

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 consolidated balance sheets of Eastmain Resources Inc. as at October 31, 2009 and 2008, and the consolidated statements of operations and deficit, comprehensive loss, shareholders' equity and cash flows for the years then ended. These consolidated 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 Canadian generally accepted auditing standards. 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2009 and 2008 and the results of its operations, and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario  
January 25, 2010

Chartered Accountants  
Licensed Public Accountants

# EASTMAIN RESOURCES INC.

## CONSOLIDATED BALANCE SHEETS AS AT OCTOBER 31

	2009	2008
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 11,936,585	\$ 16,098,247
Marketable securities maturing in one year (Note 5)	1,669,758	755,361
Prepaid and sundry receivables	536,051	526,966
	14,142,394	17,380,574
Marketable securities (Note 5)	1,495,231	1,924,263
Equipment (Note 6)	67,858	96,941
Mineral properties and deferred exploration expenditures (Note 7)	27,291,353	25,992,671
	\$ 42,996,836	\$ 45,394,449
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,256,523	\$ 1,911,673
Future income tax liability (Note 14)	97,305	53,700
	1,353,828	1,965,373
Shareholders' equity		
Capital stock		
Authorized -		
Unlimited common shares		
Issued		
Common shares (Note 8)	44,695,646	43,832,594
Warrants (Note 10)	4,681,823	4,681,823
Contributed surplus (Note 11)	4,465,309	4,248,959
	53,842,778	52,763,376
Deficit	(11,964,708)	(8,858,649)
Accumulated other comprehensive loss (Note 13)	(235,062)	(475,651)
	41,643,008	43,429,076
	\$ 42,996,836	\$ 45,394,449

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.

## CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT FOR THE YEARS ENDED OCTOBER 31

	2009	2008
<b>EXPENSES</b>		
Amortization	\$ 29,083	\$ 38,157
General and administration	664,115	777,184
Loss (gain) on the sale of investments	(145)	2,514
Professional fees	81,137	59,669
Stock option compensation (Note 9)	541,600	427,125
Write down in deferred exploration expenditures	1,973,936	847,219
	<u>3,289,726</u>	<u>2,151,868</u>
Loss for the year before the following	(3,289,726)	(2,151,868)
Interest and other income	183,667	308,934
<b>NET LOSS FOR THE YEAR</b>	<b>(3,106,059)</b>	<b>(1,842,934)</b>
<b>DEFICIT, beginning of year</b>	<b>(8,858,649)</b>	<b>(7,015,715)</b>
<b>DEFICIT, end of year</b>	<b>\$ (11,964,708)</b>	<b>\$ (8,858,649)</b>
<b>BASIC AND DILUTED LOSS PER SHARE</b>	<b>\$ (0.036)</b>	<b>\$ (0.024)</b>
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING</b>	<b>85,974,707</b>	<b>76,491,440</b>

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS FOR THE YEARS ENDED OCTOBER 31

	2009	2008
<b>NET LOSS FOR THE YEAR</b>	<b>\$ (3,106,059)</b>	<b>\$ (1,842,934)</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		
Unrealized gains (losses) on available-for-sale financial assets arising during the year (net of income taxes and taxes recovered of \$79,800)	240,589	(964,567)
<b>COMPREHENSIVE LOSS FOR THE YEAR</b>	<b>\$ (2,865,470)</b>	<b>\$ (2,807,501)</b>

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

**EASTMAIN RESOURCES INC.**  
**CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY**  
**AS AT OCTOBER 31, 2009**

	Share Capital	Warrants	Contributed Surplus	Accumulated Other Comprehensive Income (loss)	Deficit	Total Shareholders' Equity
As at October 31, 2007	\$ 28,411,282	\$ 790,488	\$ 3,995,084	\$ 488,916	\$ (7,015,715)	\$ 26,670,055
Share capital issued	10,395,074	-	-	-	-	10,395,074
Flow-through tax effect	(53,700)	-	-	-	-	(53,700)
Warrants exercised	4,550,913	(756,963)	-	-	-	3,793,950
Warrants issued	-	4,681,823	-	-	-	4,681,823
Warrants expired	-	(33,525)	33,525	-	-	-
Stock-based compensation	-	-	427,125	-	-	427,125
Options exercised	529,025	-	(206,775)	-	-	322,250
Fair market value loss on available-for-sale financial assets	-	-	-	(964,567)	-	(964,567)
Net loss for the year	-	-	-	-	(1,842,934)	(1,842,934)
As at October 31, 2008	43,832,594	4,681,823	4,248,959	(475,651)	(8,858,649)	43,429,076
Share capital issued	581,407	-	-	-	-	581,407
Flow-through tax effect	(43,605)	-	-	-	-	(43,605)
Stock-based compensation	-	-	541,600	-	-	541,600
Options exercised	325,250	-	(325,250)	-	-	-
Fair market value gain available-for-sale financial assets	-	-	-	240,589	-	240,589
Net loss for the year	-	-	-	-	(3,106,059)	(3,106,059)
As at October 31, 2009	\$ 44,695,646	\$ 4,681,823	\$ 4,465,309	\$ (235,062)	\$ (11,964,708)	\$ 41,643,008

