

**FINLAY MINERALS LTD.**

**FINANCIAL STATEMENTS**

December 31, 2004

*and*

December 31, 2003

# Finlay Minerals Ltd

## **PRESIDENTS LETTER FOR 2004 ANNUAL GENERAL MEETING**

The year 2004 closes with several significant mineral discoveries being made on the Pil North property. The North West zone is a new porphyry copper discovery. The zone is open to the east and south and will be further drill tested in 2005. Flanking the west side of the North West and Milky Creek zones is the Silver Ridge zone. It is a newly recognized bonanza grade silver target discovered by the drilling of PN04-06 (1,235g/t silver over 2.4m). The Silver Ridge zone will be trenched and further drill tested in 2005.

Over-all \$1.9 million was spent during 2004 on the Pil North, Atty and Gold properties. The company is in good financial shape to complete the planned \$500,000 exploration program for 2005.

The continuing interest in precious and base metals brought about by continued demand from Far East countries and associated strong metal prices, leads me to believe that 2005 exploration success at Pil North will enable the company to raise sufficient funds for an appropriate level of future exploration.

The management team of John Barakso, Jim Tutton, Warner Gruenwald and I are working with the utmost diligence to convert drill targets into mineral deposits.

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, 2004 and 2003 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, 2004 and 2003 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"De Visser Gray"

**CHARTERED ACCOUNTANTS**

Vancouver, British Columbia  
April 15, 2005

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

	2004	2003
	\$	\$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and short-term deposits	918,215	2,232,448
GST receivable	130,970	40,472
Amounts receivable	8,019	-
Prepaid expenses	-	1,100
	<u>1,057,204</u>	<u>2,274,020</u>
Reclamation deposit	30,000	5,000
Deferred mineral property costs (note 3)	3,132,588	1,214,789
	<u>4,219,792</u>	<u>3,493,809</u>

**LIABILITIES**

<b>Current liabilities</b>		
Accounts payable	76,886	155,651
Due to related parties (note 5)	-	23,949
	<u>76,886</u>	<u>179,600</u>

**SHAREHOLDERS' EQUITY**

Share capital (note 4(a))	4,406,850	3,476,413
Contributed surplus (note 4(b))	145,388	46,108
Deficit	(409,332)	(208,312)
	<u>4,142,906</u>	<u>3,314,209</u>
	<u>4,219,792</u>	<u>3,493,809</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,**

	2004	2003
	\$	\$
<b>Expenses</b>		
Consulting	4,700	6,200
Filing and transfer agent	15,060	12,652
Finder's fee	25,000	-
General exploration	-	1,304
Interest and bank charges	44,850	7,563
Interest income	(36,659)	(6,498)
Office and miscellaneous	8,107	4,203
Professional fees	16,074	19,926
Rent	5,500	6,000
Shareholder communication	10,112	2,827
Stock-option compensation	99,280	43,103
Travel	8,996	-
	<hr/>	<hr/>
<b>Net loss for the year</b>	(201,020)	(97,280)
<b>Deficit - beginning of year</b>	<hr/> (208,312)	<hr/> (111,032)
<b>Deficit - end of year</b>	<hr/> <hr/> (409,332)	<hr/> <hr/> (208,312)
<b>Loss per share (note 6)</b>	<hr/> <hr/> \$	<hr/> <hr/> \$
<b>Weighted-average number of common shares outstanding</b>	<hr/> <hr/> 23,509,880	<hr/> <hr/> 15,631,338

