

# 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, 2006 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 16, 2007.

### 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 in Canada.

The Company is primarily focused on gold exploration in the Eastmain/Eléonore area of James Bay, Québec. The Company holds 12 properties covering over 1000 km<sup>2</sup> located in this new mining district, including a 100% interest in the Clearwater Project which hosts a gold resource, referred to as the Eau Claire gold deposit. In March 2006, Goldcorp Inc. ("Goldcorp") finalized the purchase of the Eléonore property including the Roberto gold deposit from Virginia Mines Inc. in exchange for a 2% sliding scale NSR, 19.3 million common shares of Goldcorp, and warrants, pursuant to the transaction valued at approximately US\$406 Million (Goldcorp 2006 First Quarter Report). Goldcorp Inc., Eastmain Resources Inc. and Azimut Exploration Inc. subsequently formed a joint venture by combining 65 km<sup>2</sup> of the Eléonore property with the Azimut C claim block now referred to as the Eléonore South Property. Goldcorp also increased its ownership of Eastmain to 9.95% and extended a strategic alliance for five years. In May 2006, the Company signed a letter of Intent to acquire 100% interest in the Eastmain gold deposit which also hosts a gold resource of 255,700 ounces (measured and indicated).

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 67% interest in a district-scale exploration project in joint venture with Falconbridge Limited (now Xstrata Copper Canada Inc.). The joint venture is designed to locate base metal deposits (copper, nickel and zinc) within trucking distance of Falconbridge's existing smelters, utilizing proprietary geophysical technology.

Commencing with the fiscal year starting August 1, 2003, the Company changed its fiscal year-end from July 31 to October 31.

### Overall Performance

The Company's total assets of \$25,813,459 as at October 31, 2006 have increased from the \$18,240,529 reported as at October 31, 2005. This change is largely due to investment in exploration properties and an increase in the Company's treasury position. As at October 31, 2006 the Company's current assets balance comprised of cash, cash equivalents, short-term investments, pre-paid expenses and sundry receivables totalling \$8,179,073 compared to \$3,371,725 as at October 31, 2005.

As a mineral exploration company, the Company relies on equity financing and government incentives to finance its operations. For the year ended October 31, 2006 the Company raised \$8,237,846 in cash from issues of share capital net of issue costs. A private placement with Goldcorp Inc. raised gross proceeds of \$3,400,000 through the issuance of 2,000,000 common shares with 1,000,000 common share purchase warrants attached and 2,000,000 flow-through common shares with 1,000,000 flow-through common share purchase warrants attached. Two private placements raised gross proceeds of \$5,240,600 through the issuance of 8,450,000 common shares with 4,225,000 common share purchase warrants attached and 1,813,526 flow-through common shares with 906,763 common share purchase warrants attached. During the year ended October 31, 2005, the Company completed a private placement to raise gross proceeds of \$3,010,000 through the issuance of 4,300,000 flow-through common shares with 2,150,000 common share purchase warrants attached. In addition, proceeds of \$225,000 were realized upon the exercise of 500,000 share purchase warrants.

During the year ended October 31, 2004, ("fiscal 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 warrants expired without being exercised.) 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. The cash component of this acquisition made during fiscal 2005 was offset by \$427,655 in tax rebates received. During the fiscal year, the Company received government assistance of \$1,781,037. \$156,074 in mining duty rebates from the Province of Québec during the fourth quarter ended October 31, 2006. During the second quarter ended April 30, 2006, the Company received exploration incentives and mining duty rebates in the amount of \$1,585,500 from the Province of Québec and \$39,463 in HRDC assistance. An estimated \$1,400,000 of tax rebates and mining duties are still owed to the Company by the Province of Québec in respect of claims filed up to October 31, 2006 (\$1,900,000 as at 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\$600 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 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.

## **Results of Operations**

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 \$94,110 for the quarter ended October 31, 2006 (\$40,422 for the fourth quarter 2005) and \$244,879 for the year ended October 31, 2006 (\$117,900 for the year ended October 31, 2005). The increase is largely due to a year over year increase of \$4.8 million in the company's treasury position. As well, more favourable short-term interest rates on deposits prevailed throughout the year ended October 31, 2006 as compared to the same period last year.

Net loss for the year ended October 31, 2006 was \$516,437 compared to a net loss of \$462,743, for the year ended October 31, 2005, a net loss of \$626,622 for the fourth quarter (\$578,661 for the fourth quarter 2005). During the quarter ended October 31, 2006, deferred exploration expenditures of \$598,655 were written off compared to write-offs of \$443,549 for the fourth quarter ended October 31, 2005. During the Year ended October 31, 2006 net income included \$696,574 from the exchange of prospecting permits and mineral claims covering approximately 486,000 acres in the Thelon Basin of Nunavut and the Northwest Territories having a book value of \$66,680. This represented the Company's 50% ownership in Ruby Hill Exploration Inc., which was exchanged for 508,836 shares in Western Uranium Corporation (WUC: TSX-V) valued at \$763,254 (\$1.50 per share) at the date of the exchange. The shares of Western Uranium Corporation were subject to a hold period of four months, which expired in October 2006. The Company has sufficient corporate income tax loss carry-forwards to absorb any income taxes which might arise from

this transaction. Net income for the year ended October 31, 2006 included a recovery of future income taxes of \$366,725. Income for the quarter ended October 31, 2006 was reduced by the exclusion of \$720,000 in recovery of future tax liabilities associated with the issue of flow-through shares arising from the Goldcorp placement since the date of renunciation of resource expenditures in favour of flow-through share investors was subsequent to the October 31, 2006 year-end. For the year ended October 31, 2005, a non-cash expenditure of \$35,950 for the fourth quarter, \$696,574 for the year, was recognized as being the Black-Scholes value of the stock options issued as director, officer and employee compensation. During the year ended October 31, 2005, income of \$1,083,600 was recognized from the recovery of future tax liabilities associated with the issue of flow-through shares and a non-cash expenditure of \$228,750 was recognized as being the Black-Scholes value of the stock options issued as director, officer and employee compensation.

Accounting policies regarding the recognition of costs related to stock option compensation and value of future tax liabilities arising from the issue 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 10/31/2006	Quarter ended 07/31/2006	Quarter ended 04/30/2006	Quarter ended 01/31/2006
<b>Revenue</b>	\$ 93,911	\$ 71,835	\$ 49,989	\$ 29,144
<b>Net Income (loss)</b>	\$(1,355,454)	\$1,165,049	\$(119,508)	\$(206,524)
Per share basic	\$(0.0229)	\$0.0200	\$(0.0020)	\$(0.0038)
Per share diluted	\$(0.0229)	\$0.0164	\$(0.0020)	\$(0.0038)
	Quarter ended 10/31/2005	Quarter ended 07/31/2005	Quarter ended 04/30/2005	Quarter ended 01/31/2005
<b>Revenue</b>	\$ 40,442	\$ 40,019	\$ 17,459	\$ 19,980
<b>Net Income (loss)</b>	\$(563,397)	\$(93,489)	\$702,445	\$(508,302)
Per share basic	\$(0.0113)	\$(0.0019)	\$0.0100	\$(0.0108)
Per share diluted	\$(0.0113)	\$(0.0019)	\$0.0100	\$(0.0108)

The increase in General and Administration expenses reflects higher expenditures on business development, promotion and related travel costs. During the year ended October 31, 2006, G&A expenditures were \$146,813 (29.1%) higher than the year ended October 31, 2005. G&A expenses for the year ended October 31, 2005 were \$32,634 (6.9%) higher than the 15 month period ended October 31, 2004. The increase in business development, promotion and travel for the year ended October 31, 2006 over the year ended October 31, 2005 was \$147,613. Business development, promotion and travel expenses decreased \$24,236 (- 23.7%) for the year ended October 31, 2005 compared to the 15 months ended October 31, 2004. The increase in 2006 was the result of a more aggressive marketing program.