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

**EASTMAIN RESOURCES INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED OCTOBER 31**

	2009	2008
Cash provided by (used in)		
<b>OPERATING ACTIVITIES</b>		
Loss for the year	\$ (3,106,059)	\$ (1,842,934)
Adjustments not affecting cash:		
Amortization	29,083	38,157
Loss (gain) on sale of investments	(145)	2,514
Write-down of mineral properties and deferred exploration expenditures	1,973,936	847,219
Stock option compensation (Note 9)	541,600	427,125
Change in non-cash working capital items	(1,743,775)	(810,992)
	<u>(2,305,360)</u>	<u>(1,338,911)</u>
<b>FINANCING ACTIVITIES</b>		
Issue of common shares and warrants, net of costs	581,407	19,193,097
<b>INVESTING ACTIVITIES</b>		
Purchase of equipment	-	(35,006)
Mineral properties and deferred exploration expenditures	(4,420,661)	(3,548,490)
Government resource credits and recoveries Received	2,227,583	1,512,381
Purchase of marketable securities	(1,737,994)	(413,017)
Net proceeds from the sale and redemptions of marketable securities	1,493,363	313,820
	<u>(2,437,709)</u>	<u>(2,170,312)</u>
Change in cash and cash equivalents	(4,161,662)	15,683,874
Cash and cash equivalents, beginning of year	16,098,247	414,373
Cash and cash equivalents, end of year	<u>\$ 11,936,585</u>	<u>\$ 16,098,247</u>

**SUPPLEMENTARY INFORMATION (Note 11)**

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

# **EASTMAIN RESOURCES INC.**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

OCTOBER 31, 2009 AND OCTOBER 31, 2008

### **1. NATURE AND CONTINUANCE OF OPERATIONS**

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

The company is in the process of exploring its mineral properties and has not yet determined whether its properties contain reserves that are economically recoverable. The recuperation of the amounts spent for mineral properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of its properties, and upon future profitable production or proceeds from the disposition of the properties. The Company will periodically have to raise additional funds to continue operations and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future. To date the Company has not earned significant revenues and is considered a company in the exploration stage. Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and not compliant with regulatory requirements.

These financial statements have been prepared in accordance with accounting principles applicable to a going concern, which assumes that the Company will realize its assets and discharge its liabilities in the ordinary course of business. For the year ended October 31, 2009, the Company had a net loss of \$3,106,059, an accumulated deficit of \$11,964,708 and working capital of \$12,885,871. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts nor the classification of liabilities that might be necessary should the Company be unable to continue its existence.

The Company believes it has sufficient funds to carry out its business plan for a period greater than 12 months.

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

#### **a) Consolidation**

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). All material inter-company transactions and balances have been eliminated.

#### **b) Mineral Properties and Deferred Exploration Expenditures**

All direct costs associated with exploration properties are capitalized as incurred. If the property proceeds to development, these costs become part of pre-production and development costs of the mine. If a property is abandoned or continued exploration is not deemed appropriate in the foreseeable future, the related costs and expenditures are written off.

The Company's policy is to defer expenditures related to the acquisition, exploration and development of its exploration properties. If an exploration property is abandoned, continued exploration is not planned in the foreseeable future or when other events and changes in circumstances indicate that the carrying amount may not be recovered, the accumulated costs and expenditures are written down to the fair value. Deferred expenditures relating to exploration projects represent costs to be charged to operations in the future and do not necessarily reflect the present or future values of the particular projects.

Indications that the net capitalized carrying costs on the exploration properties will not be recovered would include:

- exploration activities have ceased;
- exploration results are not promising, such that exploration will not be planned for the foreseeable future;
- lease ownership rights expire, are cancelled or expropriated;
- sufficient funding is not expected to be available to complete the program; or
- other indications of impairment exist.

Development projects include those projects where development alternatives are in progress and/or studies have been completed suggesting that the properties are economically viable. The Company reviews the carrying amount of development projects when events or changes in circumstances suggest that the carrying amount may not be recoverable. A development project may no longer be recoverable when:

- determined to not be economically viable;
- ownership rights or other key requirements cannot be met;
- sufficient funding is not expected to be available to complete the project;
- other indications the project is not viable exist;

# **EASTMAIN RESOURCES INC.**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

OCTOBER 31, 2009 AND OCTOBER 31, 2008

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

#### **b) Mineral Properties and Deferred Exploration Expenditures (Continued)**

- If the estimated fair value of a property is deemed to be less than that of the carrying value of the property, a provision for impairment is recorded, based on discounted future cash-flow estimates. Fair value has been defined by the Company as estimated future cash flow, on an undiscounted basis.

When the carrying value of a development property is no longer recoverable, it is written down to fair value.

#### **c) Amortization**

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

#### **d) Financial Instruments**

All financial assets and liabilities are recognized when the entity becomes a party to the contract creating them.

All financial instruments are classified as one of the following: held-to-maturity, loans and receivables, held-for-trading, available-for-sale or other financial liabilities. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest method. Available-for-sale financial instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) and reported in shareholders' equity. Any financial instrument may be designated as held-for-trading upon initial recognition.

Transaction costs other than those related to financial instruments classified as held-for-trading, which are expensed as incurred, are added to the fair value of the financial asset or financial liability on initial recognition.

Comprehensive income (loss) is the overall change in the net assets of the Company for a period, other than changes attributable to transactions with shareholders. It is made up of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) consists of gains and losses affecting shareholders' equity that under GAAP are excluded from net income (loss).

#### **e) Cash and Cash Equivalents**

Cash equivalents, when acquired, include highly-liquid money-market funds which are valued at cost-plus accrued interest. The carrying amounts approximate fair-market value due to the short-term maturity and liquidity of these financial assets.

