

2005



EASTMAIN RESOURCES INC
MANAGEMENT'S DISCUSSION & ANALYSIS
2005 FINANCIAL STATEMENTS

EASTMAIN RESOURCES INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

General

The following discussion of performance, financial condition and future prospects should be read in conjunction with the audited financial statements of Eastmain Resources Inc. (the "Company") for the year ended October 31, 2005 and related notes thereto, which have been prepared in accordance with Canadian generally accepted accounting principles. All dollar amounts are expressed in Canadian dollars unless otherwise indicated.

All statements, other than historical facts, included herein, including without limitation, statements regarding potential mineralization, resources and exploration results and future plans and objectives of the Company are forward-looking statements and involve various risks and uncertainties. There can be no assurance that such statements will prove to be accurate, and actual results and future events could differ materially from those anticipated. Factors which may cause actual results and events to differ materially from those anticipated include, but are not limited to, actual results of mineral exploration and development, availability of financing, changes in applicable regulations, mineral value, equity market fluctuations and cost and supply of materials.

This management's discussion and analysis is dated January 27, 2006.

Corporate Overview

The Company, incorporated under the laws of Ontario, is engaged in the mining, exploration and development of resource properties, primarily those containing gold, silver, copper, nickel and zinc. The Company holds an interest in a number of early, to advanced-stage exploration projects in Ontario, Québec and New Brunswick. The Company holds 100% Interest in the Clearwater Project which hosts a gold resource, referred to as the Eau Claire gold deposit, and is located in the Province of Québec.

The Company has an option to earn 50% interest in the Azimut C and Azimut D properties located in James Bay, Québec. Activity in the region was triggered by the discovery of the Roberto gold deposit on the Eleonore property, held by Virginia Gold Mines Inc., in September 2004. On December 5, 2005 Goldcorp Inc. ("Goldcorp") announced the acquisition of the Eleonore property at an estimated value of US\$420 million (Goldcorp news release, December 5, 2005). The Company holds 100% interest in the Dyna, Road King, Lac Elmer, Lidge, Lac Hudson and Reservoir projects in the area.

The Company has formed joint venture partnerships or strategic alliances with a number of mining companies including Falconbridge Limited (the "Falconbridge Joint Venture") and Goldcorp to capitalize on their technical, financial and marketing capabilities. The Company holds a 65% interest in a district-scale exploration project in joint venture with Falconbridge Limited (formerly Noranda Inc.). The Company has an option to earn 50% interest in the Reserve Creek gold project, in north western Ontario.

Commencing with the fiscal year starting August 1, 2003, the Company changed its fiscal year-end from July 31 to October 31, resulting in a 15-month reporting period ending October 31, 2004 ("fiscal 2004"), so that the financial reporting period better corresponds to the exploration season. As such, in accordance with prescribed reporting standards, the comparative figures used in the Company's financial statements for the year (twelve month period) ended October 31, 2005 are the fifteen month period ended October 31, 2004 and the twelve month period ended July 31, 2003.

Overall Performance

The Company's total assets of \$18,240,529 as at October 31, 2005 have increased from the \$14,769,427 reported at the October 31, 2004 year-end. This change is largely due to investment in exploration properties and an increase in the Company's treasury position. As of October 31, 2005 the Company's

current assets balance was comprised mainly of cash, cash equivalents, short-term investments, pre-paid expenses and sundry receivables which totalled \$3,371,724 compared to \$4,231,892 as at October 31, 2004.

As a mineral exploration company, the Company relies on equity financing and government incentives to finance its operations. The Company completed a private placement during the first quarter, ended January 31, 2005, to raise gross proceeds of approximately \$3,010,000 through the issuance of 4,300,000 flow-through common shares and 2,421,285 share purchase warrants. In addition, proceeds of \$225,000 were realized during the January 31, 2005 quarter upon the exercise of 500,000 share purchase warrants. During the second quarter ended April 30, 2005, 325,000 options were exercised contributing proceeds of \$117,000 to the Company's equity. No financing activities took place during the third and fourth quarters.

During the year ended October 31, 2004, the Company purchased the remaining interest of SOQUEM Inc. ("SOQUEM") in the Clearwater Project for \$1,000,000 cash in two tranches, 500,000 common shares and 500,000 share purchase warrants, each share purchase warrant entitling the holder thereof to purchase one common share at an exercise price of \$1.50 per share if exercised within 12 months and \$2.00 per share if exercised within 24 months. The Company made the first cash payment of \$500,000 and issued the 500,000 common shares and share purchase warrants to SOQUEM in 2004. A final cash payment of \$500,000 was paid in September 2005 to finalize the acquisition of the Clearwater Project. As a result, the Company now holds 100% interest in the Clearwater Project subject to a 2% Net Smelter Return Royalty ("NSR"), in favour of SOQUEM. This cash cost during the fiscal year ended October 31, 2005 ("fiscal 2005") was offset by \$427,655 in tax rebates received and an estimated \$1.9 million tax rebate and mining duty still owed to the Company by the Province of Québec in respect of claims to October 31, 2005.

There are significant uncertainties regarding the trends in gold, silver and other mineral prices and the availability of equity financing when proceeds are used for the purpose of mineral exploration and development. For instance, the price of gold, silver and other minerals has fluctuated widely in recent years and wide fluctuations are expected to continue. The market price of gold fell from above US\$350 per ounce for most of the 1990's to US\$260 per ounce in 2001. Since that time gold has risen steadily to the present time reaching new highs exceeding US\$500 per ounce. Increased gold prices in the last several years have encouraged the Company to engage in more active exploration and acquisition activities. Market conditions have also been influenced positively by Goldcorp's acquisition of the Eleonore project in the Eastmain/Opinaca district. Apart from these factors, management is not aware of any other trends, commitments, events or uncertainties that would have a material effect on the Company's business, financial condition or results of operations.

The following is selected financial data derived from the Company's financial statements for each of the fiscal years ended October 31, 2005 and 2004, and July 31, 2003.

Description	Fiscal year ended October 31, 2005	Fiscal year ended October 31, 2004	Fiscal year ended July 31, 2003
Total revenue	\$117,900	\$143,457	\$73,850
Loss before extraordinary items	\$1,561,164	\$2,568,532	\$1,681,429
Net loss	\$462,743	\$1,769,944	\$1,681,429
Net loss per share ⁽¹⁾	\$0.009	\$0.042	\$0.056
Total assets	\$18,240,529	\$14,769,427	\$9,800,127

(1) These amounts remain the same on a fully-diluted basis.

Interest and dividend income is derived from the investment of funds for the period between the receipt of funds from equity placements and the disbursement of exploration expenditures. Interest and dividend income was approximately \$9,800 per month for the twelve months ending October 31, 2005 and \$9,600

per month for the fifteen months ended October 31, 2004 and \$5,600 per month for the twelve months ended July 31, 2003.

Management fee income in fiscal 2003 was derived from project management of a joint venture which is now wholly owned by the Company.

Results of Operations

Net loss for the year ended October 31, 2005 was \$462,743 compared to a net loss of \$1,769,944 for the fifteen months ended October 31, 2004. The largest components of the loss for the year ended October 31, 2005 were the write down of deferred exploration expenditures of \$443,549, the value of \$659,350 assigned to the 1,750,000 stock options issued as director, officer and employee compensation, exercisable at a weighted average price of \$0.53 for a period of five years, and the gain from the recovery from the write off of \$1,083,600 in future tax liabilities arising from the sale of flow-through shares. During the fifteen months ended October 31, 2004, deferred exploration expenses were written down by \$1,875,849, a value of \$266,300 was assigned to stock option compensation and the recovery of future tax liabilities arising from the sale of flow-through shares amounted to \$677,000. A gain on the sale of investments netted income of \$121,588. During the year ended July 31, 2003, deferred exploration expenses were written down by \$1,875,849. Accounting policies regarding the recognition of costs related to stock option compensation and value of future tax liabilities arising from the sale of flow-through shares were adopted prospectively beginning with the fiscal year ended October 31, 2004.

For a description of the proposed future activities of the Company, see "Future Outlook" below.

