

**FORM 51-901F**  
**ANNUAL REPORT**

**Incorporated as part of: SCHEDULE A**

***ISSUER DETAILS:***

**Finlay Minerals Ltd.**  
Ste 912 - 510 West Hastings Street  
Vancouver, BC V6B 1L8

Telephone: (604) 684-3099  
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Contact Person:	James Tutton
Contact's Position:	Director
Contact Telephone Number:	(604) 684-3099
For the Year Ended:	December 31, 2003
Date of Report:	March 26, 2004

***CERTIFICATE:***

The schedule(s) required to complete this quarterly report are attached and the disclosure contained therein has been approved by the Board of Directors. A copy of the quarterly report will be provided to any shareholder who requests it. Please note this form is incorporated as part of both the required filing of Schedule A and Schedules B & C.

Signed:	<i>"Robert F. Brown"</i>
Director Full Name:	Robert F. Brown
Date Signed:	March 26, 2004

Signed:	<i>"James Tutton"</i>
Director Full Name:	James Tutton
Date Signed:	March 26, 2004

**FINLAY MINERALS LTD.**

FINANCIAL STATEMENTS

December 31, 2003

*and*

December 31, 2002

# Finlay Minerals Ltd

## **PRESIDENTS LETTER FOR 2003 ANNUAL GENERAL MEETING**

The year 2003 closes with several significant milestones being met by Finlay Minerals Ltd. Most important has been the public listing of the company by an initial public offering in August 2002. Second has been the continued advancement of its exploration success on the Pil North targets.

With the diligent effort of management and contractors alike an understanding of Pil North as an enormous, leached, porphyry copper-gold target is emerging. I am extremely excited by the initial five drill targets on the Pil North (East Zone, North East, North West, Milky Creek and Central) along with the Pil South and Atty Gossan drill targets.

With the continued advancement of the three-year gold bull market, partial re-allocation of assets on a global sense to tangibles (commodities), I am of the opinion that raising the monies necessary to drill the four targets, and further develop other targets, will be met. The management team of John Barakso, Jim Tutton and myself are working with the utmost effort to convert drill targets into copper-gold ore bodies.

Thank you for your support.

Sincerely,

*"Robert F. Brown"*

Robert F. Brown, P. Eng.

**DE VISSER GRAY**  
**CHARTERED ACCOUNTANTS**

401 - 905 West Pender Street  
Vancouver, BC Canada  
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**AUDITORS' REPORT**

To the Shareholders of Finlay Minerals Ltd.

We have audited the balance sheets of Finlay Minerals Ltd. as at December 31, 2003 and 2002 and the statements of operations and deficit, cash flows and deferred mineral property costs for the years then ended. 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 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 financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles. As required by the Company Act (British Columbia), we report that, in our opinion, these principles have been applied on a consistent basis.

*"De Visser Gray"*

**CHARTERED ACCOUNTANTS**

Vancouver, British Columbia  
March 26, 2004

**FINLAY MINERALS LTD.**Balance Sheets  
As at December 31,

	2003	2002
	\$	\$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and short-term deposits	2,232,448	268,379
Amounts receivable	40,472	27,672
Prepays	1,100	-
	<u>2,274,020</u>	<u>296,051</u>
Deferred mineral property costs (note 3)	1,214,789	575,939
Reclamation deposit (note 3)	5,000	5,000
	<u>3,493,809</u>	<u>876,990</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	155,651	27,165
Due to related parties (note 5)	23,949	-
	<u>179,600</u>	<u>27,165</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 4(a))	3,476,413	957,852
Contributed surplus (note 4(b))	46,108	3,005
Deficit	(208,312)	(111,032)
	<u>3,314,209</u>	<u>849,825</u>
	<u>3,493,809</u>	<u>876,990</u>

Approved by the Board of Directors:

*"Robert F. Brown"*

Director

*"James Tutton"*

Director

**FINLAY MINERALS LTD.**  
**Statements of Operations and Deficit**  
**For the Years Ended December 31,**

	2003	2002
	\$	\$
<b>Expenses</b>		
Consulting	6,200	650
Filing and transfer agent	12,652	9,881
General exploration	1,304	13,289
Interest and bank charges	7,563	428
Interest income	(6,498)	(1,451)
Office and miscellaneous	7,030	2,770
Professional fees	19,926	39,869
Rent	6,000	1,800
Stock-option compensation	<u>43,103</u>	<u>3,005</u>
<b>Net loss for the year</b>	<b>(97,280)</b>	<b>(70,241)</b>
<b>Deficit - beginning of year</b>	<u><b>(111,032)</b></u>	<u><b>(40,791)</b></u>
<b>Deficit - end of year</b>	<u><u><b>(208,312)</b></u></u>	<u><u><b>(111,032)</b></u></u>
<b>Loss per share (note 6)</b>	<u><u><b>\$ (0.01)</b></u></u>	<u><u><b>\$ (0.01)</b></u></u>
<b>Weighted-average number of common shares outstanding</b>	<u><u><b>15,631,338</b></u></u>	<u><u><b>13,624,523</b></u></u>