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, 2006, in accordance with the Canadian Institute of Chartered Accountants "CICA" guidelines, \$366,725 of future income tax recoveries was recorded as income. \$720,000 arising from the June 2006 issue of flow-through shares to Goldcorp is being deferred to the first quarter of the next fiscal year when the renunciation of expenditures for tax purposes will take place. \$1,083,600 of future income tax recoveries was recorded as income during the year ended October 31, 2005. 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. Gross exploration expenditures are as follows:

Project Expenditures by Quarter (in thousands of dollars)								
Project	Quarter ended 10/31/2006		Quarter ended 07/31/2006		Quarter ended 04/30/2006		Quarter ended 01/31/2006	
	\$	%	\$	%	\$	%	\$	%
Clearwater	162	7	401	36	498	65	44	15
Falconbridge JV	8	0	20	2	31	4	57	19
Azimut C & D	116	5	236	21	73	10	26	9
Eléonore South	1,126	48	371	34	0	0	0	0
Ruby Hill	0	0	12	1	95	13	59	20
Reserve Creek	0	0	1	0	2	0	5	1
Other	928	40	66	6	64	8	109	36
	2,340	100	1,107	100	763	100	300	100
Project	Quarter ended 10/31/2005		Quarter ended 07/31/2005		Quarter ended 04/30/2005		Quarter ended 1/31/2005	
	\$	%	\$	%	\$	%	\$	%
Clearwater	801	9	109	9	91	13	1,542	61
Falconbridge JV	486	32	381	32	262	38	916	36
Azimut C & D	663	31	368	31	0	0	0	0
Ruby Hill	177	16	186	16	0	0	0	0
Reserve Creek	8	0	5	0	149	22	95	4
Other	293	12	137	12	189	27	(27)	(1)
	2,428	100	1,186	100	691	100	2,526	100

### a) Clearwater

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 fiscal 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 acquire permitting for road access and a bulk sample test and to explore for a second deposit 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. As a result 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 53.75% mining duty and provincial refund to the Company.

### b) Falconbridge Joint Venture

Results from the Falconbridge Joint Venture MegaTEM airborne survey prompted the Company and Falconbridge to acquire over 1,000 mineral claims in Ontario and Québec. Expenditures to date have funded 14,500 line-kilometres of airborne geophysical surveys, generating many untested targets. 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 the winter/spring of 2007 to test high priority gold and base metal targets.

### c) Azimut Blocks C & D

In April 2006 Eastmain, Azimut and Goldcorp formed a 3-Way joint venture by combining the Azimut C Block with 65 km<sup>2</sup> of the Eléonore Property. Simultaneously with the joint venture agreement, Goldcorp also increased its ownership of Eastmain to 9.95% and renewed its strategic alliance with the Company for five years. A very significant, 10 kilometre-long gold-corridor has been outlined on the Eléonore South property from over 10,000 surface geochemical samples collected. Recent trenching and channel sampling in the late fall of 2006 also outlined sub-economic to anomalous gold in a Roberto-type setting. Eastmain, Goldcorp and Azimut recognize Roberto as a major gold discovery that may lead to the establishment of a significant mining camp.

#### **d) Eléonore South**

Work on the Company's holdings throughout the Eastmain/Eléonore region has included extensive surface prospecting, 20,000 geochemical samples and 15,000 line-kilometres of geophysical surveys over the past two field seasons. Many priority targets have been generated through this comprehensive program and these will be systematically tested.

#### **e) Ruby Hill**

In February 2006 the Company acquired an undivided 50% interest in Ruby Hill Exploration Inc. ("Ruby Hill Expl.") in exchange for Eastmain's 50% interest in the Thelon Basin Uranium property on February 8, 2006 in consideration for 150,000 Eastmain Resources Inc. common shares. The common shares of Eastmain and the Ruby Hill 2.5% Net Smelter Return Royalty held by Ruby Hill Exploration Inc. were assigned to the original five Ruby Hill syndicate members.

In June 2006, the Company exchanged its 50% ownership in Ruby Hill Exploration Inc. representing prospecting permits and mineral claims covering approximately 486,000 acres in the Thelon Basin of Nunavut and the Northwest Territories having a book value of \$66,680 was exchanged for 508,836 common shares of Western Uranium Corporation (WUC: TSX-V) valued at \$1.50 at the date of the transaction.

In May 2006, the Company completed a letter of intent to purchase the Eastmain Mine in exchange for payment to Campbell Resources Inc. \$2.5 million cash, two million common shares and one million common share purchase warrants. Campbell shall retain a 2% Net Smelter Return Royalty ("NSR") on the Mine Property. Eastmain will have the option to purchase one-half of the NSR for \$1 million for any production over and above 250,000 ounces of gold. This transaction is subject to regulatory approvals and completion of a definitive agreement.

The combined Ruby Hill and Eastmain Mine properties represent a very attractive project portfolio including a measured and indicated resource of gold with ramp access and two levels of underground development, surface facilities including an air strip and a highly prospective deposit-scale and district-scale land package. Preliminary estimates indicate that based on current metal prices and costs incurred from previous exploitation, the Eastmain gold deposit has a Net Smelter Return Value of approximately US\$80 million.

#### **f) Reserve Creek**

Exploration at Reserve Creek, Ontario in fiscal 2004 and fiscal 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. Since resolution of the ownership issue seems unlikely in the foreseeable future, the deferred expenditures related to this project have been written off.

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**

During fiscal 2006, the Company raised proceeds to date of \$8.2 million in common share issue financing activities net of issue costs (\$3.1 million in 2005) and received \$1.8 million in government assistance (\$0.4 million in 2005). During this same period the Company invested \$4.4 million on acquisitions and exploration of mineral resource properties (\$5.1 million in 2005), improved (reduced) its treasury position by \$4.7 million (\$1.0 million in 2005) and funded operating activities of \$0.9 million (\$0.5 million in 2005). As at October 31, 2006 cash, cash equivalents and short-term investments, pre-paid expenses and sundry receivables on hand totalled \$8.1 million (\$3.7 million in 2005). Current liabilities were \$1.3 million (\$1.6 million in 2005) and the Company has no long-term debt. Accordingly, as the Company's base operating costs are approximately \$50,000 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 foreseeable future.