#### **f) Marketable Securities**

In accordance with recommendations of the CICA Handbook section 3855, "Financial Instruments – Recognition and Measurement", the Company has designated all of its marketable securities as available-for-sale financial instruments and reports them at fair-market value. The fair-market value of these publicly-traded securities is based on quoted market prices.

#### **g) Proportionate Cost Sharing Ventures**

The Company conducts some of its exploration activities on a proportionate share of ownership basis. These financial statements reflect only the expenditures made by the Company for its proportionate interest in such mineral property interests.

#### **h) Stock-based Compensation**

The Company has in effect a Stock Option Plan, which is described in Note 9. Stock-based compensation is accounted for at fair value as determined by the Black-Scholes option pricing model, using amounts believed to approximate the volatility of the trading price of the Company's stock, the expected lives of the awards of the stock-based compensation, the share price at the close of trading on the day immediately preceding the grant and the risk-free interest rate.

The fair value of all stock options granted is recorded as a charge to operations, or an addition to mineral properties and deferred exploration and development expenditures, as the stock options vest, and a credit to contributed surplus in shareholders' equity. Stock option expense is added to the properties in a consistent manner in which exploration wages have been added to the properties. Any consideration paid on the exercise of stock options is credited directly to share capital.

#### **i) Use of Estimates**

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period.

## **EASTMAIN RESOURCES INC.**

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 31, 2009 AND OCTOBER 31, 2008

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

### **i) Use of Estimates (continued)**

Significant areas requiring the use of management estimates relate to accrued liabilities, determining the fair value of financial instruments, determination of the assumptions used in the calculation of stock-based compensation, impairment of mineral property interests, rates for depletion and amortization, determination of environmental obligations and determination of the valuation allowance of future tax assets. While management believes the estimates are reasonable, actual results could differ from those estimates and could affect results of operations and cash flows.

### **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 mineral 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.

### **k) Loss Per Share**

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

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 year. 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 year. Determination of future income tax assets and liabilities is based on the differences between the financial reporting and tax bases of assets and liabilities, and is measured using the substantially enacted tax rates and laws that will be in effect when these 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) Exploration Tax Credits**

#### **Mining Duty Credits**

The company is entitled to refundable mining duty credits on eligible exploration expenditures incurred in Québec. The refundable mining duty credit may reach 15% of qualified charges upon which no resource tax credit has been claimed and 12% for those upon which the resource tax credit has been claimed. These credits are applied against the costs incurred when they are actually received.

#### **Tax Credits for Resource Expenditures**

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

### **n) Asset Retirement Obligations**

During the course of acquiring and exploring potential mineral properties, the Company must comply with 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.

### **o) Comparative Figures**

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

# **EASTMAIN RESOURCES INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
OCTOBER 31, 2009 AND OCTOBER 31, 2008

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

### **p) Adoption of Accounting Policies**

#### **Mining Exploration Costs**

In March of 2009, the Emerging Issues Committee (EIC") issued EIC-174, "Mining Exploration Costs", which provides guidance on capitalization of exploration costs related to mining properties. It also provides guidance for development and exploration stage entities that cannot estimate future cash flows from their properties in assessing whether impairment in such properties is required. EIC-174 also provides additional discussion on recognition for long-lived assets. EIC-174 is to be applied in interim and annual financial statements for periods ended on or after the date of issuance of EIC-174. The Company has adopted this recommendation retrospectively effective November 1, 2008 and determined that there was no impact on the financial statements.

#### **Going Concern**

Effective November 1, 2007, the Company adopted the CICA amended Handbook Section 1400, "General Standards of Financial Statement Presentation", which requires management to make an assessment of the company's ability to continue as a going concern. When financial statements are not on a going-concern basis, that fact shall be disclosed together with the basis on which the financial statements are prepared and the reason why the company is not considered a going concern. The Company's accounting policies were already compliant with the requirements on the amended section and there was no effect on the Company's financial statement disclosure, financial position, or results of operations.

### **q) Future Accounting Changes**

#### **Business Combinations and Consolidated Financial Statements**

In January 2009, the CICA issued Handbook Section 1582 "Business Combinations", Section 1601 "Consolidated Financial Statements" and section 1602 "Non-controlling interests". These sections replace the former Handbook Section 1581 "Business Combinations" and Section 1600 "Consolidated Financial Statements" and establish a new section for accounting for non-controlling interest in a subsidiary.

Sections 1582 and 1601 will require net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non-controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners. Acquisition costs are not part of the consideration and are not to be expensed when occurred. Section 1601 establishes standards for the preparation of consolidated financial statements.

These new sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. The Company is currently assessing the future impact of this new standard on its consolidated financial statements.

#### **International Financial Reporting Standards ("IFRS")**

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five-year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use the IFRS, replacing Canadian GAAP. The new standards will be effective for the Company for interim statements and financial statements beginning on November 1, 2011. Implementation of the change will require the restatement for comparative purposes of amounts for the year ended October 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, any impact on financial reporting due to the transition cannot be reasonably estimated at this time.

## **3. CAPITAL MANAGEMENT**

The Company's objectives in managing capital are to fund acquisition, exploration and development of its mineral properties and to meet its administrative and corporate activities to ensure that the Company continues as a going concern. In order to manage its capital requirements, management has put a planning and budget process in place to ensure that adequate funds are available to meet its strategic goals.