Summary of Quarterly Information

	Quarter ended 10/31/2005	Quarter ended 07/31/2005	Quarter ended 04/30/2005	Quarter ended 01/31/2005
Revenue	\$ 40,442	\$ 40,019	\$ 17,459	\$ 19,980
Net Income (loss)	\$(563,397)	\$(93,489)	\$702,445	\$(508,302)
Per share basic	\$(0.0110)	\$(0.0019)	\$0.0100	\$(0.0108)
Per share diluted	\$(0.0110)	\$(0.0019)	\$0.0100	\$(0.0108)
	Quarter ended 10/31/2004	Quarter ended 07/31/2004	Quarter ended 04/30/2004	Quarter ended 01/31/2004
Revenue	\$ (4,812)	\$ 38,578	\$ 15,836	\$ 32,783
Net Income (loss)	\$(2,000,853)	\$(42,027)	\$ (70,382)	\$ 468,345
Per share basic	\$(0.044)	\$(0.0011)	\$(0.0019)	\$0.0111
Per share diluted	\$(0.044)	\$(0.0011)	\$(0.0019)	\$0.0111

General and Administration expenses for the year ended October 31, 2005 include government interest fees of approximately \$100,000 related to flow-through shares for which there were no comparable amounts in either 2004 or 2003.

In accordance with generally accepted accounting principles, some significantly large, non-cash, income and expense items are recorded through the Company's financial statements. During the year ended October 31, 2005, a stock option compensation expense estimated at \$659,350 was recorded, with an offsetting increase recorded as contributed surplus. (\$266,300 in 2004). The non-cash income component of capital stock issued in 2005 with flow-through tax benefits amounted to \$1,083,600 arising from the estimated recovery of future corporate income taxes (\$677,000 in 2004). The accounting

standard reporting recommendation regarding the income component of flow through shares introduced in March 2004 was implemented during fiscal 2004 on a prospective basis. Under the recommendation, a part of the equity raised from flow-through shares is apportioned to current income, based on an estimate of the value of future income tax recoveries otherwise available to the Company that are being transferred to the shareholder.

Deferred Mining Property Costs and Exploration Expenditures

The Company's activities involve the exploration and development of gold and base metals on its properties in Ontario, Québec and New Brunswick. The major deferred exploration expenditures for the year ended October 31, 2005 include: Clearwater Project, \$1,218,000, 24% (\$2,645,000, 52% in 2004), Falconbridge Joint Venture, \$1,465,000, 29% (\$1,820,000, 36% in 2004); Azimut Blocks C&D, \$1,125,000, 22% (\$0, in 2004), Ruby Hill Property, \$409,000, 8% (\$0, in 2004); Reserve Creek Project, \$332,000 7% (\$279,000 5% in 2004), and other of \$549,000, 11% (\$334,000, 7% in 2004). The Company's most significant and advanced property is the Clearwater Project. The Company acquired an option to earn SOQUEM's remaining ownership of the Clearwater Project during the fiscal year ended October 31, 2004 in exchange for cash and securities as described above, giving it 100% ownership of the Clearwater Project, subject to a 2% NSR. The current focus is to increase the gold resource through drilling and locate a second deposit regionally on the property. Upon approval of government permitting the Company proposes to complete a bulk sample in order to determine the preliminary mining and economic parameters of the Eau Claire gold deposit. In light of Virginia Gold Mines' discovery of the Roberto gold deposit at Eléonore, the Company initiated an extensive gold exploration program on a number of properties in the Eléonore area. Deferred exploration expenditures on the Company's Québec projects are subject to approximately 50% mining duty and provincial refund to the Company.

Results from the Falconbridge Joint Venture MegaTEM airborne survey prompted the Company and Falconbridge to acquire over 1,000 mineral claim units in Ontario and Québec. Expenditures to date have funded 14,500 line-kilometres of airborne geophysical surveys, generating 225 isolated anomalies. The MegaTEM airborne geophysical system is designed to detect volcanic massive sulphide (VMS) copper-zinc-silver deposits, nickel-copper-platinum group element deposits and some gold ore deposits within covered terrain. A \$1,464,649 follow-up diamond drill program tested 35 priority targets in 2005. A \$500,000 diamond drill program is proposed for 2006 to test high priority gold and base metal targets.

Exploration at Reserve Creek, Ontario in fiscal 2004 and 2005 included geological and geophysical surveys covering known gold zones and their lateral extensions. The Company has suspended work indefinitely on the property until the vendor can demonstrate unrestricted beneficial ownership of the property and unequivocal certainty that mining operations will be permitted without restriction as defined in the Letter Agreement.

Project generation expenditures also prompted the acquisition of four new gold projects located in the James Bay region of Québec. Over 250,000 acres are currently held in 11 projects covering areas of highly prospective and under-explored geology. Follow-up airborne geophysical surveys on six projects have been completed. An extensive soil sampling and prospecting program has defined prospective targets for detailed follow-up.

In March of 2005 the Company acquired an option from Azimut Exploration Inc. to earn 50% interest in two properties covering 185 km². These projects are located in key positions near the Eléonore Property where Virginia Gold Mines recently discovered the Roberto gold deposit. Eastmain doubled its strategic land position in the Opinaca/Eastmain region of Québec by staking an additional 186 km² of land northwest of the discovery area. Eastmain and Azimut recognize Roberto as a major gold discovery that may lead to the establishment of a mining camp. Initial work on the Company's holdings has included extensive surface prospecting and geochemical surveys.

Three gold deposits have been discovered in the Eastmain/Opinaca district. The Company holds 100% interest in the Eau Claire gold deposit, which is located within the Clearwater Project, and has key land holdings adjacent to the other two (Roberto and Eastmain Gold Mine).

In April 2005 the Company acquired an option to earn 100% interest in certain mineral properties (the "Ruby Hill Property") located within the Upper Eastmain River greenstone belt from Ruby Hill Exploration Inc. ("Ruby Hill"). The Company can earn 100% interest in the Ruby Hill Property by making a cash payment of \$10,000 and issuing 150,000 common shares of the Company to Ruby Hill. Upon the initial signing of a Letter Agreement, the Company paid \$10,000 in cash and issued 50,000 common shares. The Company must issue an additional 100,000 common shares to Ruby Hill prior to the second anniversary of the agreement to exercise the option. Ruby Hill will hold a 2.5% Net Smelter Return Royalty, subject to an optional buy-out by the Company of 1.5% of the royalty for \$1.5 Million. The Ruby Hill Property consists of 136 claim units covering 70 km² in three groups. The Company staked an additional 48 claim units, covering 25 km², adjoining the Ruby Hill claims. A VTEM airborne survey was flown to cover the Ruby Hill Property and the adjacent Eastmain gold deposit, owned by Campbell Resources Inc.

The cost of exploration and development is recorded on a property by property basis and deferred in the Company's accounts, pending recovery based on the discovery and/or extraction of economically recoverable reserves. When it is determined that there is little prospect of minerals being economically extracted from a property, the deferred costs associated with that property are charged to operations. The Company has adopted a policy whereby the deferred exploration expenditures on a given property shall be reduced as the banked provincial assessment credit of the property declines. The determination of property write-downs, if required, is usually performed at the fiscal year-end.

Liquidity and Capital Resources

In February 2005, 325,000 options were exercised contributing \$117,000 in gross proceeds to capital stock. In November 2004 an instalment of 90,000 common shares were issued in payment for the Reserve Creek property and in April, 2005, 50,000 common shares were issued in payment for the Ruby Hill property. In July 2005, 75,000 common shares were issued to Azimut Exploration Inc. in payment for Azimut Blocks C and D. The Company completed a private placement issue of 4,300,000 flow-through units at \$0.70 during the first quarter of 2005 to raise gross proceeds of \$3,010,000. Each unit consisted of one common share and one-half of one common share-purchase warrant. Each full share-purchase warrant was exercisable to acquire one common share at a price of \$0.85 until December 30, 2005. These warrants expired unexercised. The funds were deployed primarily in the exploration and development of the Falconbridge Joint Venture and Québec exploration properties.