During the current fiscal year, the Company has successfully undertaken three private placement financings and it may contemplate other placements if it believes that market conditions are appropriate.

During fiscal 2005, the Company completed a private placement issue of 4,300,000 flow-through units at \$0.70 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 generated from that issue of shares were deployed primarily in the exploration and development of the Falconbridge Joint Venture and Québec exploration properties.

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, 2006 the Company realized a loss on the disposal of short-term investments in the amount of \$13,986 (a gain of \$14,821 in 2005). As at October 31, 2006, the Company has a net unrealized gain on short-term investments of \$161,276.

For tax year-ends after December 31, 2005, non-capital losses can be carried forward and used to offset future gains for a period of twenty years, after which they expire. (Ten years for losses in tax years ending prior to December 31, 2005 and seven years for losses in tax years ending prior to March 22, 2004). 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 not certain that they will be used to offset tax liabilities within their carry-forward 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 has recorded a future income tax recovery in fiscal 2006 of \$366,725 in connection with the issue of flow-through shares in December 2005. Last year, the Company had recorded income tax recoveries of \$1,083,600 associated with the issue of 4,300,000 flow-through shares in January 2005.

During the year ended October 31, 2006, 7,741,995 share purchase warrants were outstanding with an average exercise price of \$0.75 (2,421,285 share purchase warrants with an average exercise price of \$0.85 in 2005) and 2,421,285 share purchase warrants (6,733,095 share purchase warrants expired without being exercised in 2005). 1,000,000 common share purchase warrants and 1,000,000 flow-through common share purchase warrants were issued in connection with the issue of 4,000,000 common shares in July 2006. An additional 5,741,995 share purchase warrants were issued in connection with share capital financing activities that took place in December 2005 and January 2006. As at October 31, 2006, 7,741,995 share purchase warrants remain outstanding with an average exercise price of \$0.75 which, if exercised, would result in proceeds of \$5,782,296 to the Company (2,921,285 share purchase warrants were outstanding at October 31, 2005).

For the year ended October 31, 2006, 1,250,000 common share stock options were issued as director, officer and employee compensation, 150,000 stock options were exercised generating proceeds of \$56,250 and 150,000 options expired without being exercised. For the year ended October 31, 2005, 1,750,000 stock options were issued as director, officer and employee compensation, 325,000 stock options were exercised generating proceeds of \$117,000 and 225,000 options expired without being exercised. As at October 31, 2006, 3,500,000 options were outstanding with an average exercise price of \$0.58, which if exercised, would result in proceeds of \$2,047,250 to the Company (2,575,000 options were outstanding with an average exercise price of \$0.54). During the quarter ended October 31, 2006, 125,000, stock options were issued with an average exercise price of \$0.70 and no options were exercised or expired.

During the year ended October 31, 2006, the Company received \$1,741,574 in resource credits from the Province of Québec and a further estimated \$1,400,000 in resource credits is receivable from the Province of Québec for claims

filed up to October 31, 2006. 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 outstanding of the Company's refund has as yet been received, the estimated refund outstanding has not been recognized as income in the Company's financial statements.

During the year ended October 31, 2006, 100,000 shares valued at \$65,500 were issued in exchange for mining claims (215,000 shares issued were valued at \$125,900 in 2005). 80,000 shares valued at \$68,000 were received in exchange for deferred exploration data in 2006 (80,000 shares received were valued at \$67,200 in 2005).

### **Transactions with Related Parties**

Related party transactions include \$12,500 per month salary paid to the President of the Company. Consulting fees of \$425 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 16, 2007, there are 66,099,418 common shares outstanding. In addition, as of January 16, 2007, 3,750,000 common share purchase options are outstanding, and 6,708,000 share purchase warrants are outstanding.

### **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.

### **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.

Stern & Lovrics LLP

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, 2006 and October 31, 2005 and the statements of loss and deficit and cash flows for years ended October 31, 2006, October 31, 2005 and the fifteen-month period ended October 31, 2004. 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 in the United States of America. 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, 2006 and October 31, 2005 and the results of its operations and its cash flows for the years ended October 31, 2006, October 31, 2005 and the fifteen-month period ended October 31, 2004 in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario  
January 11, 2007

Stern & Lovrics LLP  
Chartered Accountants

### ***Comments by Auditors on United States of America – Canada Reporting Difference***

The United States of America reporting standards require the addition of an explanatory paragraph when the financial statements are affected by conditions and events that cast doubt on the Company's ability to continue as a going concern, such as those described in Note 2 to these financial statements. Although we conducted our audit in accordance with both United States of America and Canadian generally accepted accounting standards, our report to the shareholders dated January 11, 2007, is expressed in accordance with Canadian reporting standards which do not permit a reference to such conditions and events in the auditors' report when these are adequately disclosed in the financial statements.

Toronto, Ontario  
January 11, 2007

Stern & Lovrics LLP  
Chartered Accountants

# EASTMAIN RESOURCES INC.

## BALANCE SHEETS

AS AT OCTOBER 31, 2006, AND OCTOBER 31, 2005

	October 31, 2006	October 31, 2005
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 4,003,148	\$ 443,517
Short-term investments (Note 4)	3,848,507	2,634,260
Prepaid and sundry receivables	327,418	293,947
	<u>8,179,073</u>	<u>3,371,724</u>
Investments (Note 5)	910,454	79,200
Equipment (Note 6)	114,012	101,003
Mining properties and deferred exploration expenditures (Note 7)	16,609,920	14,688,602
	<u>\$ 25,813,459</u>	<u>\$ 18,240,529</u>
<b>Liabilities and Shareholders' Equity</b>		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 1,320,926	\$ 1,629,680
Shareholders' equity		
Capital stock		
Authorized -		
Unlimited common shares		
Issued		
Common shares (Note 8)	26,985,580	20,106,316
Warrants (Note 10)	1,074,382	213,462
Contributed Surplus (Note 11)	3,350,728	2,692,791
Deficit	(6,918,157)	(6,401,720)
	<u>24,492,533</u>	<u>16,610,849</u>
	<u>\$ 25,813,459</u>	<u>\$ 18,240,529</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, 2006, 2005 AND 2004