The Company is an exploration-stage company and as such is currently unable to self-finance its operations. The Company has historically relied on equity financings to raise sufficient funds to carry out its exploration and acquisition activities and to pay its administrative costs. The Company's primary source of funding comes from the issuance of capital stock. The Company does not use other sources of financing that require fixed payments of interest and principal, due to a lack of cash flow from current operations, and is therefore not exposed to any externally imposed capital requirements. The Company's capital is composed of shareholders' equity. As at October 31, 2009, the shareholders' equity was \$41,643,008 (\$43,429,076 as at October 31, 2008).

## **EASTMAIN RESOURCES INC.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

OCTOBER 31, 2009 AND OCTOBER 31, 2008

#### **4. FINANCIAL RISK FACTORS**

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

##### **a) Credit Risk**

The Company's credit risk is primarily attributable to cash and cash equivalents, marketable securities and receivables included in prepaid and sundry receivables. The Company has no significant concentration of credit risk arising from operations. Cash and cash equivalents are held with the Royal Bank of Canada, from which management believes the risk of loss to be minimal. Financial instruments included in prepaid and sundry receivables consist of other receivables. Management believes that the credit risk concentration with respect to financial instruments included in prepaid and sundry receivables is minimal.

##### **b) Liquidity Risk**

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at October 31, 2009, the Company had cash and cash equivalents of \$11,936,585 (October 31, 2008 - \$16,098,247) to settle current liabilities of \$1,256,523 (October 31, 2008 - \$1,911,673). During the year ended October 31, 2009, the Company raised net proceeds of \$581,407 through the issue of common shares, flow-through shares, and through the exercise of stock options. In management's opinion, there are sufficient funds to support the planned exploration program for the foreseeable future. All of the company's financial liabilities have contractual maturities of 30 days or less and are subject to normal trade terms. The Company is also committed to spending \$426,335 on flow-through expenditures by December 31, 2010. If the Company does not spend these funds, in compliance with the Government of Canada flow-through regulations, it may be subject to litigation from various counterparties. The Company intends to fulfill all flow-through commitments within the given time constraints.

##### **c) Market Risk**

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

###### **Interest Rate Risk**

The Company has cash balances, interest-bearing bank accounts and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade bonds, treasury bills, bankers' acceptances and money market funds. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

###### **Foreign Currency Risk**

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

###### **Price Risk**

The Company is exposed to price risk with respect to commodity and equity prices. Equity-price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity-price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of precious metals, individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company.

##### **d) Sensitivity Analysis**

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

**EASTMAIN RESOURCES INC.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
OCTOBER 31, 2009 AND OCTOBER 31, 2008

**4. FINANCIAL RISK FACTORS (Continued)**

**d) Sensitivity Analysis (Continued)**

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

	Assets (Liabilities)			
	October 31, 2009		October 31, 2008	
	Carried at cost (\$)	Carried at fair market value (\$)	Carried at cost (\$)	Carried at fair Market value (\$)
Cash and cash equivalents	11,931,450	5,135	16,093,737	4,510
Marketable securities	-	3,164,989	-	2,679,624
Prepaid expenses and sundry receivables	159,900	-	76,924	-
Accounts payable and accrued liabilities	(1,256,253)	-	(1,911,673)	-

Financial instruments included in prepaid and sundry receivables are other receivables of \$159,900 (2008 – \$76,924). Based on Management's knowledge and experience of the financial markets, the Company believes that the following movements are "reasonably possible" over a twelve-month period:

- i) Interest-bearing bank accounts are at a variable rate and investments maturing in less than one year are subject to new interest rates at the time of renewal, and therefore, may be impacted. Current short-term interest rates are less than 1.0%. Sensitivity to a plus or minus 1% (100 basis point) change in current interest rates would affect net loss by plus \$228,000 or minus \$55,000 respectively.
- ii) The Company has investments in public companies. Sensitivity to a plus or minus 50% change in the fair market value of those securities would affect comprehensive net loss by \$332,842.

**5. MARKETABLE SECURITIES**

**a) Marketable Securities**

Bonds and other securities are recorded at current market values in accordance with CICA Section 3855 on financial instruments. The Company has classified all of its investments in marketable securities, including the investments below, as available-for-sale in the current year. Investments in bonds bear interest at annual rates ranging from 0.215% to 5.75%, maturing between December 2, 2009 and November 19, 2037. Investments in public companies consist of shares in Dianor Resources Inc., which were acquired in exchange for geological data; shares of Threegold Resources Inc., received as a dividend from Dianor Resources Inc.; shares in Western Uranium Corporation received in exchange for prospecting permits and mineral claims; and shares in Western Lithium Corporation resulting from a spin-out of Western Uranium Corporation.

Marketable Securities

	2009	2008
GIC's and investment grade bonds	\$ 2,499,305	\$ 2,150,884
Dianor common shares	35,000	47,500
Three Gold common shares	1,424	1,238
Western Uranium Corporation common shares	412,157	432,511
Western Lithium Corporation common shares	217,103	47,491
	3,164,989	2,679,624
Less Current portion	1,669,758	755,361
	\$ 1,495,231	\$ 1,924,263

**b) Hedging Activities**

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

**6. EQUIPMENT**

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

	Cost	Accumulated Amortization	Net Book Value October 31, 2009	Net Book Value October 31, 2008
Computer equipment	\$ 30,981	\$ 25,631	\$ 5,350	\$ 7,643
Field equipment	251,619	189,111	62,508	89,298
	\$ 282,600	\$ 214,742	\$ 67,858	\$ 96,941

# EASTMAIN RESOURCES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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## 7. MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES

The mineral property acquisition costs and exploration expenditures are expensed as incurred. If a property is abandoned or continued exploration is not deemed appropriate in the foreseeable future, the related costs and expenditures are removed. The following is a breakdown of mineral properties and exploration expenditures by type for the Company's significant projects for the years ended October 31, 2009 and October 31, 2008.