During year ended October 31, 2005 the Company raised proceeds, net of issue costs of approximately \$3,170,000 (Q2 : \$117,000, Q1 : \$3,053,000) in financing activities, invested \$5,099,000 (Q4 : \$2,512,000, Q3 : \$1,161,000, Q2 : \$678,000, Q1 : \$748,000) on acquisitions and exploration of mineral resource properties and increased its short-term investments by \$1,079,000 (Q4 : -615,000, Q3 : -\$46,000, Q2 : -\$49,000, Q1 : \$1,789,000). As at October 31, 2005 cash, cash equivalents and short-term investments, pre-paid expenses and sundry receivables on hand totalled approximately \$3,371,000. Current liabilities were \$1,629,680 and the Company has no long-term debt as at October 31, 2005. Accordingly, as the Company's working capital requirements are approximately \$37,500 per month, and as all exploration expenditures to be made by the Company are discretionary, management believes the Company has sufficient working capital to fund the ongoing overheads and cost of its exploration activities for the year ending October 31, 2006. In addition, the Company has completed two private placement financings subsequent to October 31, 2005 and may contemplate other placements if it believes that market conditions are appropriate.

As of October 31, 2005 the Corporation had no contractual obligations.

Since the properties held by the Company do not currently generate any operating income, the Company is reliant on equity markets over the long term to raise capital to fund its exploration activity. In the past the Company has been successful in raising funds through equity offerings, and while there is no guarantee that this will continue, there is no reason either to believe that this capacity will diminish.

Cash on hand, for future exploration costs, is invested in term deposits, bonds and certificates of deposit with maturities matching the Company's cash flow requirements which, in management's opinion yields the greatest return with the least risk. The Company's policy is to maintain its investment portfolio in very low-risk liquid securities, which are selected and managed under advice from independent professional advisors.

Short-term investments are subject to changes in valuation depending on market fluctuations at the date of reporting. If required, a provision for valuation losses is reported in the operating results. During the year ended October 31, 2005 the Company realized gains on the sale of investments in the amount of \$14,821. During the year ended October 31, 2004, the Company realized a net gain on the sale of investments amounting to \$121,588.

Non-capital losses can be carried forward and used to offset future non-capital gains for a period of ten years (seven years for losses in tax years ending prior to March 22, 2004), after which they expire. To the extent that loss carry-forwards could be used to reduce future tax liabilities, they are a financial resource that can be managed. The Company, by its mineral exploration nature, generates non-capital tax losses which are not recognized on the income statement because, at this point in time, it is more likely that they will not be used to offset tax liabilities within their ten-year life. Canadian tax legislation allows an enterprise to issue securities to investors whereby the deductions for tax purposes relating to resource expenditures may be claimed by the investors and not by the enterprise. These securities are referred to as flow-through shares. Under recommendation number 146 issued by the Emerging Issues Committee (EIC-146) regarding generally accepted accounting principles (GAAP) for the accounting treatment of flow-through shares, the issuer recognizes part of the proceeds from the sale of flow-through shares as tax credits associated with the expenditures being transferred to the shareholders, records this amount as a future income tax liability and the rest of the net proceeds as shareholders' equity. As a result, the Company had recorded a future tax liability of \$1,083,600 in order to recognize the estimated tax component associated with the issue of 4,300,000 flow-through shares during the quarter ended January 31, 2005. Upon clarification of the accounting treatment required under this recommendation, it was determined that the Company could recover this future tax liability into income immediately rather than some time in the future, as previously reported. Income from the complete amortization of this future tax liability was recorded in the quarter ended April 30, 2005.

During the year, 6,733,095 share purchase warrants expired without being exercised. As at October 31, 2005, 2,921,285 share purchase warrants remain outstanding with an average exercise price of \$1.00 which, if exercised, would result in proceeds of \$2,291,478 to the Company. As at October 31, 2005, 2,575,000 options were outstanding, which if exercised, would result in proceeds of \$1,337,000 to the Company. The Company also has an estimated \$1.9 million in resource credits receivable due from the Province of Québec for claims up to October 31, 2005. Québec resource credits are refunds from the government that are paid to companies exploring for precious metals in Québec, subject to verification and adjustment by the Québec Ministry of Natural Resources. The Ministry is experiencing delays in processing claims and since no confirmation of the amount of the Company's refund has as yet been received, this estimate has neither been included in the Company's reported income nor included as an asset on the Company's balance sheet.

Transactions with Related Parties

Related party transactions include \$10,000 per month salary and \$1,000 per month office rental paid to the President of the Company. Consulting fees of \$325 per day are paid to a service provider of the Company.

Share Capital

The authorized capital of the Company consists of an unlimited number of common shares of which, as of January 27, 2006, there are 61,216,203 common shares outstanding. In addition, as of January 27, 2006, 4,032,500 common shares are reserved for issuance pursuant to available options, of which

3,525,000 options are outstanding, and 6,496,459 common shares are reserved for issuance pursuant to outstanding share purchase warrants.

Critical Accounting Estimates

Critical accounting estimates used in the preparation of the financial statements include the Company's estimate of recoverable value of its mineral properties, related deferred exploration expenditures and stock-based compensation. These critical accounting estimates significantly affect the values attributed to the following line items in the Company's financial statements: mining properties and deferred exploration expenditures; total assets; shareholders' equity; stock based compensation; total expenses; loss for the period before extraordinary items; net loss; deficit; and basic and diluted loss per share.

These estimates involve considerable judgment and are, or could be, affected by factors that are out of the Company's control. Factors affecting stock-based compensation include estimates of when stock options and compensation warrants might be exercised and stock-price volatility. The timing for exercise of options is out of the Company's control and will depend upon the market value of the Company's shares and the financial objectives of the holders of the options. The Company has used historical data to determine volatility in accordance with the Black-Scholes model, however future volatility is uncertain and the model has its limitations. These estimates can have a material impact on the stock-based compensation and hence results of operations. The Company's recorded value of its mineral properties and associated deferred exploration expenses is based on historical costs that may be recovered in the future. The Company's recoverability evaluation is based on market conditions for minerals, underlying mineral resources associated with its properties and future costs that may be required for ultimate realization through mining operations or by sale. The Company operates in an industry that is exposed to a number of risks and uncertainties, including exploration risk, development risk, commodity-price risk, operating risk, ownership and political risk and currency risk, as well as environmental risk. The ability of the Company to obtain necessary financing to complete the development of its properties and obtain future profitable production is uncertain.

Change in Accounting Policy

The CICA Handbook Section 3870, Stock-based compensation and other stock-based payments requires that compensation of option awards to employees be recognized in financial statements at fair value for options granted in fiscal years beginning on or after January 1, 2004. The Company as permitted by CICA Handbook Section 3870 has adopted this section prospectively for new option awards granted on or after August 1, 2003.

The Company changed its fiscal year-end date from July 31 to October 31 commencing with the year starting August 1, 2003 resulting in a 15-month reporting period ending October 31, 2004.

Use of Financial Instruments

The Company has not entered into any specialized financial agreements to minimize its investment risk, currency risk or commodity risk. There are no off-balance sheet arrangements. The principal financial instruments affecting the Company's financial condition and results of operations currently are its cash and cash-equivalent portfolio. To minimize risk, the funds are managed by independent financial advisors with ultimate administration by the Company. The investments are recorded at the lower of cost or market value.

Future Outlook

The Company is focusing its efforts on exploring for gold and base metal deposits in Eastern Canada, with an emphasis on the Eastmain/Opinaca region of Northern Québec. The Company has initiated environmental permit applications for road work and a bulk-mining sample to determine the economic and mining parameters of the Eau Claire gold deposit at Clearwater. Extensive target generation activities included 7,000 line-kilometres of airborne geophysical surveys combined with approximately 7,500 soil geochemical samples and 1,000 rock samples on eight properties. Detailed geochemical surveys, geological mapping, prospecting, trenching and diamond drilling is proposed for 2006.

Eastmain and Falconbridge drill tested 35 priority MegaTEM targets in 2005. There are 190 priority MegaTEM anomalies which remain untested. Follow-up geophysical surveys and drilling are recommended for 2006.

Acquisition, exploration and development expenditures for the year ending October 31, 2006 are forecast to be approximately \$0.5 M for Ontario and \$3.5 M for Québec.

Subsequent events

On December 7, 2005 the Corporation completed an offering consisting of 1,813,526 flow-through units at \$0.56 per unit for aggregate proceeds of \$1,015,575. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant will entitle the holder to purchase one common share at a price of \$0.65 per share for a period of 12 months following the closing of the offering.