	12 Months October 31, 2006	12 Months October 31, 2005	15 Months October 31, 2004
<b>Revenue</b>			
Interest and dividends	\$ 244,879	\$ 117,900	\$ \$ 143,457
	244,879	117,900	143,457
<b>Expenses</b>			
Amortization	37,237	25,652	35,153
Gain on disposal of claims	(696,574)	-	-
General and administration	651,797	504,984	472,350
Loss (gain) on investments	13,986	(14,821)	(121,588)
Professional fees	61,440	45,529	62,337
Stock option compensation (Note 9)	461,500	659,350	266,300
Write down in deferred exploration expenditures	598,655	443,549	1,875,849
	1,128,041	1,664,243	2,590,401
Loss for the period before the following	(883,162)	(1,546,343)	(2,446,944)
Gain on future income tax recovery	366,725	1,083,600	677,000
<b>NET LOSS FOR THE PERIOD</b>	<b>(516,437)</b>	<b>(462,743)</b>	<b>(1,769,944)</b>
<b>DEFICIT, beginning of period</b>	<b>(6,401,720)</b>	<b>(5,938,977)</b>	<b>(4,169,033)</b>
<b>DEFICIT, end of period</b>	<b>\$ (6,918,157)</b>	<b>\$ (6,401,720)</b>	<b>\$ (5,938,977)</b>
<b>BASIC LOSS PER SHARE</b>	<b>\$ (0.009)</b>	<b>\$ (0.009)</b>	<b>\$ (0.042)</b>
<b>DILUTED LOSS PER SHARE</b>	<b>\$ (0.009)</b>	<b>\$ (0.009)</b>	<b>\$ (0.042)</b>
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING</b>	<b>59,754,728</b>	<b>49,937,157</b>	<b>42,250,827</b>

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

# EASTMAIN RESOURCES INC.

## STATEMENTS OF CASH FLOWS

FOR THE PERIODS ENDED OCTOBER 31, 2006, 2005 AND 2004

	12 Months October 31, 2006	12 Months October 31, 2005	15 Months October 31, 2004
<hr/>			
Cash Provided by (used in)			
<b>OPERATING ACTIVITIES</b>			
Loss for the period	\$ (516,437)	\$ (462,743)	\$ (1,769,944)
Adjustments not affecting cash:			
Amortization	37,237	25,652	35,153
Gain on disposal of mining claims (Note 7)	(696,574)	-	-
Loss (gain) on sale of investments	13,986	(14,821)	(121,588)
Stock option compensation (Note 9)	461,500	659,350	266,300
Write-down of mining properties and deferred exploration expenditures	598,655	443,549	1,875,849
Future income tax recovery (Note 8)	(366,725)	(1,083,600)	(677,000)
Change in non-cash working capital items	(342,225)	915,412	282,786
	(810,583)	482,799	(108,444)
<hr/>			
<b>FINANCING ACTIVITIES</b>			
Issue of common shares, net of costs	8,237,846	3,170,470	6,485,126
	8,237,846	3,170,470	6,485,126
<hr/>			
<b>INVESTING ACTIVITIES</b>			
Purchase of equipment	(50,246)	(62,081)	-
Mining properties and deferred exploration expenditures	(4,370,190)	(5,040,145)	(4,702,785)
Government grants received	1,781,037	427,655	760,303
Purchase of short-term securities	(3,998,856)	(2,163,491)	(756,645)
Net proceeds and redemptions from the sale of short-term investments	2,770,623	1,099,500	170,713
	(3,867,632)	(5,738,562)	(4,528,414)
<hr/>			
Change in cash and cash equivalents	3,559,631	(2,085,293)	1,848,268
Cash and cash equivalents, beginning of period	443,517	2,528,810	680,542
Cash and cash equivalents, end of period	\$ 4,003,148	\$ 443,517	\$ 2,528,810

### SUPPLEMENTARY INFORMATION (Note 11)

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

EASTMAIN RESOURCES INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2006 AND OCTOBER 31, 2005

**1. THE COMPANY**

Eastmain Resources Inc. (the "Company" or "Eastmain") 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 7.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**a) Mining Properties and Deferred Exploration**

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.

The amounts shown for mineral properties represent costs incurred to date less write-downs and are not intended to reflect present or future values. Government assistance and mining duty credits are applied against the deferred exploration expenses. Option payments received are applied against the mineral properties or accounted for in the operations if the property has already been written off or if the proceed is in excess of the deferred acquisition cost.

Management reviews each Company property interest on a regular basis to assess whether the property merits further exploration and development expenditure and whether the carrying value of the property is greater than the future expected return from the property. Empirical evidence such as geochemical analysis, drilling results, assays, mapping and field observation are the primary evidence that is assessed against other factors such as commodity markets, exchange rates and closeness to other known operations when making decisions on impairment.

**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 its 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) 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.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **g) Stock-based Compensation**

The Company has in effect a Stock Option Plan which is described in Note 9 and which is accounted for using the recommendations issued by the Canadian Institute of Chartered Accountants "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.

### **h) 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.

### **i) 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 properties and deferred exploration expenditures. Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. When these expenditures are renounced, temporary taxable differences created by the renunciations reduce share capital.

### **j) 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.

### **k) 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.

### **l) Exploration Tax Credits**

#### **i) Mining duty credits**

The Company is entitled to refundable mining duty credits on exploration expenditures incurred in Québec. The refundable mining duty credit may reach 15% of qualified charges. These credits are applied against the costs incurred when they are actually received.

#### **ii) Tax credits for resource expenditures**

Furthermore, the Company is entitled to refundable tax credits for mining sector companies on eligible expenditures incurred in Québec after March 31, 2001. The refundable tax credit may reach 38.75% of qualified charges incurred after March 30, 2004. These credits are applied against the costs incurred when they are actually received.

### **m) Asset Retirement Obligations**

During the course of acquiring and exploring potential mining properties, the Company must comply with the government regulated environmental evaluation, updating and reclamation requirements. The costs of complying with these requirements are capitalized as incurred. The carrying value will be amortized over the life of the related assets on a unit-of-production basis and the related liabilities are accreted to the original asset value estimate. Asset retirement obligations, if any, cannot be determined at this time and no amount has been recorded in these financial statements. The present value of the reclamation liabilities may be subject to change based on management's current estimates, changes in remediation technology or changes to the applicable laws and regulations by regulatory authorities, which affect the ultimate cost of remediation and reclamation. Such charges will be reflected in the accounts of the Company as they arise.

EASTMAIN RESOURCES INC.  
 NOTES TO FINANCIAL STATEMENTS  
 OCTOBER 31, 2006 AND OCTOBER 31, 2005

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**n) 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. 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.

**4. 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 February 2, 2007 and January 9, 2012. Quoted market value of \$ 4,078,675 (\$ 2,876,034 in 2005).

**5. INVESTMENTS**

Investments in public companies are recorded at cost. The quoted market value for these investments as at October 31, 2006 was \$1,071,730 (\$101,400 in 2005). The investments consist of shares in Dianor Resources Inc. which were acquired in exchange for geological data (Note 7), shares of Threegold Resources Inc. received as a dividend from Dianor Resources Inc. and shares in Western Uranium Corporation received in exchange for prospecting permits and mineral claims (Note 7).

**6. EQUIPMENT**

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

	Cost	Accumulated Amortization	Net Book Value October 31, 2006	Net Book Value October 31, 2005
Computer equipment	\$ 29,146	\$ 15,935	\$ 13,211	\$ 16,327
Field equipment	203,125	102,324	100,801	84,676
	\$ 232,271	\$ 118,259	\$ 114,012	\$ 101,003

**7. MINING PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES**

As at October 31, 2006 the Company has outstanding Mining Duties and Refundable Tax Credits from Resources Québec and Revenue Québec in respect to claims filed up to October 31, 2006 amounting to approximately \$1,400,000 (\$1,900,000 - October 31, 2005, \$900,000 - October 31, 2004). As the Company has not received confirmation of these refunds, these amounts have not been reflected in these financial statements.