FOR THE YEAR ENDED OCTOBER 31, 2009

Project	Drilling & Assays	Technical Surveys	Project Acquisition & Maintenance	Gross Expenditures	Grants	2009 Net Expenditures
Clearwater	\$ 3,285,907	\$ 196,529	\$ 47,894	\$ 3,530,330	\$ (1,033,555)	\$ 2,496,775
Eastmain Mine	78,095	385,953	23,721	487,769	(59,610)	428,159
Éléonore South	399,578	74,576	4,814	478,968	(266,774)	212,194
Xstrata JV	293,206	32,963	2,879	329,048	-	329,048
Azimut C	-	-	80,000	80,000	(5,494)	74,506
Ruby Hill	11,722	62,121	23,257	97,100	(635,979)	(538,879)
Reservoir	-	12,376	(221)	12,155	(8,173)	3,982
Radisson	32,702	309,935	18,400	361,037	(4,890)	356,147
Other	-	48,028	75,766	123,794	(213,108)	(89,314)
<b>Total</b>	<b>\$ 4,101,210</b>	<b>\$ 1,122,481</b>	<b>\$ 276,510</b>	<b>\$ 5,500,201</b>	<b>\$ (2,227,583)</b>	<b>\$ 3,272,618</b>

FOR THE YEAR ENDED OCTOBER 31, 2008

Project	Drilling & Assays	Technical Surveys	Project Acquisition & Maintenance	Gross Expenditures	Grants	2008 Net Expenditures
Clearwater	\$ 2,750,280	\$ 123,411	\$ 28	\$ 2,873,719	\$ (235,213)	\$ 2,638,506
Eastmain Mine	75,013	68,519	5,417	148,949	(21,378)	127,571
Éléonore South	94,554	71,204	96,927	262,685	(1,042,725)	(780,040)
Xstrata JV	3,953	45,593	38	49,584	-	49,584
Azimut C&D	1,284	12,895	44,955	59,134	(53,839)	5,295
Ruby Hill	1,686,708	75,288	11,399	1,773,395	(11,228)	1,762,167
Reservoir	-	16,330	26,414	42,744	(15,460)	27,284
Radisson	-	3,654	5,436	9,090	(26,202)	(17,112)
Other	6,456	32,490	65,494	104,440	(106,336)	(1,896)
<b>Total</b>	<b>\$ 4,618,248</b>	<b>\$ 449,384</b>	<b>\$ 256,108</b>	<b>\$ 5,323,740</b>	<b>\$ (1,512,381)</b>	<b>\$ 3,811,359</b>

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

FOR THE YEAR ENDED OCTOBER 31, 2009

Project	Balance October 31, 2008	2009 Net Expenditures	Write-Downs	Balance October 31, 2009
Clearwater	\$ 8,797,928	\$ 2,496,775	\$ -	\$ 11,294,703
Eastmain Mine	4,434,407	428,159	-	4,862,566
Éléonore South	2,917,114	212,194	-	3,129,308
Xstrata JV	3,586,993	329,048	(1,000,000)	2,916,041
Azimut C	652,885	74,506	-	727,391
Ruby Hill	2,341,526	(538,879)	-	1,802,647
Reservoir	372,539	3,982	-	376,521
Radisson	211,995	356,147	-	568,142
Other	2,677,284	(89,314)	(973,936)	1,614,034
	<b>\$ 25,992,671</b>	<b>\$ 3,272,618</b>	<b>\$(1,973,936)</b>	<b>\$ 27,291,353</b>

## EASTMAIN RESOURCES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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### 7. MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (Continued)

FOR THE YEAR ENDED OCTOBER 31, 2008

Project	Balance October 31, 2007	2008 Net Expenditures	Write-Downs	Balance October 31, 2008
Clearwater	\$ 6,159,422	\$ 2,638,506	\$ -	\$ 8,797,928
Eastmain Mine	4,306,836	127,571	-	4,434,407
Éléonore South	3,697,154	(780,040)	-	2,917,114
Xstrata JV	3,537,409	49,584	-	3,586,993
Azimet C&D	1,494,809	5,295	(847,219)	652,885
Ruby Hill	579,359	1,762,167	-	2,341,526
Reservoir	345,255	27,284	-	372,539
Radisson	229,107	(17,112)	-	211,995
Other	2,679,180	(1,896)	-	2,677,284
	\$ 23,028,531	\$ 3,811,359	\$ (847,219)	\$ 25,992,671

As at October 31, 2009 the Company has outstanding refund claims for mining duties and resource investment tax credits from the Ministry of Natural Resources (Québec) and Revenue Québec in respect to claims filed up to October 31, 2009, amounting to approximately \$2,575,000 (\$2,600,000 as at October 31, 2008). As of the financial statement date of each year respectively, the Company had not received confirmation of those refund amounts, therefore they have not been reflected in each of those year's financial statements.

#### a) Clearwater Project

Eastmain holds 100% interest in the Clearwater Project, located in Québec, subject to a 2% Net Smelter Return Royalty payable to SOQUEM Inc. 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 have expired. Eastmain has the option to purchase one-half of SOQUEM's 2% Net Smelter Return Royalty for \$1 million.

