

FINLAY MINERALS LTD.

Financial Statements

December 31, 2005

and

December 31, 2004

Finlay Minerals Ltd

PRESIDENTS LETTER FOR 2005 ANNUAL GENERAL MEETING

The year 2005 closes with several significant mineral discoveries being made on the Pi1 North property. The North West zone is a new porphyry copper-molybdenum discovery. The zone is open to the west and depth and will be further drill tested in 2006. 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 2006.

A new gold-silver epithermal style discovery, the Atlas East zone, was made on the Pi1 North property during 2005. Highlights of surface samples include quartz vein material both as float and in bedrock containing up to 72.47 g/t gold and 3549 g/t silver. Two drill holes, completed during the autumn of 2006 did not intersect the style of mineralization noted on surface, and as such an exploration road will be made to the 200 by 500 meter area Atlas East zone to complete further detailed surface studies.

Exploration success by Northgate Minerals on their adjacent Kemess North deposit, to the Company's Atty property, has prompted the Company to review the structure, geology and geophysical signature of the Atty South gossan. Northgate plans an aggressive drilling program in 2006 to evaluate a new mineralized zone discovered near the Kemess North deposit. Both of these are approximately one kilometre south of the Atty property.

Over-all \$820,000 was spent during 2005 on the Pi1 North property. The Company is in good financial shape to commence the planned exploration programs for 2006.

Pursuant to the Company's management directive, further projects were reviewed in 2005. This led, in early 2006, to the option, subject to TSX approval, of the Silver Hope project in central B.C. The property hosts three (3) silver-copper zones and is contiguous to Equity Silver, a former producing Placer Dome Mines (silver-copper) operation. The Company is planning an exploration program consisting of geophysics and diamond drilling on the Silver Hope property in 2006. The Company will continue to further review mineral projects of merit.

The continuing interest in precious and base metals brought about by strong demand from Far East countries and associated strong metal prices, leads me to believe that 2006 exploration success on the Company properties 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 Brown"

Robert F Brown, P Eng

D E V I S S E R G R A Y
CHARTERED ACCOUNTANTS

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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, 2005 and 2004 and the statements of operations and deficit, cash flows and 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, 2005 and 2004 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
March 6, 2006

FINLAY MINERALS LTD.Balance Sheets
As at December 31,

	2005	2004
	\$	\$
ASSETS		
Current assets		
Cash and short-term deposits	635,105	918,215
GST receivable	6,269	130,970
Amounts receivable	-	8,019
Prepaid expenses	2,164	-
	<u>643,538</u>	<u>1,057,204</u>
Reclamation deposit	30,000	30,000
Deferred mineral property costs (note 3 and Statement of Deferred Mineral Property Costs)	3,936,306	3,132,588
	<u>4,609,844</u>	<u>4,219,792</u>

LIABILITIES

Current liabilities		
Accounts payable and accrued liabilities	29,627	74,618
Due to related parties (note 5)	22,090	2,268
	<u>51,717</u>	<u>76,886</u>
Future income taxes (note 7)	1,029,507	913,062
	<u>1,081,224</u>	<u>989,948</u>

SHAREHOLDERS' EQUITY

Share capital (note 4(a))	3,819,050	3,493,788
Contributed surplus (note 4(b))	145,388	145,388
Deficit	(435,818)	(409,332)
	<u>3,528,620</u>	<u>3,229,844</u>
	<u>4,609,844</u>	<u>4,219,792</u>

Continuance of operations (Note 1)

Approved by the Board of Directors:

"Robert Brown"

Director

"John Barakso"

Director

See notes to the financial statements

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

	2005	2004
	\$	\$
Expenses		
Consulting	4,740	4,700
Filing and transfer agent	14,331	15,060
Finder's fee	-	25,000
Interest and bank charges	11,249	44,850
Interest income	(15,267)	(36,659)
Office and miscellaneous	12,990	8,107
Professional fees	25,558	16,074
Rent	5,400	5,500
Shareholder communication	9,397	10,112
Stock-based compensation	-	99,280
Travel	2,620	8,996
Write-off of mineral property	17,023	-
	<hr/>	<hr/>
Net loss before tax	(88,041)	(201,020)
Future income tax recovery (note 2)	61,555	-
	<hr/>	<hr/>
Net loss for the year	(26,486)	(201,020)
Deficit - beginning of year	(409,332)	(208,312)
	<hr/>	<hr/>
Deficit - end of year	(435,818)	(409,332)
	<hr/> <hr/>	<hr/> <hr/>
Basic and diluted loss per common share	\$	\$
	<hr/> <hr/>	<hr/> <hr/>
Weighted-average number of common shares outstanding	24,614,855	23,509,880
	<hr/> <hr/>	<hr/> <hr/>