EASTMAIN RESOURCES INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2006 AND OCTOBER 31, 2005

7. MINING PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (continued)

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, 2006

Project	Balance October 31, 2005	Net Expenditures	Government Grants	Write Down & Recoveries	Balance October 31, 2006
	\$	\$	\$	\$	\$
Clearwater	6,822,379	1,105,200	(1,761,647)	-	6,165,932
Falconbridge JV	3,284,686	115,771	-	-	3,400,457
Azimut Blocks C & D	1,125,218	450,806	-	-	1,576,024
Eléonore South	-	1,496,713	-	-	1,496,713
Ruby Hill	409,029	164,127	-	-	573,156
Québec Projects	1,475,356	1,115,790	(19,390)	(75,000)	2,496,756
New Brunswick Projects	850,194	26,800	-	-	876,994
Ontario Projects	21,763	2,125	-	-	23,888
Reserve Creek	613,642	8,242	-	(621,884)	-
Other Projects	86,335	24,851	-	(111,186)	-
	\$ 14,688,602	\$ 4,510,425	\$ (1,781,037)	\$ (808,070)	\$ 16,609,920

FOR THE YEAR ENDED OCTOBER 31, 2005

Project	Balance October 31, 2004	Net Expenditures	Government Grants	Write Down & Recoveries	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
Azimut Blocks C & D	-	1,125,218	-	-	1,125,218
Ruby Hill	-	409,029	-	-	409,029
Québec Projects	968,387	501,406	-	5,563	1,475,356
New Brunswick Projects	842,923	7,271	-	-	850,194
Ontario Projects	291,796	(45,435)	-	(224,598)	21,763
Reserve Creek	281,263	332,379	-	-	613,642
Other Projects	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 & Recoveries	Balance October 31, 2004
	\$	\$	\$	\$	\$
Clearwater	4,136,410	2,645,434	(749,803)	-	6,032,041
Falconbridge JV	-	1,820,037	-	-	1,820,037
Québec Projects	1,128,508	88,586	-	(248,707)	968,387
New Brunswick Projects	1,373,802	147,044	(10,500)	(667,423)	842,923
Ontario Projects	1,012,027	(1,692)	-	(718,539)	291,796
Reserve Creek	2,184	279,079	-	-	281,263
Other Projects	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, 2006 AND OCTOBER 31, 2005

**7. MINING PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (continued)**

The following is a breakdown of mining properties and deferred expenditures by type for the Company's significant projects for the years ended October 31, 2006 and October 31, 2005 and the fifteen-month period ended October 31, 2004.

Project	Balance Oct. 31, 2005	Drilling & Assays	Technical Surveys	Project Acquisition	Grants & Write Downs	Total	Balance Oct. 31, 2006
	\$	\$	\$	\$	\$	\$	\$
Clearwater	6,822,379	996,288	88,724	20,188	(1,761,647)	(656,447)	6,165,932
Falconbridge JV	3,284,686	45,714	47,823	22,234	-	115,771	3,400,457
Azimut C	565,086	15,139	79,587	44,437	-	139,163	704,249
Azimut D	560,132	50,762	213,119	47,762	-	311,643	871,775
Eléonore South	-	398,978	1,097,735	-	-	1,496,713	1,496,713
Ruby Hill	409,029	514	41,194	122,419	-	164,127	573,156
Reserve Creek	613,642	247	7,981	14	(621,884)	(613,642)	-
Other	2,433,648	52,947	1,049,140	67,479	(205,576)	963,990	3,397,638
<b>Total</b>	<b>\$ 14,688,602</b>	<b>\$ 1,560,589</b>	<b>\$ 2,625,303</b>	<b>\$ 324,533</b>	<b>\$ (2,589,107)</b>	<b>\$ 1,921,318</b>	<b>\$ 16,609,920</b>

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
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
Reserve Creek	281,263	3,656	265,723	63,000	-	332,379	613,642
Other	2,327,620	50,847	387,717	111,013	(443,549)	106,028	2,433,648
<b>Total</b>	<b>\$ 10,460,961</b>	<b>\$ 1,503,211</b>	<b>\$ 2,733,927</b>	<b>\$ 861,707</b>	<b>\$ (871,204)</b>	<b>\$ 4,227,641</b>	<b>\$ 14,688,602</b>

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
<b>Total</b>	<b>\$ 8,018,228</b>	<b>\$ 1,682,763</b>	<b>\$ 2,319,103</b>	<b>\$ 1,066,519</b>	<b>\$ (2,625,652)</b>	<b>\$ 2,442,733</b>	<b>\$ 10,460,961</b>

**a) Clearwater Project**

Eastmain holds 100% interest, subject to a 2% Net Smelter Return Royalty payable to SOQUEM, Clearwater Project, located in Québec. To acquire SOQUEM's project interest, Eastmain made cash payments of \$1.0 million and issued 1,500,000 common shares and 500,000 share-purchase warrants to SOQUEM. The share-purchase warrants were exercisable at a price of \$2.00 on or before September 2006. These share-purchase warrants expired unexercised. Eastmain has the option to purchase one-half of SOQUEM's 2% Net Smelter Return Royalty for \$1 million.

**7. MINING PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (continued)**

**b) 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.

**c) Azimut Blocks C and D Projects**

The Company and Azimut Exploration Inc. ("Azimut") completed the signing of two letters of agreement for two claim 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.

Under the terms of the agreement, Eastmain can earn a 50% interest in Block C from Azimut during a five-year period through total cash payments of \$160,000 and the issuance of 30,000 common shares of the Company. Eastmain has made cash payments of \$75,000 and issued 30,000 common shares of Eastmain Resources Inc. to Azimut. The Azimut C agreement also required total work expenditures of \$2.7 million, of which an aggregate of \$600,000 was required to be completed prior to the second anniversary of the agreement. On April 26<sup>th</sup>, 2006 Eastmain, Azimut and Goldcorp Inc. formed a 3-Way Joint Venture by combining Azimut's mining claims from the Opinaca C Block and selected mining claims from Goldcorp's Éléonore claim block to create a new property, referred to as the Éléonore South project. The 3-Way Joint Venture agreement, which supercedes the Azimut Opinaca Block C agreement is described in note 7d.

Eastmain has the option to earn an initial 50% interest in Opinaca Block D from Azimut through total cash payments of \$140,000, issuance of 45,000 common shares of the Company, and total work expenditures of \$1.9 million over the five-year term of the agreement, of which an aggregate of \$500,000 in work expenditures is required to be completed prior to the second anniversary of the agreement. Eastmain has made cash payments of \$55,000, issued 45,000 common shares of the Company to Azimut and has exceeded its work expenditure commitments for the second year anniversary.

Initial cash payments for both the Opinaca Block C and Opinaca Block D projects have been made, the agreed upon 75,000 common shares were issued to Azimut July 4, 2005 and exploration expenditure requirements for both agreements have been satisfied.