See notes to financial statements

**FINLAY MINERALS LTD.**  
 Statements of Cash Flows  
 For the Years Ended December 31,

	2003	2002
	\$	\$
<b>Cash Provided by (Used for):</b>		
<b>Operating Activities</b>		
Net loss for the year	(97,280)	(70,241)
Item not affecting cash: stock-option compensation	43,103	3,005
	<u>(54,177)</u>	<u>(67,236)</u>
Changes in non-cash working capital components:		
Amounts receivable	(12,800)	(18,927)
Prepays	(1,100)	-
Accounts payable and accrued liabilities	128,486	16,302
Due to related parties	23,949	(474)
	<u>84,358</u>	<u>(70,335)</u>
<b>Investing Activities</b>		
Mineral property costs	(638,850)	(251,195)
Reclamation deposit	-	(5,000)
	<u>(638,850)</u>	<u>(256,195)</u>
<b>Financing Activities*</b>		
Cash from shares issued	2,715,000	500,000
Share issue costs	(196,439)	(94,651)
	<u>2,518,561</u>	<u>405,349</u>
<b>Net cash provided during the year</b>	1,964,069	78,819
<b>Cash and short-term deposits - beginning of year</b>	<u>268,379</u>	<u>189,560</u>
<b>Cash and short-term deposits - end of year</b>	<u><u>2,232,448</u></u>	<u><u>268,379</u></u>

\* *Supplemental Disclosure of Non-Cash Financing Activity*

*During the year ended December 31, 2002, the Company issued 50,000 shares at value of \$12,500 for finance fees.*

**FINLAY MINERALS LTD.**  
Statement of Deferred Mineral Property Costs  
For the Years Ended December 31,

	2001	Net Expenditures	2002	Net Expenditures	2003
	\$	\$	\$	\$	\$
<b>BRITISH COLUMBIA</b>					
<b>Atty and Pil Claims</b>					
Acquisition	20,685	11,608	32,293	35,822	68,115
Assay, IP and linecutting	57,388	91,103	148,491	54,942	203,433
Camp accommodations and travel	98,357	82,537	180,894	208,296	389,190
Equipment rentals	13,625	9,087	22,712	14,128	36,840
Geological, drilling and geophysical	131,262	49,248	180,510	323,118	503,628
	<u>321,317</u>	<u>243,583</u>	<u>564,900</u>	<u>636,306</u>	<u>1,201,206</u>
<b>Gold I, II and Spruce Claims</b>					
Acquisition	1	-	1	400	401
Assay, IP and linecutting	1,173	1,496	2,669	-	2,669
Camp accommodations and travel	1,146	3,716	4,862	576	5,438
Geological and geophysical	1,107	2,400	3,507	1,568	5,075
	<u>3,427</u>	<u>7,612</u>	<u>11,039</u>	<u>2,544</u>	<u>13,583</u>
Total Deferred Mineral Property Costs	<u><u>324,744</u></u>	<u><u>251,195</u></u>	<u><u>575,939</u></u>	<u><u>638,850</u></u>	<u><u>1,214,789</u></u>

See notes to financial statements

**FINLAY MINERALS LTD.**  
Notes to the Financial Statements  
December 31, 2003 and 2002

**1. NATURE AND CONTINUANCE OF OPERATIONS**

The Company was incorporated on July 26, 1999 under the Company Act (British Columbia) and commenced trading on the TSX Venture Exchange on August 15, 2002. The Company's principal business activity is the acquisition and exploration of resource properties. At the date of these financial statements, the Company has not been able to identify a known body of commercial grade ore on any of its properties and the ability of the Company to realize the costs it has incurred to date on these properties is dependent upon the Company being able to identify a commercial ore body, to finance its exploration and development costs and to resolve any environmental, regulatory, or other constraints which may hinder the successful development of the property. These activities are conducted primarily in British Columbia.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Mineral Properties and Deferred Costs**

The cost of mineral properties and their related direct exploration costs are deferred until the properties are placed into production, sold or abandoned. These deferred costs will be amortized on the unit-of-production basis over the estimated useful life of the properties following the commencement of production, or written-off if the properties are sold, allowed to lapse or abandoned.

Cost includes any cash consideration and the fair market value of shares issued on the acquisition of property interests. Properties acquired under option agreements, whereby payments are made at the sole discretion of the Company, are recorded in the accounts when the payments are made. The recorded amounts of property acquisition costs and their related deferred exploration costs represent actual expenditures incurred and are not intended to reflect present or future values.