On December 28, 2005 and January 9, 2006 the Corporation completed an offering consisting of 8,450,000 units at \$0.50 per unit for aggregate proceeds of \$4,225,000. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant will entitle the holder to purchase one common share at a price of \$0.65 per share for a period of 24 months following the closing of the offering.

Scientific and Technical Disclosure

All disclosure of a scientific or technical nature herein concerning the Clearwater Project is based upon the technical report entitled "Clearwater Project (1170) – Report on the 2004 Exploration Activities for Eastmain Resources Inc." dated December 30, 2005 which was prepared by E. Canova and M.J. Perkins (the "Clearwater Report"). E. Canova is a "qualified person" within the meaning of National Instrument 43-101 of the Canadian Securities Administrators and has verified the data underlying the statements contained herein concerning the Clearwater Project. Further information concerning the Clearwater Project is contained in the Clearwater Report available at www.sedar.com.

Additional Information

Additional information relating to the Company, including any published Annual Information Forms, can be found on SEDAR at www.sedar.com.

Accounting Responsibilities, Procedures and Policies

The Board of Directors, which among other things is responsible for the financial statements of the Company, delegates to management the responsibility for the preparation of the financial statements. Responsibility for their review rests with the Audit Committee. Each year the shareholders appoint independent auditors to audit and report directly to them on the financial statements.

In preparing the financial statements, great care is taken to use appropriate generally accepted accounting principles and estimates, considered necessary by management, to present the financial position and results of operations on a fair and consistent basis. The principal accounting policies followed by the Company are summarized in Note 2 to the Company's audited financial statements.

The accounting systems employed by the Company include appropriate controls, checks and balances to provide reasonable assurance that the Company's assets are safeguarded from loss or unauthorized use as well as facilitating the preparation of comprehensive, timely and accurate financial information. There are limits inherent in all systems based on the recognition that the cost of such systems should not exceed the benefits to be derived. The Company believes that its systems provide the appropriate balance in this respect.

The Audit Committee is appointed by the Board of Directors and all of its members are non-management directors. The Audit Committee meets periodically with management and the external auditors to discuss internal controls, auditing matters and financial reporting issues and to confirm that all administrative duties and responsibilities are properly discharged. The Audit Committee also reviews the financial statements, management's discussion and analysis and considers the engagement or reappointment of external auditors. The Audit Committee reports its findings to the Board of Directors for its consideration when approving the financial statements for issuance to the shareholders. The external auditors have full and free access to the Audit Committee.

Stern & Lovrics

Chartered Accountants

Samuel V. Stern, BA, CA

George G. Lovrics, BComm, CA, CPA (Illinois)

Nazli Dewji, BA, CMA

AUDITORS' REPORT

To the Shareholders of
Eastmain Resources Inc.

We have audited the balance sheets of Eastmain Resources Inc. as at October 31, 2005 and October 31, 2004 and the statements of loss and deficit and cash flows for year ended October 31, 2005, the fifteen-month period ended October 31, 2004 and the year ended July 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2005 and October 31, 2004 and the results of its operations and its cash flows for the year ended October 31, 2005, the fifteen-month period ended October 31, 2004 and the year ended July 31, 2003 in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
January 11, 2006

Stern & Lovrics
Chartered Accountants

Comments by Auditors for U.S. Readers on Canada-U.S. Reporting Differences

The United States, reporting standards for auditors require the addition of an explanatory paragraph, following the opinion paragraph, when the financial statements are affected by conditions and events that cast substantial doubt on the Company's ability to continue as a going concern, such as those described in Note 2 to the financial statements. Our report to shareholders dated January 11, 2006 is expressed in accordance with Canadian reporting standards which do not permit a reference to such events and conditions in the auditors' report when these are adequately disclosed in the financial statements.

Toronto, Ontario
January 11, 2006

Stern & Lovrics
Chartered Accountants

EASTMAIN RESOURCES INC.

BALANCE SHEETS

AS AT OCTOBER 31, 2005, AND OCTOBER 31, 2004

	October 31, 2005	October 31, 2004
Assets		
Current assets		
Cash and cash equivalents	\$ 443,517	\$ 2,528,810
Short-term investments (Note 3)	2,634,260	1,555,448
Prepaid and sundry receivables	293,947	147,634
	<u>3,371,724</u>	<u>4,231,892</u>
Investments (Note 4)	79,200	12,000
Equipment (Note 5)	101,003	64,574
Mining properties and deferred exploration expenditures (Note 6)	14,688,602	10,460,961
	<u>\$ 18,240,529</u>	<u>\$ 14,769,427</u>
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 1,629,680	\$ 567,955
Shareholders' equity		
Capital stock		
Authorized –		
Unlimited common shares		
Issued		
Common shares (Note 7)	20,106,316	17,970,508
Warrants (Note 9)	213,462	1,912,441
Contributed Surplus (Note 10)	2,692,791	257,500
Deficit	(6,401,720)	(5,938,977)
	<u>16,610,849</u>	<u>14,201,472</u>
	<u>\$ 18,240,529</u>	<u>\$ 14,769,427</u>

APPROVED ON BEHALF OF THE BOARD

"Signed"

Donald J. Robinson – Director

"Signed"

James L. Bezeau – Chief Financial Officer

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

EASTMAIN RESOURCES INC.

STATEMENTS OF OPERATIONS AND DEFICIT

FOR THE PERIODS ENDED OCTOBER 31, 2005, AND 2004 AND JULY 31, 2003

	12 Months October 31, 2005	15 Months October 31, 2004	12 Months July 31, 2003
Revenue			
Interest and dividends	\$ 117,900	\$ 143,457	\$ 67,661
Management fees	-	-	6,189
	117,900	143,457	73,850
Expenses			
Amortization	25,652	35,153	14,652
Write down in deferred exploration expenditures	443,549	1,875,849	1,307,993
Professional fees	45,529	62,337	77,198
General and administration	504,984	472,350	348,936
Stock option compensation (Note 8)	659,350	266,300	6,500
	1,679,064	2,711,989	1,755,279
Loss for the period before the following	(1,561,164)	(2,568,532)	(1,681,429)
Gain on investments	14,821	121,588	-
Gain on future income tax recovery	1,083,600	677,000	-
NET LOSS FOR THE PERIOD	(462,743)	(1,769,944)	(1,681,429)
DEFICIT, beginning of period	(5,938,977)	(4,169,033)	(2,487,604)
DEFICIT, end of period	\$ (6,401,720)	\$ (5,938,977)	\$ (4,169,033)
BASIC LOSS PER SHARE	\$ (0.009)	\$ (0.042)	\$ (0.056)
DILUTED LOSS PER SHARE	\$ (0.009)	\$ (0.042)	\$ (0.056)
WEIGHTED NUMBER OF COMMON SHARES OUTSTANDING	49,937,157	42,250,827	29,858,960

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

EASTMAIN RESOURCES INC.

STATEMENTS OF CASH FLOWS

FOR THE PERIODS ENDED OCTOBER 31, 2005, AND 2004 AND JULY 31, 2003

	12 Months October 31, 2005	15 Months October 31, 2004	12 Months July 31, 2003
Cash Provided by (used in)			
OPERATING ACTIVITIES			
Loss for the period	\$ (462,743)	\$ (1,769,944)	\$ (1,681,429)
Adjustments not affecting cash:			
Stock option compensation (Note 8)	659,350	266,300	6,500
Future income tax recovery (Note 7)	(1,083,600)	(677,000)	-
Gain on sale of investments	(14,821)	(121,588)	-
Amortization	25,652	35,153	14,652
Write-down of mining and deferred exploration expenditures	443,549	1,875,849	1,307,993
Change in non-cash working capital items (Note 10)	915,412	282,786	44,715
	482,799	(108,444)	(307,569)
FINANCING ACTIVITIES			
Issue of common shares, net of costs	3,170,470	6,485,126	1,197,384
	3,170,470	6,485,126	1,197,384
INVESTING ACTIVITIES			
Purchase of equipment	(62,081)	-	(86,059)
Mining properties and deferred exploration expenditures	(5,040,145)	(4,702,785)	(1,693,130)
Government grants received	427,655	760,303	269,512
Purchase of short-term investments	(2,163,491)	(756,645)	(798,803)
Proceeds and redemptions from the sale of short-term investments	1,099,500	170,713	-
	(5,738,562)	(4,528,414)	(2,308,480)
Change in cash and cash equivalents	(2,085,293)	1,848,268	(1,418,665)
Cash and cash equivalents, beginning of period	2,528,810	680,542	2,099,207
Cash and cash equivalents, end of period	\$ 443,517	\$ 2,528,810	\$ 680,542

SUPPLEMENTARY INFORMATION (Note 10)

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

EASTMAIN RESOURCES INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2005 AND OCTOBER 31, 2004

1. THE COMPANY

Eastmain Resources Inc. (the "Company") is a publicly held company, engaged in the mining, exploration and development of resource properties. The Company is incorporated under the Business Corporations Act (Ontario) and its common shares are listed on the Toronto Stock Exchange.