**d) Éléonore South Project**

On April 26, 2006 Eastmain, Azimut and Goldcorp formed a 3-Way Joint Venture by combining Azimut's mining claims from the Opinaca C Block and selected mining claims from Goldcorp's Éléonore claim block to create the Éléonore South project. Eastmain has the option to earn a 1/3 interest in the Éléonore South project by completing \$4 million in work expenditures over a four-year period and may acquire an additional 7% interest upon delivery of a bankable feasibility study. Eastmain and Azimut have terminated the option on the Azimut C Block. However, under the 3-Way Joint Venture agreement, Eastmain shall maintain the yearly cash payments to Azimut as defined in the original Opinaca C Block option agreement.

**e) Ruby Hill Project**

On February 17, 2005, the Company acquired 100% interest in certain mineral properties located within the Upper Eastmain River greenstone belt from Ruby Hill Exploration Inc. ("Ruby Hill"). The Company earned 100% interest in the property by making cash payments of \$10,000 and issuing 150,000 common shares of the Company to Ruby Hill. 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.

On February 8, 2006, the Company acquired an undivided 50% interest in Ruby Hill Exploration Inc. ("Ruby Hill") in exchange for Eastmain's 50% interest in the Thelon Basin Uranium property. The pre-existing common shares of Eastmain and the 2.5% Net Smelter Return Royalty held by Ruby Hill Exploration Inc. were assigned to the original five Ruby Hill syndicate members. Subsequently, the Company's interest in Ruby Hill was exchanged for shares in Western Uranium Corporation (see note 7j(ii)).

EASTMAIN RESOURCES INC.  
 NOTES TO FINANCIAL STATEMENTS  
 OCTOBER 31, 2006 AND OCTOBER 31, 2005

**7. MINING PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (continued)**

**f) 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 Ltd. to date. The Company 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. Since the ownership issue is unlikely to be resolved in the foreseeable future the deferred expenditures related to the project have been written off.

**g) Québec Projects - Lac Elmer Project**

The Company holds a 50% interest in the Lac Elmer Project, which is located within the Eastmain River area of Québec. Barrick Gold Corporation previously earned a 50% interest from Eastmain in the Lac Elmer Project by funding \$1 million in work expenditures.

**h) New Brunswick Projects - BHP Agreement (includes Railroad Project)**

The Company's 100% interest in lands formerly held by BHP Minerals Canada Ltd in 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. In March 2005 BHP Billiton Diamonds Inc. sold the royalty to International Royalty Corporation

**i) Ontario Projects - Akweskwa Project**

The Company has acquired the Akweskwa Project, located near Timmins, Ontario, subject to a Net Smelter Return Royalty of up to 2.5%. 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 100% interest in the Bradbrook claims.

**j) Other**

i) 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 Resources Inc. and a minimum \$500,000 work commitment. As of October 2006 the Company has received 340,000 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 a one-kilometer area of influence.

ii) Thelon Basin

In June 2006, the Company's 50% ownership in Ruby Hill Exploration Inc., representing prospecting permits and mineral claims covering approximately 486,000 acres in the Thelon Basin of Nunavut and the Northwest Territories, and having a book value of \$66,680 was exchanged for 508,836 shares in Western Uranium Corporation (WUC: TSX-V). Valued at \$763,254 (\$1.50 per share) at the date of the exchange, these Western Uranium shares resulted in net income to the Company of \$696,574. The shares of Western Uranium Corporation were subject to a hold period of four months, which expired in October 2006.

**8. CAPITAL STOCK**

	Shares	Amount
Issued and outstanding, October 31, 2004	45,587,678	\$ 17,970,508
Issued for Reserve Creek Project option	90,000	63,000
Private placement (i)	4,300,000	3,010,000
Warrant valuation (i)		(137,600)
Cost of issue – warrants (i)		(17,362)
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)
Issued and outstanding, October 31, 2005	50,927,678	\$ 20,106,316

EASTMAIN RESOURCES INC.  
NOTES TO FINANCIAL STATEMENTS  
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8. CAPITAL STOCK (continued)

	Shares	Amount
Issued and outstanding, October 31, 2005	50,927,678	\$ 20,106,316
Private placement (ii)	1,813,526	1,015,576
Warrant valuation (ii)		(111,532)
Cost of issue – Black-Scholes valuation (ii)		(15,862)
Private placement (iii)	8,450,000	4,225,000
Warrant valuation (iii)		(680,225)
Cost of issue – Black-Scholes valuation (iii)		(77,763)
Private placement (iv)	4,000,000	3,400,000
Cost of issue – Black-Scholes valuation (iv)		(189,000)
Exercise of stock options	150,000	56,250
Exercise of stock options - Black-Scholes valuation		17,025
Flow-through tax effect		(366,725)
Issued for Ruby Hill Property option (v)	100,000	65,500
Cost of issue – cash		(458,980)
Issued and outstanding, October 31, 2006	65,441,204	\$ 26,985,580

- i) 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.

- ii) In December 2005, the Company issued 1,813,526 flow-through units at a price of \$.56 per unit for gross proceeds of \$1,015,576. 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 \$0.65 per share until December 7, 2006. In connection with the private placement, management subscribed for \$65,576 of the offering. The agent for the private placement was paid a 5% commission. In addition to the commission, the agent received compensation warrants to purchase 127,232 shares at a price of \$0.65 per share until December 7, 2006 (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 value assigned to the issue of 1,033,995 warrants was \$127,394. The assumptions used for the valuation of the warrants were: dividend yield 0%, expected volatility 61%, risk-free interest rate 3.8% and an expected life of 12 months.
- iii) In December 2005 the Company issued 8,450,000 units at a price of \$0.50 per unit for gross proceeds of \$4,225,000. Each unit consisted of one common share and one-half share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company at a price of \$0.65 per share until December 28, 2007. The agent for the private placement was paid a 5% commission. In addition to the commission, the agent received compensation warrants to purchase 483,000 shares (Note 9). The assumptions used for the valuation of the respective warrants were: Dividend yield 0%, expected volatility 61%, risk-free interest rate 3.9% and an expected life of 24 months. The value assigned to the 4,708,000 warrants was \$757,988.
- iv) In June 2006 the Company issued 2,000,000 units to Goldcorp Inc. at a price of \$0.70 per unit and 2,000,000 flow-through units at a price of \$1.00 per unit, for total gross proceeds of \$3,400,000. Each unit was comprised of one common share and one-half of one warrant. Each flow-through unit was comprised of one flow-through share and one-half of one flow-through warrant. Each common share purchase warrant entitles the holder to purchase one common share in the capital of the Company, at the exercise price of \$0.80 per share for a period of one year; each flow-through common share purchase warrant entitles the holder to purchase one flow-through common share in the capital of the Company, at the exercise price of \$1.25 per flow-through share for a period of one year (Note 9). The assumptions used for the valuation of the warrants were: dividend yield 0%, expected volatility 67%, risk-free interest rate 4.25% and an expected life of 12 months. The value assigned to the 2,000,000 warrants was \$189,000. With this purchase, Goldcorp owns approximately 9.9% of the outstanding common shares of the Company.