The Company reviews capitalized costs on its property interests on a periodic basis and will recognize an impairment in value based upon current exploration results and upon management's assessment of the future probability of profitable revenues from the property or from the sale of the property. Management's assessment of the property's estimated current fair market value is also based upon a review of other property transactions that have occurred in the same geographic area as that of the property under review.

Administrative costs are expensed as incurred.

**Accounting Principles and Use of Estimates**

These financial statements are prepared in conformity with Canadian generally accepted accounting principles the application of which requires management to make informed judgements and estimates. Such judgements and estimates affect the reported amounts of assets and liabilities at the date of the financial statements, and the expenses incurred during the fiscal year. Specific areas requiring the use of management estimates relate to the continuing viability of mineral property interests, and the determination of reclamation obligations and stock-based compensation. These estimates are subjective in nature and involve uncertainties in significant matters of judgement and, may be imprecise. Changes in assumption could significantly affect these estimates and actual results may differ from them.

**Financial Instruments and Financial Risk**

The Company's financial instruments consist of current assets and current liabilities, the fair values of which approximate their carrying amounts due to the short-term nature of these instruments.

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

### **Share Capital**

Common shares issued for non-monetary consideration are recorded at their fair market value based upon the lower of the trading price of the Company's shares on the TSX Venture Exchange on the date of the agreement to issue the shares or the date of share issuance. Flow-through shares are common shares which are issued under an agreement that, as provided for in the Canadian Income Tax Act, the Company transfers to the purchaser of the shares the benefits of the exploration expenditures that are financed by the proceeds of the share issue.

### **Stock-Based Compensation**

Effective January 1, 2003, the Company adopted on a prospective basis the Recommendations of the Canadian Institute of Chartered Accountants for stock-based compensation. Under the new standard, payments to non-employees and to employees that are direct awards of stock, are accounted for using the fair value method and are included in operations, with an offset to contributed surplus. During the comparative fiscal year, no compensation expense was recorded for stock-based employee compensation awards; however, pro-forma disclosure of net income and earnings per share, had the Company used the fair value method to measure these awards, was presented.

### **Income Taxes**

The Company accounts for future tax assets and liabilities in accordance with the liability method whereby tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be settled. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized. Such an allowance applies fully to all potential income tax assets of the Company.

### **Comparative Figures**

Certain of the prior years' comparative figures have been reclassified in conformity with the current year's presentation.

## 3. MINERAL PROPERTIES

### **Toodoggone Region Omineca Mining Division British Columbia**

#### **Atty and Pil Claims**

The Company has a 100% interest in these mineral claim units, 376 of which were acquired from a private company controlled by a director of the Company, in consideration for the issuance to that private company of 6,000,000 shares (post subdivision) and a 3% NSR royalty. The Company is also obligated to issue a further 2,000,000 shares to this private company if the property is put into commercial production, and may also, prior to that date, purchase a 1½% NSR (½ of the 3% NSR) for \$2,000,000.

#### **Gold I, II and Spruce Claims**

The Company has a 100% interest in these mineral claim units, eight of which were acquired from a private company controlled by a director of the Company, in consideration for the issuance to that private company of 2,000,000 shares (post subdivision) and a 3% NSR royalty. The Company is also obligated to issue a further 2,000,000 shares if the property is put into commercial production, and may also, prior to that date, purchase a 1½% NSR (½ of the 3% NSR) for \$2,000,000.

#### 4. SHARE CAPITAL

- a) Authorized share capital consists of: 200,000,000 common shares without par value.  
 100,000,000 Class A preference shares  
 100,000,000 Class B preference shares

##### Common Shares Issued

	Price Per Share \$	Number of shares	Proceeds \$
Issued at December 31, 2001		6,415,001	552,503
Stock split (2:1)		6,415,001	-
		<u><sup>(1)</sup>12,830,002</u>	<u>552,503</u>
Initial public offering	0.25	2,000,000	<sup>(2)</sup> 392,849
Corporate finance fee	0.25	50,000	12,500
Issued at December 31, 2002		<u>14,880,002</u>	<u>957,852</u>
Private placement (flow-through shares)	0.35	1,751,429	<sup>(3)</sup> 603,838
Private placement	0.34	750,000	<sup>(4)</sup> 228,700
Private placement (flow-through shares)	0.40	4,617,500	<sup>(5)</sup> 1,686,023
Issued at December 31, 2003		<u><u>21,998,931</u></u>	<u><u>3,476,413</u></u>

<sup>(1)</sup> 8,514,000 shares post-consolidation are held in escrow and are to be released in stages over three years commencing August 15, 2005.

<sup>(2)</sup> Net of share issue costs of \$107,151.

