC.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

APRIL 30, 2011

### 9. FINANCIAL RISK FACTORS (Continued)

#### Interest Rate Risk

The Company has cash balances, interest-bearing bank accounts and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade bonds, treasury bills, bankers' acceptances and money market funds. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on the estimated fair value as at April 30, 2011.

#### Foreign Currency Risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. The Company funds certain administrative expenses in the United States on a cash-call basis using US dollar currency converted from its Canadian dollar bank account held in Canada. Management believes the foreign exchange risk derived from currency conversions is manageable and therefore, does not hedge its foreign exchange risk.

#### Price Risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity-price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity-price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities.

Management closely monitors commodity prices of precious metals, individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company.

### e) Sensitivity Analysis

The Company has designated its cash and cash equivalents and marketable securities as available-for-sale, which is both measured at fair value with unrealized gains and losses recorded in other comprehensive income. Financial instruments included in prepaid and sundry receivables are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

The carrying- and fair-value amounts of the Company's financial instruments are:

	Assets (Liabilities)	
	Carried at cost (\$)	Carried at fair Market value (\$)
Cash and cash equivalents	16,456,784	22,500
Marketable securities		3,703,737
Prepaid expenses and sundry receivables	82,194	
Accounts payable and accrued liabilities	(1,480,264)	

Financial instruments included in prepaid and sundry receivables are \$82,194. Based on Management's knowledge and experience of the financial markets, the Company believes that the following movements are "reasonably possible" over a twelve-month period:

- i) Interest-bearing bank accounts are at a variable rate and investments maturing in less than one year are subject to new interest rates at the time of renewal, and therefore, may be impacted. Current short-term interest rates are less than 2.0%. Sensitivity to a plus or minus 1% (100 basis point) change in current interest rates would affect net loss by plus or minus \$187,057.
- ii) The Company has investments in public companies. Sensitivity to a plus or minus 50% change in the fair-market value of those securities would affect comprehensive net loss by plus or minus \$241,648.

### 10. SUPPLEMENTARY INFORMATION

As at April 30, 2011 contributed surplus is comprised of the following:

Balance, beginning of period	\$ 9,541,856
Options granted	224,250
Option maturity date extended	297,500
Options exercised	(250,740)
Balance, end of period	\$ 9,812,866

**EASTMAIN RESOURCES INC.**

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

APRIL 30, 2011

**10. SUPPLEMENTARY INFORMATION (Continued)**

Changes in non-cash working capital items:

Prepaid and sundry receivables decrease	\$ 457,021
Accounts payable and accrued liabilities increase	275,578
	<u>\$ 732,599</u>

Composition of cash and cash equivalents:

Cash	\$ 15,625,787
Cash equivalents	853,497
	<u>\$ 16,479,284</u>

Other financial transactions:

Cash paid for interest	\$ nil
Cash paid for income tax	\$ nil
Non-cash financing and investing activity issuance of common shares for exploration properties	\$ 1,720,000
Receipt of common shares for exploration information	\$ nil

**11. RELATED PARTY TRANSACTIONS**

Management wages paid to a director	\$ 108,000
Premises rent paid to a director	\$ 6,000
Net accounts payable to a director	\$ 6,000
Geological and administrative fees and out-of-pocket expenditures to a private company controlled by the exploration manager	\$ 95,460
Net accounts payable to the exploration manager	\$ 2,712

The transactions were measured at the amount established and accepted by the parties. Accounts receivable were settled within 30 days.

**12. ACCUMULATED OTHER COMPREHENSIVE LOSS**

The balance in accumulated comprehensive loss consists of unrealized gains or losses on available-for-sale investments.

**13. RECLASSIFICATION**

Certain comparative figures have been changed to conform to the presentation adopted for the current year.

**14. SUBSEQUENT EVENT**

In accordance with the Company's stock option compensation plan, 650,000 stock options with an exercise price of \$1.15 were issued to officer and service providers in June 2011. The value attributed to these options was estimated at \$395,850, using the Black-Scholes method with the following assumptions: expected term - 7.5 years, dividend - \$0, risk free interest rate - 2.81% and volatility - 46.5%.

## CORPORATE INFORMATION

### MANAGEMENT AND DIRECTORS

Donald J. Robinson, Ph.D., P. Geo  
President, CEO, Director

James L. Bezeau, BBA, CMA,  
Chief Financial Officer

Catherine I. Butella, B.Sc.  
Exploration Manager

Jay Goldman, BA, MBA, LLB  
Corporate Secretary

Ian J. Bryans, B.A.\*  
Director

John A. Hansuld, Ph.D.\*  
Director

David K. Joyce,  
Director

William L. Koyle \*  
Lead Director

Richard W. Hutchinson, Ph.D.  
Chief Technical Advisor

Neil Hillhouse, Ph.D.  
Special Advisor

Dr. Ted Moses, (former Cree Grand Chief)  
Special Advisor

Chad Steward  
Manager Communications

\* Member of Audit Committee

### AUDITORS

Stern & Lovrics LLP  
1200 Sheppard Ave. East, Suite 406  
Toronto (North York), Ontario, Canada M2K 2S5

### CORPORATE SERVICES

DSA Corporate Services Inc.  
50 Richmond Street East, Suite 101  
Toronto, Ontario, Canada, M5C 1N7

### LEGAL COUNSEL

Cassels Brock & Blackwell LLP  
40 King Street West, Suite 2100  
Toronto, Ontario, Canada, M5H 3C2

### TRANSFER AGENT

Equity Financial Trust Company  
200 University Avenue, Suite 400  
Toronto, Ontario, Canada M5H 4H1

### SHARES LISTED

Symbol: ER  
The Toronto Stock Exchange

### SHARE STRUCTURE (as at Apr 30, 2011)

Issued: 94,968,933  
Options: 4,909,605 (\$5,339,272)  
Warrants: 313,140 (\$576,309)

### CORPORATE OFFICE

50 Richmond Street East, Suite 101  
Toronto, Ontario, Canada M5H 1N7

### EXPLORATION OFFICE

834572, 4<sup>th</sup> Line EHS Mono Township  
Orangeville, Ontario  
Canada L9W 2Y8

### CONTACTS

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