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**8. CAPITAL STOCK (continued)**

- v) During the year, the Company issued 100,000 common shares to Ruby Hill Exploration Inc. in completion of the Company's agreement to buy Ruby Hill Exploration Inc.'s mining claims in the Eastmain River Belt (215,000 common shares were issued in 2005 for various mining claims).

**9. 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. The Company applies the fair value method of accounting for all stock-based compensation awards and accordingly, \$461,500 during the year (\$659,350 in 2005) was recorded as stock option compensation expense and contributed surplus, for the 1,250,000 options granted during the period (1,750,000 in 2005).

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 applying the following assumptions:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Dividend yield	0	0	0
Expected volatility	61-63%	88%	100%
Risk free interest rate	3.9-4.25%	4.5%	4.5%
Expected option term - years	2-5	5	5

	Number of Options			Weighted Average Exercise Price		
	2006	2005	2004	2006	2005	2004
Outstanding, beginning of year	2,575,000	1,375,000	1,250,000	\$ 0.54	\$ 0.44	\$ 0.69
Granted during year	1,250,000	1,750,000	600,000	\$ 0.69	\$ 0.53	\$ 0.33
Cancelled or expired during year	(150,000)	(225,000)	(62,500)	\$ 0.61	\$ 0.37	\$ 0.28
Exercised during year	(150,000)	(325,000)	(412,500)	\$ 0.38	\$ 0.36	\$ 0.35
<b>Outstanding, end of year</b>	<b>3,525,000</b>	<b>2,575,000</b>	<b>1,375,000</b>	<b>\$ 0.58</b>	<b>\$ 0.54</b>	<b>\$ 0.44</b>

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

2006	\$461,500
2005	\$659,350
2004	\$266,300

Stock options outstanding as at October 31, 2006

Expiry date	Black-Scholes Value (\$)	Number of Options	Exercise Price (\$)
February, 2007	-	200,000	0.26
November, 2007	28,700	100,000	0.52
July, 2008	26,000	100,000	0.70
October, 2008	136,825	325,000	0.55
January, 2009	67,300	100,000	0.88
November, 2009	340,500	750,000	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
November, 2010	28,700	100,000	0.52
January, 2011	378,100	925,000	0.72
	<b>1,279,575</b>	<b>3,500,000</b>	

EASTMAIN RESOURCES INC.  
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9. STOCK OPTIONS (continued)

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	35,200	125,000	0.34
October, 2008	168,400	400,000	0.55
January, 2009	67,300	100,000	0.88
November, 2009	357,200	750,000	0.64
February, 2010	30,500	100,000	0.48
April, 2010	198,250	650,000	0.43
June, 2010	44,700	150,000	0.43
	901,550	2,575,000	

10. WARRANTS

	Number of Warrants			Weighted Average Exercise Price		
	2006	2005	2004	2006	2005	2004
Outstanding, beginning of year	2,921,285	7,733,095	2,116,769	\$1.00	\$0.73	\$0.54
Granted during year	7,741,995	2,421,285	6,793,095	\$0.75	\$0.85	\$0.76
Cancelled or expired during year	(2,921,285)	(6,733,095)	-	\$1.00	\$0.67	\$0.00
Exercised during year	-	(500,000)	(1,176,769)	\$ -	\$0.45	\$0.54
Outstanding, end of year	7,741,995	2,921,285	7,733,095	\$0.75	\$1.00	\$0.73

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 applying the following assumptions:

	2006	2005	2004
Dividend yield	0	0	0
Expected volatility	61-67%	58%	75-100%
Risk free interest rate	3.80-4.25%	4.50%	4.50%
Expected option term - years	1-2	5	5

Warrants outstanding as at October 31, 2006

Expiry date	Black-Scholes Value (\$)	Number of Warrants	Exercise Price (\$)
December, 2006	127,394	1,033,995	0.65
June, 2007	133,000	1,000,000	0.80
June, 2007	56,000	1,000,000	1.25
December, 2007	757,988	4,708,000	0.65
	1,074,382	7,741,995	

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NOTES TO FINANCIAL STATEMENTS  
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**10. WARRANTS (continued)**

Warrants outstanding as at October 31, 2005

Expiry date	Black-Scholes Value (\$)	Number of Warrants	Exercise Price (\$)
December, 2006	154,962	2,421,285	0.85
September, 2007	58,500	500,000	2.00
	213,462	2,921,285	

**11. SUPPLEMENTARY INFORMATION**

2,921,285 warrants expired during the year ended October 31, 2006. The value originally attributed to these warrants has been transferred to contributed surplus.

As at October 31, 2006 contributed surplus is comprised of the following:

Balance beginning of year	\$ 2,692,791
Options granted	461,500
Options exercised	(17,025)
Warrants expired	213,462
Balance, end of year	\$ 3,350,728

Changes in non-cash working capital items:

	2006	2005	2004
Prepaid and sundry receivables	\$ (33,471)	\$ (146,313)	\$ 6,068
Accounts payable and accrued liabilities	(308,754)	1,061,725	276,718
	\$ (342,225)	\$ 915,412	\$ 282,786

	2006	2005	2004
Cash	\$ 2,191,001	\$ 76,425	\$ 56,426
Cash equivalents	1,812,147	367,092	2,472,384
	\$ 4,003,148	\$ 443,517	\$ 2,528,810

	2006	2005	2004
Cash paid for interest	\$ -	\$ -	\$ -
Cash paid for income tax	\$ -	\$ -	\$ -
Non-cash financing and investing activity Issuance of common shares for exploration properties	\$ 65,500	\$ 125,900	\$ 388,100
Receipt of common shares for deferred exploration Information	\$ 68,000	\$ 67,200	\$ 12,000

**12. RELATED PARTY TRANSACTIONS**

	2006	2005	2004
Management wages paid to a director	\$ 145,000	\$ 120,000	\$ 120,000
Premises rent paid to a director	\$ 12,000	\$ 12,000	\$ 12,000
Accounts payable to a director	\$ 20,212	\$ -	\$ -
Geological and administrative fees to a private company controlled by the exploration manager of the Company	\$ 128,889	\$ 98,138	\$ 119,414
Accounts payable to the above private company	\$ 35,063	\$ 27,025	\$ -

The transactions were measured at the exchange amount, which is the amount established and accepted by the parties.