#### b) Eastmain Mine Project

The Eastmain Mine property was acquired in February 2007 from Campbell Resources Inc. through the Company's wholly-owned subsidiary, Eastmain Mines Inc. at a total consideration of \$4.3 million in cash, shares and purchase warrants. In July 2008, 500,000 purchase warrants were exercised generating proceeds to the Company of \$750,000. Campbell Resources Inc. retains a 2% net smelter return royalty ("NSR") on the mine property on production exceeding 250,000 ounces of gold. Eastmain Resources Inc. holds an option to purchase one-half of the NSR for \$1 million.

#### c) Éléonore South Project

On April 26, 2006, Eastmain, Azimet Exploration Inc. ("Azimet") and Les Mines Opinaca Ltée. ("Les Mines Opinaca") a wholly-owned subsidiary of Goldcorp Inc. formed a 3-way joint venture by combining Azimet's mining claims from the Opinaca C Block and selected mining claims from Les Mines Opinaca's Éléonore claim block to create the Éléonore South property. Eastmain satisfied the work requirements to earn a 1/3 interest in the Éléonore South project by completing \$4 million in work expenditures within the four-year period. In February 2008, Les Mines Opinaca elected to proceed with an option to acquire an additional 6.67% interest by funding all exploration expenditures up to the delivery of a bankable feasibility study. In January 2009, Les Mines Opinaca withdrew from its option to fund a bankable feasibility study in favour of continuing exploration as a 3-way joint venture, with Eastmain as the project operator. Under the terms of the agreement, Eastmain, as operator, charges management fees based on a percentage of exploration costs.

#### d) Xstrata JV, MegaTEM Project

Eastmain has acquired a 70% interest in the MegaTEM project by funding \$3.5 million in work expenditures. The option held by Xstrata PLC ("Xstrata"), to increase its interest in any base metal discovery to 50%, has expired. Deferred exploration expenditures on this project have been written down by \$1 million reflecting a diminished interest in base metals exploration as a result of currently lower commodity prices. The Company will retain its interest in these claims for the foreseeable future by undertaking the investment required to maintain its claims in good standing.

## **EASTMAIN RESOURCES INC.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

OCTOBER 31, 2009 AND OCTOBER 31, 2008

#### **7. MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (Continued)**

##### **e) Azimut C and D Projects**

The Company and Azimut completed the signing of two letters of agreement for two claim blocks held by Azimut, Opinaca C and Opinaca D, both located in the Éléonore district. According to the original agreements, Eastmain could acquire 50% interest in the properties during a five-year period and acquire an additional 15% interest upon delivery of a bankable feasibility study.

Under the terms of the agreement, Eastmain had the option to 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. In April 2006, Eastmain, Azimut and Les Mines Opinaca formed a 3-way joint venture by combining Azimut's mining claims from the Opinaca C Block and selected mining claims from Les Mines Opinaca's Éléonore claim block to create a new property, referred to as the Éléonore South project. The 3-way joint venture agreement, which supersedes the Azimut Opinaca Block C agreement, is also described in note 7c.

Eastmain also had the option to earn a 50% interest in the Opinaca D project from Azimut by making 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 \$900,000 in work expenditures was required to be completed prior to the third anniversary of the agreement. Eastmain made cash payments of \$55,000, issued 45,000 common shares of the Company to Azimut and satisfied its work expenditure commitments for the third year anniversary. In January 2009, the Company elected to withdraw from its option on the Opinaca D project with no further financial obligations. All of the deferred exploration costs related to the Opinaca D (Azimut D) project were written off in fiscal 2008.

##### **f) Ruby Hill Project**

In 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, issuing 150,000 common shares of the Company to Ruby Hill on signing of the agreement and issuing an additional 100,000 common shares to Ruby Hill prior to the second anniversary. 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.

In 2006, the Company acquired an undivided 50% interest in the Ruby Hill property 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 Exploration Inc. syndicate members. Subsequently, the Company's interest in Ruby Hill Exploration Inc. was exchanged for shares in Western Uranium Corporation.

##### **g) Reservoir Project**

The Company also holds 100% interest in the Reservoir property. Located in the James Bay region of Québec, Reservoir comprises 157 mineral cells (CDC's) covering approximately 8,146 hectares of the Eastmain River greenstone belt.

##### **h) Radisson Project**

The Company holds 100% interest in 207 mining cells (CDC's) comprising approximately 10,698 hectares of the La Grande greenstone belt in a project known as Radisson. A 2% Net Smelter Return Royalty payable to Franco-Nevada Corporation is assigned to eight of the 207 CDC's.

##### **i) Other**

###### **i) 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. Eastmain is the project operator. Should Barrick not elect to participate in any given exploration program it would dilute its interest.

###### **ii) Dyna, Lac Hudson, Lac Lessard, Lidge and Road King Projects**

The Company holds 100% interest in the Dyna, Lac Hudson, Lac Lessard, Lidge and Road King properties, all of which are located in the James Bay region of Québec.

###### **iii) Ontario Projects – Akweskwa Project**

The Akweskwa Project, located near Timmins, Ontario is a 752-hectare property which 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

# EASTMAIN RESOURCES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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## 7. MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (Continued)

### iii) Ontario Projects – Akweskwa Project (Continued)

claims and 100% interest in the Bradbrook claims. These claims are subject to a Net Smelter Return Royalty of up to 2.5%.