The Company's principal assets are the properties as listed in Note 6.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies used in the preparation of these financial statements:

a) Nature of Financial Statements

The Company is in the exploration stage of operations. Exploration expenditures relating to mining properties in which an interest is retained are deferred. It is the intention that the acquisition costs and related deferred exploration expenditures would be amortized against net earnings from future mining operations. Acquisition costs and related deferred expenditures are written off if an entire group of mining claims have been disproved or abandoned. General operating expenses are written off in the year in which they are incurred. The recovery of amounts shown for mineral properties and related deferred exploration costs is dependent on the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to successfully complete the development of its business interests and upon future profitable operations.

Although the Company has taken steps to verify title to mineral property interests 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 or transfers and may be affected by undetected defects.

b) Future Operations

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. These financial statements do not include adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business.

c) Amortization

Amortization on the Company's equipment is provided for at 30% per annum on a declining balance basis.

d) Cash and Cash Equivalents

Cash includes cash and cash equivalents. Cash equivalents include highly liquid money market funds that are valued at cost plus accrued interest. The carrying amounts approximate the fair market value as they have maturities at the date of purchase of less than one year.

e) Short Term Investments

Short-term investments consisting principally of interest bearing investments having a maturity date in excess of one year are carried at the lower of cost and market value. The market value of these securities at year-end approximated their cost.

f) Fair Market Value of Financial Instruments

Financial instruments are initially recorded at historical cost. The fair values of financial assets and liabilities approximate their recorded amounts because of the short period to receipt or payment of cash.

g) Joint Ventures

The Company conducts some of its exploration activities on a joint-venture basis. These financial statements reflect only the expenditures made by the Company for its proportionate interest in such joint ventures.

EASTMAIN RESOURCES INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2005 AND OCTOBER 31, 2004

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Stock-based Compensation

The Company has in effect a Stock Option Plan which is described in Note 8 and which is accounted for using the recommendations issued by the Canadian Institute of Chartered Accountants, handbook section 3870 "Stock-Based Compensation and Other Stock-Based Payments" ("CICA 3870"). In accordance with CICA 3870, the Company calculates compensation expense for issuances to employees, directors and consultants on the date of grant using a fair value-based method for options granted on or after August 31, 2003. The Pro-forma expense using the intrinsic value based method, for awards granted for the year ended July 31, 2003 was \$ nil, and for the year ended July 31, 2002 was \$59,700.

i) Use of Estimates

Management makes various estimates and assumptions in determining the reported amounts of assets and liabilities, revenues and expenses for each year presented. Changes in estimates and assumptions will occur based on additional information and the occurrence of future events.

j) Flow-through Financing

The Company has financed a portion of its exploration activities through the issue of flow-through shares which transfer the tax deductibility of exploration expenditures to the investor. Proceeds received on the issue of such shares have been credited to capital stock and the related exploration costs have been charged to mining and resource properties.

k) Loss per Share

Basic loss per share is calculated by dividing the loss for the period by the weighted average number of common shares outstanding during the period.

Diluted loss per share is calculated using the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding, used for the calculation of diluted loss per share, assumes that the proceeds to be received on the exercise of dilutive stock options and warrants are used to repurchase common shares at the average market price during the period. For the years presented, this calculation proved to be anti-dilutive.

l) Income and Resource Taxes

Income and resource taxes are calculated using the asset and liability method of accounting. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and are measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company records a valuation allowance against any portion of future income tax assets that it believes will, more likely than not, fail to be realized.

m) Comparative Figures

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

In addition, during 2004 the Company changed its year-end from July 31, to October 31. Accordingly the 2004 financial statements included fifteen months of operation to October 31, 2004 and were previously compared to figures for the twelve months ended July 31, 2003.

3. SHORT TERM INVESTMENTS

Bonds and other securities are recorded at cost and bear interest at annual rates ranging from 3.25% to 6.15%, maturing between June 15, 2006 and November 19, 2037. Quoted market value - \$ 2,608,940 (\$ 1,565,363 in 2004).

4. INVESTMENTS

Investments in public companies are recorded at cost. Quoted market value - \$ 101,400 (\$ 11,500 in 2004). The investment represents shares in Dianor Resources Inc. which were acquired in exchange for geological data (Note 6).

EASTMAIN RESOURCES INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2005 AND OCTOBER 31, 2004

5. EQUIPMENT

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

	Cost	Accumulated Amortization	Net Book Value October 31, 2005	Net Book Value July 31, 2004
Computer equipment	\$ 26,728	\$ 10,401	\$ 16,327	\$ 4,540
Field equipment	155,296	70,620	84,676	60,034
	\$ 182,024	\$ 81,021	\$ 101,003	\$ 64,574

6. MINING PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES

The mining properties and deferred exploration expenditures are recorded at cost and are comprised as follows:

STATEMENT OF MINING AND DEFERRED EXPLORATION EXPENDITURES
FOR THE YEAR ENDED OCTOBER 31, 2005

Project	Balance October 31, 2004	Net Expenditures	Government Grants	Write Down	Balance October 31, 2005
	\$	\$	\$	\$	\$
Clearwater	6,032,041	1,217,993	(427,655)	-	6,822,379
Falconbridge JV	1,820,037	1,464,649	-	-	3,284,686
Reserve Creek	281,263	332,379	-	-	613,642
Azimet Blocks C & D	-	1,125,218	-	-	1,125,218
Ruby Hill	-	409,029	-	-	409,029
Quebec Projects	968,387	501,406	-	5,563	1,475,356
Ontario Projects	291,796	(45,435)	-	(224,598)	21,763
New Brunswick Projects	842,923	7,271	-	-	850,194
Other	224,514	86,335	-	(224,514)	86,335
	\$ 10,460,961	\$ 5,098,845	\$ (427,655)	\$ (443,549)	\$ 14,688,602

FOR THE FIFTEEN-MONTH PERIOD ENDED OCTOBER 31, 2004

Project	Balance July 31, 2003	Net Expenditures	Government Grants	Write Down	Balance October 31, 2004
	\$	\$	\$	\$	\$
Clearwater	4,136,410	2,645,434	(749,803)	-	6,032,041
Falconbridge JV	-	1,820,037	-	-	1,820,037
Reserve Creek	2,184	279,079	-	-	281,263
Ontario Projects	1,012,027	(1,692)	-	(718,539)	291,796
Quebec Projects	1,128,508	88,586	-	(248,707)	968,387
New Brunswick Projects	1,373,802	147,044	(10,500)	(667,423)	842,923
Other	365,297	100,397	-	(241,180)	224,514
	\$ 8,018,228	\$ 5,078,885	\$ (760,303)	\$ (1,875,849)	\$ 10,460,961

EASTMAIN RESOURCES INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2005 AND OCTOBER 31, 2004

6. MINING PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (continued)

FOR THE YEAR ENDED JULY 31, 2003

Project	Balance July 31, 2002	Net Expenditures	Government Grants	Write Down	Balance July 31, 2003
	\$	\$	\$	\$	\$
Clearwater	2,522,950	1,882,972	(269,512)	-	4,136,410
Falconbridge JV	-	-	-	-	-
Reserve Creek	-	2,184	-	-	2,184
Ontario Projects	1,151,392	70,678	-	(210,043)	1,012,027
Quebec Projects	2,209,339	17,119	-	(1,097,950)	1,128,508
New Brunswick Projects	1,347,766	26,036	-	-	1,373,802
Other	365,297	-	-	-	365,297
	\$ 7,596,744	\$ 1,998,989	\$ (269,512)	\$ (1,307,993)	\$ 8,018,228

As at October 31, 2005 the Company has outstanding Mining Duties and Refundable Tax Credits from Resources Quebec and Revenue Quebec in respect to claims up to October 31, 2005 amounting to approximately \$1,900,000 (\$900,000 as at October 31, 2004). As the Company has not received confirmation of these refunds, these amounts have not been reflected in these financial statements.