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**13. INCOME TAXES**

Provision for income taxes

Income tax recovery varies from the amounts that would be computed by applying the basic combined federal and provincial income tax rate aggregating 36.11% (2005 – 36.11%) to loss before income taxes, as shown in the following table:

	2006	2005
Income tax benefit computed at Canadian statutory rates	\$ 315,316	\$ 558,384
Non-deductible stock based compensation	(166,648)	(238,091)
Share issue expenses deductible	96,715	66,703
Non-deductible mineral exploration expenses and gains	35,358	(160,165)
Other	(16,533)	(6,949)
Unrecognized losses	(264,208)	(219,882)
Tax benefits renounced to flow-through shareholders	366,725	1,083,600
<b>Future income tax recovery</b>	<b>\$ 366,725</b>	<b>\$ 1,083,600</b>

Non-capital loss carry forwards

The Company has reported losses of approximately \$2,379,396 for income tax purposes that are available to reduce income tax in future years. These losses are available for seven years from the year when incurred if before March 22, 2004 and are available for ten years from the year incurred if incurred after March 22, 2004 and are available for twenty years if incurred after 2005. These losses expire as follows:

2007	\$ 17,241
2008	121,659
2009	148,917
2010	398,785
2014	352,194
2015	608,924
2026	<u>731,676</u>
	<b>\$ <u>2,379,396</u></b>

None of these amounts are reflected in the financial statements due to a full valuation allowance as described in Note 2(k).

Other deductions available

The Company has available deductions of approximately \$ 9,088,734 for income tax purposes of various classes of Canadian exploration and development expenses.

**14. SUBSEQUENT EVENTS**

- a) On December 28, 2006 the Corporation completed an offering to management and directors exclusively, consisting of 135,000 flow-through shares at \$1.00 per share for aggregate proceeds of \$135,000. The shares are subject to a hold period of four months.
- b) 523,214 warrants of the Corporation were exercised at \$0.65 for aggregate proceeds of \$340,089 on December 12, 2006.
- c) The Company has completed a letter of intent to purchase the Eastmain Mine in exchange for payment to Campbell Resources Inc. of \$2.5 million cash, two million common shares and one million common share purchase warrants. Campbell shall retain a 2% Net Smelter Return Royalty ("NSR") on the Mine Property. Eastmain will have the option to purchase one-half of the NSR for \$1 million for any production over and above 250,000 ounces of gold. This transaction is subject to regulatory approvals and completion of a definitive agreement
- d) In accordance with income tax legislation, the Company renounced \$2,135,000 in resource expenditure tax deductions on December 31, 2006 for activities funded by flow-through share arrangements as described in note 2i. The transaction will result in an income tax recovery and an offsetting reduction of share capital of \$770,949 in the first quarter of 2006-2007.

EASTMAIN RESOURCES INC.  
NOTES TO FINANCIAL STATEMENTS  
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**15. 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, 2006	October 31, 2005	October 31, 2004
Mining and deferred exploration expenditures under Canadian GAAP	16,609,920	14,688,602	10,460,961
Mining and deferred exploration expenditures under U.S. GAAP	-	-	-
Share capital – common shares under Canadian GAAP	26,985,580	20,106,316	17,970,508
Cumulative future income tax recovery, not included for U.S. GAAP	2,127,325	1,760,600	677,000
Share capital – common shares under U.S. GAAP	29,112,905	21,886,916	18,647,508
Deficit under Canadian GAAP	(6,918,157)	(6,401,720)	(6,401,720)
Mining and deferred exploration expenditures	(16,609,920)	(14,688,602)	(10,460,961)
Cumulative future income tax recovery, not included for U.S. GAAP	(2,127,325)	(1,760,600)	(677,000)
Deficit under U.S. GAAP	(25,655,402)	(22,850,922)	(17,539,681)

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

	October 31, 2006	October 31, 2005	October 31, 2004
Net loss for the period under Canadian GAAP	(516,437)	(462,743)	(1,769,944)
Mining and deferred exploration expenditures, net	(1,921,318)	(4,227,641)	(2,442,733)
Future income tax recovery, not included for U.S. GAAP	(366,725)	(1,083,600)	(677,000)
	(2,804,480)	(5,773,984)	(4,889,677)
Loss per share under U.S. GAAP	(0.05)	(0.12)	(0.12)
Loss per share under Canadian GAAP	(0.01)	(0.01)	(0.04)
Weighted average number of shares outstanding (Canadian and U.S. GAAP)	59 754 728	48,937,157	42,250,827

## **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/Eleonore region of Northern Québec. The Company anticipates receiving approval of permit applications for the road and a bulk-mining sample for the Eau Claire gold deposit at Clearwater in 2007. We also foresee completing the acquisition of the Eastmain Mine property in 2007, adding a second advanced project containing measured and indicated resources to our gold inventory. The Corporation has a significant positive leverage to the price of gold through its in-situ resource ounces.

The Eastmain/Eleonore projects add significant growth potential for our shareholders. Although Eleonore South is still in its early stages of exploration, the possibility of adding a third gold deposit to the Company's inventory is good. We will continue with an aggressive exploration program in northern Quebec where provincial incentives have substantially reduced our costs.

The MegaTEM project represents a unique opportunity for discovery within a proven mining region utilizing state-of-the-art survey data exclusively owned by the JV partnership. The program in 2007 will include deep EM geophysics on six priority areas followed by drilling each target.

Exploration and development expenditures for fiscal 2007 are forecast to be approximately \$0.5 M for Ontario and \$3.0 M for Québec.

## **Subsequent events**

- a) On December 28, 2006 the Corporation completed an offering to management and directors exclusively, consisting of 135,000 flow-through shares at \$1.00 per unit for aggregate proceeds of \$135,000. The shares are subject to a hold period of four months.
- b) 523,214 warrants of the Corporation were exercised at \$0.65 for aggregate proceeds of \$340,089 on December 12, 2006.
- c) The Company has completed a letter of intent to purchase the Eastmain Mine in exchange for payment to Campbell Resources Inc. of \$2.5 million cash, two million common shares and one million common share purchase warrants. Campbell shall retain a 2% Net Smelter Return Royalty ("NSR") on the Mine Property. Eastmain will have the option to purchase one-half of the NSR for \$1 million for any production over and above 250,000 ounces of gold. This transaction is subject to regulatory approvals and completion of a definitive agreement.
- d) In accordance with income tax legislation, the Company renounced \$2,135,000 in resource expenditure tax deductions on December 31, 2006 for activities funded by flow-through share arrangements as described in note 2i. The transaction will result in an income tax recovery and an offsetting reduction of share capital of \$770,949 in the first quarter of 2006-2007.

## **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](http://www.sedar.com).

## **Disclosure Controls**

The Company's Chief Executive Officer and the Corporate Secretary are responsible for establishing and maintaining the Company's disclosure controls and procedures. These disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in reports filed with securities regulatory authorities is recorded and disclosed on a timely basis, as required by law. The Company's Chief Executive Officer and the Corporate Secretary are satisfied that these controls and procedures are operating effectively.

## **Additional Information**

Additional information relating to the Company, including any published Annual Information Forms, can be found on SEDAR at [www.sedar.com](http://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. Given the small size of the Company, a true segregation of duties is impossible to achieve. The Company believes that its policies and procedures provide the best controls achievable under the constraints described above.

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.

**OFFICERS 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

Richard W. Hutchinson, Ph.D.  
Director

William L. Koyle \*  
Director

Neil Hillhouse, Ph.D.  
Special Advisor

Chad Steward  
Manager Communications

\* Member of Audit Committee

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**SHARES LISTED**

Symbol: ER  
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