<sup>(3)</sup> Net of share issue costs of \$9,162.

<sup>(4)</sup> Net of share issue costs of \$26,300.

<sup>(5)</sup> Net of share issue costs of \$160,977.

- b) Summary of stock options outstanding at December 31, 2003:

	Weighted- Average Exercise Price \$	Number Outstanding	Weighted-Average Remaining Contractual Life (Years)
Balance - December 31, 2002	0.25	475,000	4.6
Granted	0.35	<u>525,000</u>	
Balance - December 31, 2003	0.30	<u><u>1,000,000</u></u>	4.1

The Company accounts for the stock options granted to directors and employees using the fair value method and has estimated a compensation benefit of \$43,103 for the fiscal year ended December 31, 2003, using the Black-Scholes Option Pricing Model based on the following assumptions: a risk free interest rate 5%; expected life of 5 years; an expected volatility of 27%; and no expectation for the payment of dividends.

If the Company had accounted for the stock options granted to directors and employees using the fair value method for the year ended December 31, 2002, the pro-forma effect on net loss and loss per share would be as follows:

Net loss for the year	
As reported	\$ 70,241
Compensation expense	<u>54,090</u>
Pro-forma net loss for the year	<u><u>\$ 124,331</u></u>
Loss per share	
As reported and pro-forma	<u><u>\$ 0.01</u></u>

#### 4. **SHARE CAPITAL** (continued)

The fair value of options included in the pro-forma information above has been estimated using the Black-Scholes Option Pricing Model based on the following assumptions: a risk-free interest of 4.5%; an expected life of 5 years; an expected volatility of 40%; and no expectation for the payment of dividends.

Option pricing models require the input of highly subjective assumptions, particularly as to the expected price volatility of the stock. Changes in these assumptions can materially affect the fair value estimate and therefore it is management's view that the existing models do not necessarily provide a single reliable measure of the fair value of the Company's stock option grants.

#### c) Warrants

Summary of warrants outstanding at December 31, 2003:

	Weighted-Average Exercise Price	Number Outstanding	Weighted-Average Remaining Contractual Life (Years)
	\$		
Balance - December 31, 2002	0.35	400,000	0.6
Granted	0.48	4,824,729	
Expired	0.35	(400,000)	
Balance - December 31, 2003	0.48	<u>4,824,729</u>	0.9

#### 5. **RELATED PARTY TRANSACTIONS**

Directors and private companies controlled by directors of the Company are paid consulting fees at the rate of \$300-\$600 per day. These fees were paid in the normal course of operations and are measured at their fair value as determined by management. During fiscal 2003, the Company incurred to these related parties \$38,464 (2002 - \$25,489) for property exploration costs and \$15,060 (2002 - \$3,763) for rental, consulting and office services and two private companies controlled by directors are owed \$6,020 at December 31, 2003. The Company's solicitor is a director of the Company and charged \$36,492 in legal and share issue costs during 2003 (2002 - \$17,500) and is owed \$17,929 at December 31, 2003.

#### 6. **LOSS PER SHARE**

Loss per share has been calculated using the weighted-average number of common shares outstanding during the year. Diluted loss per share is not presented as it is anti-dilutive to the loss per share calculations.

#### 7. **INCOME TAXES**

The Company has non-capital losses of approximately \$200,000, expiring between 2009 and 2010, that are available to reduce taxable income in future years and has resource and other tax pools aggregating approximately \$131,000 at December 31, 2003. The potential benefit resulting from the future application of these amounts has not been reflected in the financial statements as it is not likely that they will be utilized.

#### 8. **COMMITMENTS**

At December 31, 2003, the Company is committed on a best efforts basis to incur approximately \$1,859,000 (2002 - approximately \$253,000) in eligible exploration expenditures prior to December 31, 2004 in order to complete obligations entered into under flow-through share purchase agreements. The obligation at the comparative year end was completed during the current year.

## 9. SUBSEQUENT EVENTS

- The Company arranged a brokered private placement of up to one million units at a price of \$0.50 per unit, each unit comprising one common share and one half-share purchase warrant, each whole warrant is exercisable at \$0.60 to acquire one common share within a year of closing.
- The Company also arranged a brokered private placement of up to one million flow-through common shares at \$0.50 per common share.
- The Company's agent will receive a cash commission equal to 7.5% of the gross proceeds raised under these financings and agent's units equal to 10% of the number of flow-through shares and units sold in the private placement offerings at an exercise price of \$0.60 per agent's unit. The Company will also pay the agent a corporate finance fee in the amount of 50,000 units, each unit consisting of one non-flow through common share and one half share purchase warrant. Each whole corporate finance warrant is exercisable for one non-flow through common share at a price of \$0.60 per share for one year.

These financings were each subject to closing and regulatory consent at the date of the Auditors' Report.