The following is a breakdown of mining properties and deferred expenditures by expenditure type for the Company's significant projects for the year ended October 31, 2005 and the fifteen month period ended October 31, 2004.

Project	Balance Oct. 31, 2004	Drilling & Assays	Technical Surveys	Project Acquisition	Grants & Write Downs	Total	Balance Oct. 31, 2005
	\$	\$	\$	\$	\$	\$	\$
Clearwater	6,032,041	451,856	251,359	514,778	(427,655)	790,338	6,822,379
Falconbridge JV	1,820,037	881,612	569,463	13,574	-	1,464,649	3,284,686
Reserve Creek	281,263	3,656	265,723	63,000	-	332,379	613,642
Azimut C	-	52,259	449,354	63,473	-	565,086	565,086
Azimut D	-	30,933	479,259	49,940	-	560,132	560,132
Ruby Hill	-	32,048	331,052	45,929	-	409,029	409,029
Other	2,327,620	50,847	387,717	111,013	(443,549)	106,028	2,433,648
Total	\$ 10,460,961	\$ 1,503,211	\$ 2,733,927	\$ 861,707	\$ (871,204)	\$ 4,227,641	\$ 14,688,602

Project	Balance July 31, 2003	Drilling & Assays	Technical Surveys	Project Acquisition	Grants & Write Downs	Total	Balance Oct. 31, 2004
	\$	\$	\$	\$	\$	\$	\$
Clearwater	4,136,410	1,559,433	247,576	838,425	(749,803)	1,895,631	6,032,041
Falconbridge JV	-	-	1,748,354	71,683	-	1,820,037	1,820,037
Reserve Creek	2,184	9,859	212,920	56,300	-	279,079	281,263
Other	3,879,634	113,471	110,253	100,111	(1,875,849)	(1,552,014)	2,327,620
Total	\$ 8,018,228	\$ 1,682,763	\$ 2,319,103	\$ 1,066,519	\$ (2,625,652)	\$ 2,442,733	\$ 10,460,961

EASTMAIN RESOURCES INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2005 AND OCTOBER 31, 2004

6. MINING PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (continued)

Akweskwa Project

The Company has acquired the Akweskwa Project subject to a Net Smelter Return Royalty up to 2.5%, located near Timmins, Ontario. This 752 hectare property includes 9 patented claims optioned from Falconbridge Limited, 7 mining claims optioned from Hanson, 11 mining claims optioned from Bradbrook and 20 mining claims staked by the Company. Eastmain has earned a 50% interest in the Falconbridge claims and a 100% interest in the Bradbrook claims. The Company has written-off the deferred expenditures for this project as it has been inactive, however the claims are held in good standing.

Clearwater Project

Eastmain holds a 100% interest in the 19,940 hectare Clearwater Project, located in Quebec, subject to a 2% Net Smelter Return Royalty payable to SOQUEM. Over the years, Eastmain issued 200,000 Common Shares valued at \$144,000 to Boliden Westmin (Canada) Limited for a 50% interest, subject to a 3% Net Smelter Return Royalty payable to Boliden Westmin. SOQUEM Inc. had earned the other 50% interest in the project by expending \$2 million. Eastmain purchased the outstanding 3% Net Smelter Return Royalty from Boliden Westmin (Canada) Limited in October, 2001, for \$45,000. In May 2002, Eastmain acquired an option to earn a 75% interest in the Clearwater Project by funding \$2.5 million in work expenditures over a four year period. In September 2004, Eastmain acquired an option to earn 100% interest in the Clearwater Project subject to a 2% net smelter return royalty in favour of SOQUEM. To acquire SOQUEM's remaining interest in the Clearwater Project, Eastmain made a cash payment of \$500,000 on the signing of the property acquisition agreement and also issued 500,000 common shares and 500,000 share-purchase warrants to SOQUEM. The Company made final cash payment of \$500,000 to SOQUEM in September, 2005. The share-purchase warrants are exercisable on or before September 2006 at a price of \$2.00. Eastmain has the option to purchase one-half of SOQUEM's 2% Net Smelter Return Royalty for \$1 million.

Lac Elmer Project

The Company holds a 50% interest in exploration permit PEM 0001121, located within the Eastmain River area, Quebec, in joint venture with Barrick Gold Corporation. Barrick previously earned a 50% interest in the Lac Elmer Project by funding \$1 million in work expenditures.

BHP Agreement (includes Railroad Project)

The Company's 100% interest in lands formerly under BHP Minerals Canada Ltd.'s control or ownership in Ontario and New Brunswick is subject to a 3% Net Smelter Return Royalty. Eastmain has the option to purchase one percent of the Net Smelter Return Royalty for \$1 million. Eastmain and BHP Minerals amended their agreement on March 26, 1999. In March 2005 BHP Billiton Diamonds Inc. sold the royalty to International Royalty Corporation.

Abitibi Extension Project

Dianor Resources Inc. acquired an option to earn an interest in the Abitibi Extension Project over a five-year term in exchange for a total of 500,000 common shares of Dianor and a minimum \$500,000 work commitment. As of October 2005 the Company has received 260,000 common shares. Eastmain has the option to back-in with a 30% interest in any diamond prospect and a 50% interest in any base or precious metal prospect. Eastmain retains a 10% carried interest to production on any mineral rights acquired by Dianor within an area of influence.

Reserve Creek Project

Eastmain acquired an option to earn a 50% interest in the Reserve Creek project from Slam Exploration Ltd. by completing \$1.1 million in work expenditures and by issuing 360,000 common shares of the Company to Slam Exploration Ltd. over a three year period. The Company has issued 180,000 common shares to Slam Exploration to date. The Corporation has suspended work indefinitely on the project until Slam Exploration Ltd. can demonstrate unrestricted beneficial ownership of the property and unequivocal certainty that mining operations will be permitted without restriction as defined in the Letter Agreement dated October 9, 2003.

Falconbridge JV (formerly Noranda) MegaTEM Project

Eastmain acquired an option to earn a 65% interest in the MegaTEM project by funding \$1.9 million in work expenditures on or before December 2005 (completed). Falconbridge Limited ("Falconbridge") (formerly Noranda Inc.) has the option to increase its 35% interest in any base metal discovery to 50% for a period of three years, by funding two times Eastmain's total expenditures or not less than \$5 million. If Falconbridge backs-in, it is also required to complete a cash placement equal to the total expenditures of Eastmain, calculated at a price per share equal to 1½ times Eastmain's share price.

EASTMAIN RESOURCES INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2005 AND OCTOBER 31, 2004

Ruby Hill Project

The Company acquired an option to earn 100% interest in certain mineral properties located within the Upper Eastmain River greenstone belt from Ruby Hill Exploration Inc. ("Ruby Hill"). The Company can earn 100% interest in the property by making a \$10,000 cash payment and issuing 150,000 common shares of the Company to Ruby Hill. Upon the initial signing of a Letter Agreement, the Company paid the \$10,000 cash payment and issued 50,000 common shares. The Company must issue an additional 100,000 common shares to Ruby Hill prior to the second anniversary. Upon completion, Ruby Hill retains a 2.5% Net Smelter Return Royalty, subject to a buy-out of 1.5% of the royalty for \$1.5 million.