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

	2005	2004
	\$	\$
Cash Provided by (Used for):		
Operating Activities		
Net loss for the year	(26,486)	(201,020)
Adjustment for items not affecting cash:		
Future income tax recovery	(61,555)	-
Write-off of mineral property	17,023	-
Stock-based compensation	-	99,280
Shares issued for finder's fee	-	25,000
	(71,018)	(76,740)
Changes in non-cash working capital components:		
GST receivable	124,701	(90,498)
Amounts receivable	8,019	(8,019)
Prepaid expenses	(2,164)	1,100
Accounts payable and accrued liabilities	(53,354)	(103,672)
Due to related parties	10,072	(23,377)
	16,256	(301,206)
Investing Activities		
Mineral property costs	(802,628)	(1,893,464)
Reclamation deposit	-	(25,000)
	(802,628)	(1,918,464)
Financing Activities		
Cash from shares issued	517,500	1,012,857
Share issue costs	(14,238)	(107,420)
	503,262	905,437
Net cash used during the year	(283,110)	(1,314,233)
Cash and short-term deposits - beginning of year	918,215	2,232,448
Cash and short-term deposits - end of year	635,105	918,215

Supplemental cash flow information:

During the current year the Company received interest of \$15,267 (2004 - \$36,659)

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

	2003	Expenditures (Write-offs)	2004	Expenditures (Write-offs)	2005
	\$	\$	\$	\$	\$
BRITISH COLUMBIA					
Atty and Pil Claims					
Acquisition	68,115	4,505	72,620	600	73,220
Assay, IP and linecutting	203,433	154,050	357,483	39,541	397,024
Camp accommodation and travel	368,795	341,762	710,557	96,274	806,831
Drilling	104,545	661,862	766,407	286,017	1,052,424
Equipment rental	36,840	22,555	59,395	37,281	96,676
Field office	20,395	34,443	54,838	57,791	112,629
Geological and geophysical	399,083	375,982	775,065	270,711	1,045,776
Road construction	-	319,200	319,200	32,526	351,726
	<u>1,201,206</u>	<u>1,914,359</u>	<u>3,115,565</u>	<u>820,741</u>	<u>3,936,306</u>
Gold I, II and Spruce Claims					
Acquisition	401	1,453	1,854	(1,854)	-
Assay, IP and linecutting	2,669	1,987	4,656	(4,656)	-
Camp accommodation and travel	4,908	-	4,908	(4,908)	-
Field office	530	-	530	(530)	-
Geological and geophysical	5,075	-	5,075	(5,075)	-
	<u>13,583</u>	<u>3,440</u>	<u>17,023</u>	<u>(17,023)</u>	<u>-</u>
Total Deferred Mineral Property Costs	<u><u>1,214,789</u></u>	<u><u>1,917,799</u></u>	<u><u>3,132,588</u></u>	<u><u>803,718</u></u>	<u><u>3,936,306</u></u>

FINLAY MINERALS LTD.
Notes to the Financial Statements
December 31, 2005 and 2004

1. NATURE OF OPERATIONS AND CONTINUANCE OF OPERATIONS

The Company was incorporated in British Columbia on July 26, 1999 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

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements, as well as the reported amounts of revenues and expenses incurred during the periods. Actual results could differ from those estimated.

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.

Cost of Maintaining Mineral Properties

The Company does not accrue the estimated future costs of maintaining its mineral properties in good standing.

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.

In March 2005, the Company renounced \$500,000 raised through the issuance of flow-through shares in 2004, resulting in the recording of a future income tax recovery of \$178,000.

Flow-through Shares

The Company has adopted the guidance of the CICA provided in Abstract #146 issued by its Emerging Issues Committee, which is effective for all flow-through share transactions initiated after March 19, 2004. Canadian tax legislation permits a company to issue securities referred to as flow-through shares whereby the investor may claim the tax deductions arising from the related resource expenditures. When resource expenditures are renounced to the investors and the Company has reasonable assurance that the expenditures will be completed, a future income tax liability is recognized and shareholders' equity is reduced.

Previously, unrecognized future tax assets may be used to reduce this liability amount, and the Company will recognize a future income tax recovery to this extent.

Stock-based Compensation

The Company records compensation associated with stock options granted using a fair value measurement basis and records the expense when the options vest with the recipients.

The proceeds received by the Company on the exercise of options are credited to share capital.

Future Income Taxes

The Company accounts for the 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 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.

Environmental Expenditures

The operations of the Company have been, and may in the future be, affected from time to time in varying degree by changes in environmental regulations, including those for site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company vary greatly from country to country and are not predictable.

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 removal and 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Earnings/loss Per Share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Basic earnings/loss per share is calculated using the weighted-average number of common shares outstanding during the year. Fully diluted loss per share is not disclosed since it is anti-dilutive.

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 common 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 was also obligated to issue a further 2,000,000 shares when the property was put into commercial production and may have also, prior to that date, purchased a 1½% NSR (½ of the 3% NSR) for \$2,000,000. The Company has no further exploration plans for these claims and accordingly has written-off all deferred costs at December 31, 2005.