### iv) 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. The Company is not contemplating active exploration on these claims in the foreseeable future, as such, the deferred exploration expenditures have been written off.

### v) 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 November 2008, the Company had received all 500,000 Dianor shares. Eastmain holds an 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. All deferred exploration expenditures related to this project have been written-off.

## 8. CAPITAL STOCK

	Shares	Amount
Issued and outstanding, October 31, 2007	68,399,418	\$ 28,411,282
Private placement (i)	150,000	150,000
Cost of issue (i)		(4,250)
Private placement (ii)	11,447,000	16,025,800
Cost of issue (ii)		(1,094,653)
Issue of warrants – Black-Scholes valuation (ii)		(4,681,823)
Exercise of warrants – cash (iii)	5,183,000	3,793,950
Exercise of warrants – Black-Scholes valuation (iii)		756,963
Exercise of stock options	575,000	322,250
Exercise of stock options – Black-Scholes valuation		206,775
Flow-through tax effect (iv)		(53,700)
Issued and outstanding, October 31, 2008	85,754,418	43,832,594
Private placement (v)	127,500	127,500
Cost of issue (v)		(4,593)
Exercise of stock options	750,000	458,500
Exercise of stock options – Black-Scholes valuation		325,250
Flow-through tax effect (iv)		(43,605)
Issued and outstanding, October 31, 2009	86,631,918	\$ 44,695,646

- i) In December 2007, the Company issued 150,000 flow-through shares in a private placement to directors, officers, employees and other service providers at \$1.00 per share for gross proceeds of \$150,000. Issue costs in connection with the private placement were \$4,250.
- ii) In July 2008, 11,447,000 units were issued in a private placement at a price of \$1.40 per unit for gross proceeds of \$16,025,800. Each unit consisted of one common share and one-half of one purchase warrant. Each whole purchase warrant entitles the holder to purchase one common share at a price of \$2.00 until July 3, 2010. The Black-Scholes value associated with these warrants was \$3,754,616. In connection with this placement, a brokerage commission of 6% of gross proceeds was paid and 1,144,700 broker warrants were issued. Each broker warrant entitles the holder to purchase one common share at a price of \$1.41 until July 3, 2010. The Black-Scholes value associated with the broker warrants was \$927,207.
- iii) During the year ended October 31, 2008, 5,183,000 share-purchase warrants were exercised at an average price of \$0.73. The Black-Scholes value associated with the issue of these warrants was \$756,963.
- iv) The Company has adopted EIC-146, whereby the Company recognizes the future tax liability and reduces shareholders' equity accordingly, on the date that the Company renounces the tax credits associated with expenditures from flow-through proceeds. The future income tax liability can be offset against unrecognized future income tax assets, if certain criteria are met. As a result, the Company has recorded \$43,605 as a future income tax liability during the fiscal year (\$53,700 – for the year ended October 31, 2008).

**EASTMAIN RESOURCES INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**8. CAPITAL STOCK (Continued)**

- v) In December 2008, the Company issued 127,500 flow-through shares in a private placement to directors, officers, employees and other service providers at \$1.00 per share for gross proceeds of \$127,500. Issue costs in connection with the private placement were \$4,593.

**9. STOCK OPTIONS**

The Company has a stock option plan available to directors, officers, employees and other service providers of the Company. Under the plan, the Company may issue options, up to a maximum of 10% of the common shares outstanding, at prices not less than the market price of the common shares at the close of the trading day on the day immediately preceding the date of the grant. The number of common shares reserved for issuance to any one person may not exceed 5% of the issued and outstanding common shares at the date of such grant. Options granted must be exercised no later than five years from date of grant or such lesser period as determined by the Company's Board of Directors. Vesting of options is made at the discretion of the Board of Directors at the time the options are granted. During 2009 and 2008, all options granted vested at the date they were granted. The Company applies the fair-value method of accounting for all stock-based compensation awards. Accordingly, \$541,600 was recorded as stock option compensation expense and contributed surplus, for the 950,000 options granted during the fiscal year (\$427,125 for 925,000 options granted in fiscal 2008).

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>2009</u>	<u>2008</u>
Dividend yield	0	0
Expected volatility	50-51%	53-56%
Risk free interest rate	1.93-2.82%	2.98-3.23%
Expected term – years	5	5

	Number of Options		Weighted Average Exercise Price	
	2009	2008	2009	2008
Outstanding, beginning of year	4,800,000	4,500,000	\$ 0.71	\$ 0.64
Granted during year	950,000	925,000	\$ 1.22	\$ 0.94
Cancelled or expired during year	(200,000)	(50,000)	\$ 0.77	\$ 0.75
Exercised during year	(750,000)	(575,000)	\$ 0.61	\$ 0.56
Outstanding, end of year	4,800,000	4,800,000	\$ 0.82	\$ 0.71

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

2009	\$ 541,600
2008	\$ 427,125

As at October 31, 2009, the following options were outstanding and exercisable:

Exercise Price Range	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable
\$0.01 - \$0.50	750,000	0.47 years	\$0.44	750,000
\$0.51 - \$1.00	3,200,000	1.93 years	\$0.80	3,200,000
\$1.01 - \$1.50	850,000	4.61 years	\$1.25	850,000

# EASTMAIN RESOURCES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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## 9. STOCK OPTIONS (Continued)