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

	2004	2003
	\$	\$
<b>Cash Provided by (Used for):</b>		
<b>Operating Activities</b>		
Net loss for the year	(201,020)	(97,280)
Adjustment for items not affecting cash:		
Stock-based compensation	99,280	43,103
Shares issued for finder's fee	25,000	-
	<u>(76,740)</u>	<u>(54,177)</u>
Changes in non-cash working capital components:		
GST receivable	(90,498)	(16,034)
Amounts receivable	(8,019)	3,234
Prepays	1,100	(1,100)
Accounts payable	(78,765)	128,486
Due to related parties	(23,949)	23,949
	<u>(276,871)</u>	<u>84,358</u>
<b>Investing Activities</b>		
Mineral property costs	(1,917,799)	(638,850)
Reclamation deposit	(25,000)	-
	<u>(1,942,799)</u>	<u>(638,850)</u>
<b>Financing Activities</b>		
Cash from shares issued	1,012,857	2,715,000
Share issue costs	(107,420)	(196,439)
	<u>905,437</u>	<u>2,518,561</u>
<b>Net cash (used) provided during the year</b>	<b>(1,314,233)</b>	<b>1,964,069</b>
<b>Cash and short-term deposits - beginning of year</b>	<b>2,232,448</b>	<b>268,379</b>
<b>Cash and short-term deposits - end of year</b>	<b><u>918,215</u></b>	<b><u>2,232,448</u></b>

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

	2002	Expenditures	2003	Expenditures	2004
	\$	\$	\$	\$	\$
<b>BRITISH COLUMBIA</b>					
<b>Atty and Pil Claims</b>					
Acquisition	32,293	35,822	68,115	4,505	72,620
Assay, IP and linecutting	148,491	54,942	203,433	154,050	357,483
Camp accommodations and travel	180,894	187,901	368,795	341,762	710,557
Drilling	-	104,545	104,545	661,862	766,407
Equipment rentals	22,712	14,128	36,840	22,555	59,395
Field office	-	20,395	20,395	34,443	54,838
Geological and geophysical	180,510	218,573	399,083	375,982	775,065
Road construction	-	-	-	319,200	319,200
	<u>564,900</u>	<u>636,306</u>	<u>1,201,206</u>	<u>1,914,359</u>	<u>3,115,565</u>
<b>Gold I, II and Spruce Claims</b>					
Acquisition	1	400	401	1,453	1,854
Assay, IP and linecutting	2,669	-	2,669	1,987	4,656
Camp accommodations and travel	4,862	46	4,908	-	4,908
Field office	-	530	530	-	530
Geological and geophysical	3,507	1,568	5,075	-	5,075
	<u>11,039</u>	<u>2,544</u>	<u>13,583</u>	<u>3,440</u>	<u>17,023</u>
<b>Total Deferred Mineral Property Costs</b>	<u><u>575,939</u></u>	<u><u>638,850</u></u>	<u><u>1,214,789</u></u>	<u><u>1,917,799</u></u>	<u><u>3,132,588</u></u>

**FINLAY MINERALS LTD.**  
Notes to the Financial Statements  
December 31, 2004 and 2003

1. **NATURE AND CONTINUANCE OF OPERATIONS**

The Company was incorporated on July 26, 1999 under the Company Act (British Columbia) and its 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, Canada.

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 dates of the financial statements, and the expenses incurred during the fiscal years. 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.

**Fair Value of Financial Instruments**

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 on the date of their 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. When resource expenditures are renounced to the investors after March 19, 2004 and for which the Company has reasonable assurance that the expenditures will be completed, future income tax liabilities are recognized (renounced expenditures multiplied by the effective corporate tax rate), and share capital is reduced by a similar amount. Previously unrecognized tax assets may then offset this tax liability.

### **Stock-Based Compensation**

The Company follows the recommendations of the Canadian Institute of Chartered Accountants to account for stock based compensation. These recommendations require that all stock based awards made be recognized using a fair value-based method.

### **Income Taxes**

Income taxes are accounted for under the asset and liability method that requires deferred income taxes to reflect the future tax consequences attributable to differences between the tax and financial reporting bases of assets and liabilities. Deferred tax assets and liabilities recognized are based on the tax rates in effect in the year in which differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management based on available evidence, it is more likely than not that some or all of any net deferred tax assets will not be realized.

### **Asset Retirement Obligations**

The Company records the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that results from the acquisition, construction, development and/or normal use of the assets with a corresponding increase in the carrying amount of the related long-lived asset. This liability is subsequently allocated to expense over its expected life. Currently the Company's assessment of its asset retirement obligations are deemed to be not material.