4. SHARE CAPITAL

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

Common Shares Issued

	2005		2004	
	Number of Shares	\$	Number of Shares	\$
Opening balance	24,077,503	3,493,788	21,998,931	3,227,408
Issued for:				
Private placements (flow-through)	3,600,000 ⁽¹⁾	503,262	1,000,000 ⁽²⁾	446,290
Private placement	-	-	1,000,000 ⁽³⁾	446,290
Future income tax recovery (note 2)	-	(178,000)	-	(664,057)
Warrants	-	-	28,572	12,857
Finder's fee	-	-	50,000	25,000
Closing balance	27,677,503	3,819,050	24,077,503	3,493,788

(1) Net of share issue costs of \$14,238.

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

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

4. **SHARE CAPITAL** (continued)

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, which amount was expensed and offset to contributed surplus.

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

The continuity of share purchase options is as follows:

	2005		2004	
	Number of Shares	Weighted Price \$	Number of Shares	Weighted Price \$
Opening balance	1,200,000	0.315	1,000,000	0.30
Granted during the year	-	-	200,000	0.375
Closing balance	<u>1,200,000</u>	0.315	<u>1,200,000</u>	0.315
Weighted remaining life in years		2.3		3.3
Range of exercise prices		0.25-0.375		0.25-0.375

c) Share purchase warrants

The continuity of share purchase warrants is as follows:

	2005		2004	
	Number of Shares	Weighted Price \$	Number of Shares	Weighted Price \$
Opening balance	725,000	0.60	4,824,729	0.48
Granted during the year	2,550,000	0.15	725,000	0.60
Exercised/cancelled during the year	(725,000)	0.60	(4,824,729)	0.48
Closing balance	<u>2,550,000</u>	0.15	<u>725,000</u>	0.60
Weighted remaining life in years		1.99		0.27
Range of exercise prices		0.15		0.60

5. **DUE TO RELATED PARTIES**

As at December 31, 2005, the amounts outstanding of \$22,090 comprise amounts owed to three private companies, each separately controlled by different Company director (\$12,110; \$2,825 and \$7,155). The amounts are unsecured, bear no interest and have no fixed terms for repayment.

As at December 31, 2004, the amount outstanding of \$2,268 is due to a private company controlled by a Company director. The amount was unsecured, did not bear interest and had no fixed terms of repayment.

6. **RELATED PARTY TRANSACTIONS**

Directors and private companies controlled by them are paid consulting fees at the rate of \$300-\$600 per day. During the current year, the Company incurred to these related parties \$318,326 (2004 - \$14,580) for property exploration costs and \$14,040 (2004 - \$10,200) for consulting, shareholder communication and rent. The Company's solicitor is a director of the Company and charged \$19,021 (2004 - \$19,621) in legal, filing and share issue costs during the current year.

All these related party transactions were in the normal course of operations and are measured at fair value as determined by management.

7. INCOME TAXES

A reconciliation of income taxes at statutory rates is as follows:

	2005	2004
	\$	\$
Loss for the year	<u>(26,486)</u>	<u>(201,020)</u>
Expected income tax recovery	(9,434)	(71,603)
Net adjustment for deductible and non-deductible amounts	(46,158)	6,083
Unrecognized benefit of non-capital losses	<u>55,592</u>	<u>65,520</u>
Total income taxes	<u>-</u>	<u>-</u>

The significant components of the Company's future income tax liabilities are as follows:

	2005	2004
	\$	\$
Future income tax liabilities:		
Mineral property carrying amounts in excess of tax	(1,221,879)	(1,049,843)
Non-capital loss carryforwards	<u>192,373</u>	<u>136,781</u>
Net future tax liabilities	<u>(1,029,506)</u>	<u>(913,062)</u>

The Company has non-capital losses of approximately \$540,000 (2004 - \$384,000), which are available to reduce future taxable income and which expire between 2009 and 2015. Subject to certain restrictions, the Company also has mineral property expenditures of approximately \$506,000 (2004 - \$185,000) available to reduce taxable income in future years. The Company has not recognized any future benefit for these tax losses and resource deductions as it is not considered likely that they will be utilized.

8. COMMITMENT

At December 31, 2005, the Company is to incur approximately \$237,000 in eligible exploration expenditures prior to December 31, 2006 in order to complete obligations entered into under flow-through share purchase agreements.

9. COMPARATIVE FIGURES AND CORRECTION OF ERROR

Certain of the comparative figures have been reclassified to conform with the current year's presentation. The comparative figures have also been adjusted to reflect a future income tax liability of \$913,062, with a corresponding decrease in share capital of similar amount. The liability results from taxable temporary difference arising from the excess of deferred property cost carrying amounts relative to their related tax pools. The adjustment has been reflected as share issue costs because the taxable temporary difference originated from issuance of flow through shares.

10. SUBSEQUENT EVENT

The Company closed a non-brokered private placement for the issue of 2,550,000 units at \$0.10 per unit. Each unit is to comprise one flow-through common share and one warrant for the purchase of an additional common share at a price of \$0.15 until December 27, 2007.