Stock Options outstanding and exercisable as at October 31, 2009

Expiry date	Black-Scholes	Number of	Exercise
	Value (\$)	Options	Price (\$)
November, 2009	45,400	100,000	0.64
February, 2010	30,500	100,000	0.48
April, 2010	167,750	550,000	0.43
June, 2010	29,800	100,000	0.42
November, 2010	28,700	100,000	0.52
January, 2011	358,200	900,000	0.72
April, 2012	40,500	100,000	0.75
June, 2012	312,375	975,000	0.78
January, 2013	40,200	100,000	0.79
September, 2013	386,925	825,000	0.96
April, 2014	43,500	100,000	0.96
June, 2014	498,100	850,000	1.25
	1,981,950	4,800,000	0.82

## 10. WARRANTS

	Number of Warrants		Weighted Average Exercise Price	
	2009	2008	2009	2008
Outstanding, beginning of year	6,868,200	5,708,000	\$ 1.90	\$ 0.76
Granted during year	-	6,868,200	\$ -	\$ 1.90
Cancelled or expired during year	-	(525,000)	\$ -	\$ 0.98
Exercised during year	-	(5,183,000)	\$ -	\$ 0.73
Outstanding, end of year	6,868,200	6,868,200	\$ 1.90	\$ 1.90

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:

	2009	2008
Dividend yield	-	0
Expected volatility	-	84%
Risk free interest rate	-	3.21%
Expected term – years	-	2

Warrants outstanding as at October 31, 2009 and 2008

Expiry date	Black-Scholes	Number of	Exercise
	Value (\$)	Warrants	Price (\$)
July, 2010	3,754,616	5,723,500	2.00
July, 2010	927,207	1,144,700	1.41
	4,681,823	6,868,200	1.90

## 11. SUPPLEMENTARY INFORMATION

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

	2009	2008
Balance, beginning of year	\$ 4,248,959	\$ 3,995,084
Options granted	541,600	427,125
Options exercised	(325,250)	(206,775)
Warrants expired	-	33,525
Balance, end of year	\$ 4,465,309	\$ 4,248,959

**EASTMAIN RESOURCES INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
OCTOBER 31, 2009 AND OCTOBER 31, 2008**11. SUPPLEMENTARY INFORMATION (Continued)**

Changes in non-cash working capital items:

	2009	2008
Prepaid and sundry receivables (increase)	\$ (9,085)	\$ (195,775)
Accounts payable and accrued liabilities (decrease)	(1,734,690)	(615,217)
	\$ (1,743,775)	\$ (810,992)

Composition of cash and cash equivalents:

	2009	2008
Cash	\$ 11,706,480	\$ 16,098,247
Cash equivalents	230,105	-
	\$ 11,936,585	\$ 16,098,247

	2009	2008
Cash paid for interest	\$ -	\$ -
Cash paid for income tax	\$ -	\$ -
Non-cash financing and investing activity issuance of common shares for exploration properties	\$ -	\$ -
Receipt of common shares for exploration information	\$ -	\$ 7,600

**12. RELATED PARTY TRANSACTIONS**

	2009	2008
Management wages paid to a director	\$ 187,500	\$ 168,750
Premises rent paid to a director	\$ 12,000	\$ 12,000
Net accounts payable to (receivable from) a director	\$ 12,248	\$ (21,500)
Geological and administrative fees and out-of-pocket expenditures to a private company controlled by the exploration manager	\$ 157,264	\$ 143,333
Net accounts payable to (receivable from) the exploration manager	\$ 31,185	\$ (22,512)

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

**13. ACCUMULATED OTHER COMPREHENSIVE LOSS**

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

**14. 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 33.2% (2008 - 34.2%) to loss before income taxes, as shown in the following table:

	2009	2008
Expected income tax recovery	\$ 1,031,212	\$ 630,283
Non-deductible stock based compensation	(179,811)	(146,077)
Share issue expenses deductible	107,246	138,226
Non-deductible mineral exploration expenses and gains	(655,299)	(289,748)
Other	(11,122)	(69,372)
Unrecognized losses	(335,831)	(317,012)
Tax benefits renounced to flow-through shareholders	43,605	53,700
Future income tax recovery	\$ -	\$ -

## **EASTMAIN RESOURCES INC.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

OCTOBER 31, 2009 AND OCTOBER 31, 2008

#### **14. INCOME TAXES (Continued)**

##### **Non-capital loss carry forwards**

The Company has reported non-capital losses of approximately \$4,581,430 for income tax purposes that are available to reduce income tax in future years. The potential benefit of these losses has not been recognized in these financial statements and will expire, if unused, at the end of the following fiscal years:

2010	\$	398,785
2014		352,194
2015		608,924
2016		731,676
2027		682,717
2028		926,936
2029		880,198
	\$	<u>4,581,430</u>

#### **15. SUBSEQUENT EVENTS**

On November 3, 2009, 100,000 stock options were exercised for proceeds of \$64,000. The Black-Scholes value associated with these options was \$45,400.

On December 29, 2009 the Corporation completed a non-brokered private placement consisting of 243,620 flow-through shares at a price of \$1.75 per share for aggregate gross proceeds of \$426,335. The shares are subject to a hold period of four months. In accordance with income tax legislation, the Company renounced \$426,335 in resource expenditure tax deductions on December 31, 2009 for activities funded by flow-through share arrangements as described in note 2(j). The transaction will result in a recovery of future income taxes and a corresponding reduction of share capital of \$141,543 in the first quarter of 2009-2010.