### **Environmental Expenditures**

The operations of the Company may be affected by changes in environmental regulations, including those for site restoration costs. The likelihood of new regulations and their effect upon the Company varies and is not predictable. The Company's policy is to meet environmental standards set by legislation.

Environmental expenditures that relate to ongoing environmental and reclamation programs are charged against operations as incurred or capitalized and amortized depending on their expected future economic benefit. Estimated future site restoration costs are recognized when the ultimate liability is reasonably determinable, and are charged against operations over the estimated remaining life of the related business operations, net of expected recoveries.

### 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% Net Smelter Returns (“NSR”) royalty. The Company is also obligated to issue a further 2,000,000 shares to this private company when 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 when 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

	2004		2003	
	Number of Shares	\$	Number of Shares	\$
Opening balance	21,998,931	3,476,413	14,880,002	957,852
Issued for:				
Private placement (flow-through)	1,000,000 <sup>(1)</sup>	446,290	6,368,929 <sup>(3)</sup>	2,289,861
Private placement	1,000,000 <sup>(2)</sup>	446,290	750,000 <sup>(4)</sup>	228,700
Warrants	28,572	12,857	-	-
Finder's fee	50,000	25,000	-	-
Closing balance	24,077,503	4,406,850	21,998,931	3,476,413

(1) Net of share issue costs of \$53,710.

(2) Net of share issue costs of \$53,710.

(3) Net of share issue costs of \$170,139.

(4) Net of share issue costs of \$26,300.

- b) Stock-based compensation and share purchase options

The Company recorded stock-based compensation expense for stock-options granted in the year ended December 31, 2004 of \$99,280 (2003 - \$43,103), which amount was expensed and offset to contributed surplus.

The fair values of stock options granted during 2004 and 2003 were estimated using the Black-Scholes Option Pricing Model with the following assumptions: risk-free interest rate - 5% (2003 - 5%); expected life of 5 years (2003 - 5 years); expected stock price volatility of 232% (2003 - 27%); and no expectation for the payment of dividends.

4. **SHARE CAPITAL** (continued)  
b) Stock-based compensation and share purchase options (continued)

The continuity of share purchase options is as follows:

	2004		2003	
	Number of Shares	Weighted Price \$	Number of Shares	Weighted Price \$
Opening balance	1,000,000	0.30	475,000	0.25
Granted during the year	200,000	0.375	525,000	0.35
Closing balance	<u>1,200,000</u>	0.374	<u>1,000,000</u>	0.30
Weighted remaining life in years		3.3		4.1
Range of exercise prices		0.25-0.375		0.25-0.35

c) Share purchase warrants

The continuity of share purchase warrants is as follows:

	2004		2003	
	Number of Shares	Weighted Price \$	Number of Shares	Weighted Price \$
Opening balance	4,824,729	0.48	400,000	0.35
Granted during the year	725,000	0.60	4,824,729	0.48
Exercised/cancelled during the year	(4,824,729)	0.48	(400,000)	0.35
Closing balance	<u>725,000</u>	0.60	<u>4,824,729</u>	0.48
Weighted remaining life in years		0.27		0.9
Range of exercise prices		0.60		0.44-0.50

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 2004, the Company incurred to these related parties \$14,580 (2003 - \$38,464) for property exploration costs and \$19,633 (2003 - \$15,060) for consulting and rental, travel and office expense reimbursements. Two private companies controlled by directors are owed \$nil at December 31, 2004 (2003 - \$6,020). The Company's solicitor is a director of the Company and charged \$19,621 in legal and share issue costs during 2004 (2003 - \$36,492) and is owed \$nil at December 31, 2004 (2003 - \$17,929).

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.

7. **INCOME TAXES**

The Company has non-capital losses of approximately \$300,000, expiring between 2009 and 2012, that are available to reduce taxable income in future years and has resource and other tax pools of approximately \$680,000 at December 31, 2004. 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. **COMMITMENT**

At December 31, 2004, the Company is committed on a “best efforts” basis to incur approximately \$500,000 in eligible exploration expenditures prior to December 31, 2005 in order to complete obligations entered into under flow-through share purchase agreements.