Azimut C and D Projects

The Company and Azimut Exploration Inc. ("Azimut") completed the signing of two letters of agreement for two daim blocks, C and D of the Opinaca Property currently held by Azimut. According to the agreements, Eastmain can acquire 50% interest in the properties during a five-year period and may acquire an additional 15% interest upon delivery of a bankable feasibility study. Eastmain can earn a 50% interest in Block C from Azimut during a five-year period through total cash payments of \$160,000. Eastmain made an initial payment of \$50,000 and issued Azimut 30,000 common shares of Eastmain Resources Inc. upon signing the agreement; and total work expenditures of \$2,700,000 of which, \$250,000 is a firm commitment in the first year. Eastmain can earn an initial 50% interest in Block D from Azimut through cash payment of \$140,000 and total work expenditures of \$1.9 million over the five-year term. Eastmain made a cash payment of \$30,000 and issued 45,000 common shares of the Company to Azimut upon signing the agreement. \$200,000 in exploration expenditures must be spent in the first year. The initial cash payments have been made and 75,000 common shares were issued to Azimut July 4, 2005.

7. CAPITAL STOCK

	Shares	Amount
Issued and outstanding, July 31, 2003	32,846,505	\$ 13,358,630
Private placement (i)	8,800,000	4,400,000
Private placement (ii)	1,761,904	1,850,000
Flow-through tax effect (v)		(677,000)
Exercise of stock options – cash	412,500	145,500
Exercise of stock options - Black-Scholes valuation		15,300
Exercise of warrants – cash	1,176,769	636,660
Exercise of warrants – Black-Scholes valuation		171,733
Issued for mining claims	90,000	53,100
Cost of issue – cash		(547,034)
Cost of issue – Black-Scholes valuation		(308,948)
Warrant valuation (i)		(1,095,600)
Warrant valuation (ii)		(308,333)
Issued for mining claims (iii)	500,000	335,000
Warrant valuation (iii)		(58,500)
Issued and outstanding, October 31, 2004	45,587,678	\$ 17,970,508
Issued for option payment for Reserve Creek Project	90,000	63,000
Private placement (iv)	4,300,000	3,010,000
Warrant valuation (iv)		(137,600)
Exercise of warrants – cash	500,000	225,000
Exercise of warrants - Black-Scholes valuation		78,000
Exercise of stock options	325,000	117,000
Issued for option payment for Ruby Hill Property	50,000	30,500
Issued for acquisition of Azimut Blocks C and D	75,000	32,400
Flow-through tax effect (v)		(1,083,600)
Cost of issue – cash		(181,530)
Cost of issue – Black-Scholes valuation (iv)		(17,362)
Issued and outstanding, October 31, 2005	50,927,678	\$ 20,106,316

EASTMAIN RESOURCES INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2005 AND OCTOBER 31, 2004

7. CAPITAL STOCK (continued)

- i) In October 2003, the Company issued 8,800,000 units at a price of \$0.50 per unit for gross proceeds of \$4,400,000. Each unit consisted of one common share and one-half share purchase warrant. Each complete warrant gives the warrant holder the right to buy one common share of the Company at a price of \$0.60 per share until October 24, 2005. The agent for the private placement was paid a 7% commission. In addition to the commission, the agent received compensation warrants to purchase 880,000 units (Note 9). The fair value of the share purchase warrants has been estimated using the Black-Scholes pricing option model and is disclosed as a separate item in shareholders' equity. The assumptions used for the valuation of the respective warrants were: Dividend yield 0%, expected volatility 100%, risk - free interest rate 4.5% and an expected life of 24 months. The value assigned to the 4,400,000 warrants was \$1,095,600.
- ii) In December 2003, the Company issued 1,761,904 flow-through units at a price of \$1.05 per unit for gross proceeds of \$1,850,000. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at a price of \$1.25 per share until June 16, 2005. In connection with the private placement, management subscribed for \$50,000 of the offering. The agent for the private placement was paid a 5% commission. In addition to the commission, the agent received compensation units to purchase 88,095 units at an exercise price of \$0.86 per share and one-half of one purchase warrant at an exercise price of \$1.25 per share until June 16, 2005 (Note 9). In connection with the issue of the private placement, the value assigned to the issue of 880,952 warrants was \$308,333. The assumptions used for the valuation of the warrants were: dividend yield 0%, expected volatility 100%, risk free interest rate 4.5% and an expected life of 18 months.
- iii) The Company completed its previously announced acquisition of the remaining interest in the Clearwater Project held by SOQUEM. Eastmain now holds 100% interest in Clearwater. SOQUEM has retained a 2% net smelter return royalty and Eastmain has the right to purchase one-half of the NSR for \$1,000,000. To acquire SOQUEM's remaining 25% interest in the Clearwater Project, Eastmain issued 500,000 common shares and 500,000 share purchase warrants to SOQUEM, in September 2004. The share purchase warrants are exercisable for two years at a price of \$1.50 in the first year and a price of \$2.00 the second year. In connection with the issue, the value assigned to the issue of 500,000 warrants was \$58,500. The assumptions used for the valuation of the warrants were: dividend yield 0%, expected volatility 75%, risk free interest rate 4.5% and an expected life of 2 years.
- iv) In December 2004, the Company issued 4,300,000 flow-through units at \$0.70 per unit for aggregate gross proceeds of \$3,010,000. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant will entitle the holder to purchase one common share at a price of \$0.85 per share for a period of 12 months following the closing of the offering.

With respect to the 2,150,000 common share purchase warrants granted, the fair value of each warrant was estimated on the date of grant using the Black-Scholes option pricing model, with the following assumptions: dividend yield of 0%; expected volatility of 58%; risk-free interest rate of 4.5% and an expected life of 12 months. The value of the warrants was calculated to be \$137,600. 271,285 broker warrants were also issued with respect to this placement. The Black-Scholes valuation with regard to the broker warrants was \$17,362, and was based on the same terms as the 2,150,000 share purchase warrants mentioned above.

- v) The Company adopted EIC-146 where the Company has to recognize a future tax liability, and the shareholders' equity reduced, on the date that the Company renounces the tax credits associated with expenditures from flow-through proceeds. The Company is then allowed to offset the future income tax liability against unrecognized future income tax assets if certain criteria are met. As a result, the Company recorded a \$1,083,600 future income tax recovery for the period (677,000 in 2004).
- vi) During the year the company issued 215,000 common shares (590,000 common shares in 2004) for various mining claims, option payments and acquisition of mineral properties. The issuance of these shares is considered a non-monetary exchange transaction, and the fair value of the Company's share price at the date of issuance was used as the basis to account for the value of these acquisitions.

8. STOCK OPTIONS

The Company has a stock option plan available to directors, officers, employees and other service providers of the Company. A maximum of 5,000,000 Common Shares may be issued under the Plan from time to time at prices not less than the market price of the Common Shares at 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.

EASTMAIN RESOURCES INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2005 AND OCTOBER 31, 2004

8. STOCK OPTIONS (continued)

	Number of Options			Weighted Average Exercise Price		
	2005	2004	2003	2005	2004	2003
Outstanding, beginning of year	1,375,000	1,250,000	1,770,000	\$ 0.44	\$ 0.69	\$ 0.40
Granted during year	1,750,000	600,000	25,000	\$ 0.53	\$ 0.33	\$ 0.34
Cancelled or expired during year	(225,000)	(62,500)	(545,000)	\$ 0.37	\$ 0.28	\$ 0.54
Exercised during year	(325,000)	(412,500)	-	\$ 0.36	\$ 0.35	
Outstanding, end of year	2,575,000	1,375,000	1,250,000	\$ 0.52	\$ 0.44	\$ 0.33

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

	2005	2004	2003
Dividend yield	0	0	0
Expected volatility	88%	100%	100%
Risk free interest rate	4.50%	4.50%	4.50%
Expected option term - years	5	5	5

Compensation expense recorded under the fair value method of accounting was:

2005	\$659,350
2004	\$266,300
2003	\$6,500

Stock options outstanding as at October 31, 2005

Expiry Date	Black-Scholes Value (\$)	Number of Options	Exercise Price (\$)
May 2006	-	100,000	0.34
February 2007	-	200,000	0.26
November 2007	6,500	25,000	0.34
October 2008	168,400	400,000	0.55
January 2009	67,300	100,000	0.88
November 2009	385,900	850,000	0.64
February 2010	30,500	100,000	0.48
April 2010	198,250	650,000	0.43
June 2010	44,700	150,000	0.42
	901,550	2,575,000	

Stock options outstanding as at October 31, 2004

Expiry Date	Black-Scholes Value (\$)	Number of Options	Exercise Price (\$)
February 2005	-	500,000	0.36
May 2006	-	100,000	0.34
February 2007	-	200,000	0.26
November 2007	6,500	25,000	0.34
September 2008	15,300	50,000	0.40
October 2008	168,400	400,000	0.55
January 2009	67,300	100,000	0.88
	257,500	1,375,000	

EASTMAIN RESOURCES INC.
NOTES TO FINANCIAL STATEMENTS
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8. Capital Stock (Continued)

During the year ended October 31, 2005 6,733,095 warrants expired. The value originally attributed to these warrants has been transferred to contributed surplus.

9. WARRANTS

	Number of Warrants			Weighted Average Exercise Price		
	2005	2004	2003	2005	2004	2003
Outstanding, beginning of year	7,733,095	2,116,769	3,750,000	\$ 0.73	\$ 0.54	\$ 0.45
Granted during year	2,421,285	6,793,095	1,916,769	\$ 0.85	\$ 0.76	\$ 0.56
Cancelled or expired during year	(6,733,095)	-	(3,216,500)	\$ 0.67	\$ 0.00	\$ 0.46
Exercised during year	(500,000)	(1,176,769)	(333,500)	\$ 0.45	\$ 0.54	\$ 0.40
Outstanding, end of year	2,921,285	7,733,095	2,116,769	\$ 1.00	\$ 0.73	\$ 0.54

For purposes of the warrants granted, the fair value of each warrant was estimated on the date of grant using the Black-Scholes option pricing model, using the following assumptions:

	2005	2004	2003
Dividend yield	0	0	0
Expected volatility	58%	75-100%	100%
Risk free interest rate	4.50%	4.50%	4.50%
Expected warrant term - years	1.0	1.5-2.0	1.0-4.0

Warrants outstanding as at October 31, 2005

Expiry Date	Black-Scholes Value (\$)	Number of Warrants	Exercise Price (\$)
December 2005	154,962	2,421,285	0.85
September 2006	58,500	500,000	2.00
	213,462	2,921,285	

Warrants outstanding as at October 31, 2004

Expiry Date	Black-Scholes Value (\$)	Number of Warrants	Exercise Price (\$)
February 2005	156,000	1,000,000	0.45-0.60
October 2005	1,080,660	4,340,000	0.60
October 2005	246,400	880,000	0.51
June 2005	308,333	880,952	1.25
June 2005	36,119	88,095	0.86
June 2005	26,429	44,048	1.25
September 2006	58,500	500,000	1.50-2.00
	1,912,441	7,733,095	

EASTMAIN RESOURCES INC.
NOTES TO FINANCIAL STATEMENTS
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10. SUPPLEMENTARY INFORMATION

During the year ended October 31, 2005 6,733,095 warrants expired. The value originally attributed to these warrants has been transferred to contributed surplus.

As at October 31, 2005, contributed surplus is comprised of the following:

Balance, October 31, 2004	\$	257,500
Options granted		659,350
Warrants expired		1,775,941
Balance, October 31, 2005	\$	2,692,791

Changes in non-cash working capital items:

	2005	2004	2003
Prepaid and sundry receivables	\$ (146,313)	\$ 6,068	\$ (102,595)
Accounts payable	1,061,725	276,718	147,310
	\$ 915,412	\$ 282,786	\$ 44,715

	2005	2004	2003
Cash	\$ 76,425	\$ 56,426	\$ 680,542
Cash equivalents	367,092	2,472,384	-
	\$ 443,517	\$ 2,528,810	\$ 680,542

Cash paid for interest	\$ -	\$ -	\$ -
Cash paid for income tax	\$ -	\$ -	\$ -

Non-cash financing and investing activity

Issuance of commons shares for exploration properties	\$ 125,900	\$ 388,100	\$ 305,850
Receipt of common shares for deferred exploration information	\$ 67,200	\$ 12,000	\$ -

11. RELATED PARTY TRANSACTIONS

	2005	2004	2003
Management wages to a director	\$ 120,000	\$ 120,000	\$ 96,000
Premises rent to a director	12,000	12,000	9,600
Geological and administrative fees to a private company controlled by the exploration manager of the Company	98,138	119,414	85,142
Accounts payable to the above private company	\$ 27,650	\$ -	\$ -

12. INCOME TAXES

The Company estimates that \$8,391,151 (\$6,775,000 in 2004 and \$4,649,734 in 2003) of various classes of exploration expenses can be applied against taxable income in subsequent taxation years.

EASTMAIN RESOURCES INC.
NOTES TO FINANCIAL STATEMENTS
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12. INCOME TAXES (continued)

In addition, the Company has remaining losses of approximately \$ 1,656,131 carried forward for income tax purposes. These may be used until the year 2015 to reduce income, which would otherwise have been taxed. No provision has been recorded in these financial statements for this possible tax benefit. These losses expire as follows:

2006	\$	121,659
2007		148,917
2008		398,785
2014		352,194
2015		634,576
		<hr/>
	\$	1,656,131

The Company has future tax assets, none of which are reflected in the financial statements due to a full valuation allowance as described in Note 2(l).

13. SUBSEQUENT EVENTS

On December 7, 2005 the Corporation completed an offering consisting of 1,813,526 flow-through units at \$0.56 per unit for aggregate proceeds of \$1,015,575. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant will entitle the holder to purchase one common share at a price of \$0.65 per share for a period of 12 months following the closing of the offering.

On December 28, 2005 and January 9, 2006 the Corporation completed an offering consisting of 8,450,000 units at \$0.50 per unit for aggregate proceeds of \$4,225,000. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant will entitle the holder to purchase one common share at a price of \$0.65 per share for a period of 24 months following the closing of the offering.

14. MATERIAL DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The financial statements of the Company have been prepared in accordance with generally accepted accounting principles (GAAP) in Canada. Significant differences between GAAP in Canada and the United States that would have an effect on these financial statements are as indicated below:

Mineral exploration costs are accounted for in accordance with Canadian GAAP as discussed in Note 2. For U.S. GAAP purposes, the Company expenses exploration costs relating to unproven mineral leases and permits as incurred as well as acquisition costs for leases and permits that do not provide for unrestricted exploration. Any write down of capitalized exploration costs would be considered an operating expense and included in the determination of operating loss for the period in which the write down occurred. For U.S. GAAP cash flow statement purposes, mineral exploration costs would be shown under operating activities rather than under investing activities.

If these financial statements were prepared in accordance with U.S. GAAP, the impact on the balance sheet would be as follows:

	October 31, 2005	October 31, 2004	July 31, 2003
Mining and deferred exploration expenditures under Canadian GAAP	\$ 14,688,602	\$ 10,460,961	\$ 8,018,228
Mining and deferred exploration expenditures under U.S. GAAP	-	-	-
Deficit under Canadian GAAP	\$ (6,401,720)	\$ (5,938,977)	\$ (4,169,033)
Mining and deferred exploration expenditures	(14,688,602)	(10,460,961)	(8,018,228)
Deficit under U.S. GAAP	\$ (21,090,322)	\$ (16,399,938)	\$ (12,187,261)

EASTMAIN RESOURCES INC.
NOTES TO FINANCIAL STATEMENTS
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14. MATERIAL DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED
ACCOUNTING PRINCIPLES (continued)

In addition, the impact on the statements of loss would be as follows:

	October 31, 2005	October 31, 2004	July 31, 2003
Net income (loss) for the period under Canadian GAAP	\$ (462,743)	\$ (1,769,944)	\$ (1,681,429)
Mining and deferred exploration expenditures, net	(4,227,641)	(2,442,733)	(421,475)
Net loss for the period under U.S. GAAP	\$ (4,690,384)	\$ (4,212,677)	\$ (2,102,904)
Loss per share under U.S. GAAP	\$ (0.09)	\$ (0.10)	\$ (0.07)

EXCEPTIONAL PROPERTIES, PARTNERS, PEOPLE.

TSX : ER

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Donald J. Robinson
President, CEO, Director

James L. Bezeau
Chief Financial Officer

Catherine I. Butella
Exploration Manager

Jay Goldman
Corporate Secretary

Ian J. Bryans*
Director

John A. Hansuld*
Director

Richard W. Hutchinson
Director

William L. Koyle*
Director

Neil Hillhouse
Special Advisor

*Member of Audit Committee

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