

FINLAY MINERALS LTD.

Financial Statements

December 31, 2006

and

December 31, 2005

Finlay Minerals Ltd

PRESIDENTS LETTER FOR 2006 ANNUAL GENERAL MEETING

The year 2006 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 2007. 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 2007.

A new gold-silver epithermal style discovery, the Atlas East zone, was made on the Pi1 North property during 2006. 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 there 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 \$607,000 was spent during 2006 on the Pi1 North property and \$275,000 was spent during 2006 on the Silver Hope Claims, of which \$160,000 was for shares issued to acquire the 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 2006. This led to the option 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 2007. 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 2007 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

DE VISSER GRAY LLP
CHARTERED ACCOUNTANTS

401 - 905 West Pender Street
Vancouver, BC Canada
V6C 1L6

Tel: (604) 687-5447
Fax: (604) 687-6737

AUDITORS' REPORT

To the Shareholders of Finlay Minerals Ltd.

We have audited the balance sheets of Finlay Minerals Ltd. as at December 31, 2006 and 2005 and the statements of operations and deficit, and cash flows 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, 2006 and 2005 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 LLP"

CHARTERED ACCOUNTANTS

Vancouver, British Columbia
April 13, 2007

FINLAY MINERALS LTD.Balance Sheets
As at December 31,

	2006	2005
	\$	\$
ASSETS		
Current assets		
Cash and short-term deposits	324,445	635,105
GST receivable	41,416	6,269
Prepaid expenses	6,373	2,164
Due from related parties (note 5)	1,412	-
	<u>373,646</u>	<u>643,538</u>
Reclamation deposit	30,000	30,000
Mineral property costs (note 3)	4,818,284	3,936,306
	<u>5,221,930</u>	<u>4,609,844</u>

LIABILITIES

Current liabilities		
Accounts payable and accrued liabilities	80,584	29,627
Due to related parties (note 5)	-	22,090
	<u>80,584</u>	<u>51,717</u>
Future income taxes (note 7)	1,302,565	1,029,507
	<u>1,383,149</u>	<u>1,081,224</u>

SHAREHOLDERS' EQUITY

Share capital (note 4(a))	4,122,597	3,819,050
Contributed surplus (note 4(b))	199,934	145,388
Deficit	(483,750)	(435,818)
	<u>3,838,781</u>	<u>3,528,620</u>
	<u>5,221,930</u>	<u>4,609,844</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,

	2006	2005
	\$	\$
Expenses		
Consulting	6,176	4,740
Filing and transfer agent	18,438	14,331
General exploratioin	2,886	-
Interest and bank charges	5,556	11,249
Interest income	(16,098)	(15,267)
Office and miscellaneous	5,875	12,990
Professional fees	29,918	25,558
Rent	5,400	5,400
Shareholder communication	10,588	9,397
Stock-based compensation	54,546	-
Travel	5,072	2,620
Write-off of mineral property	-	17,023
	<hr/>	<hr/>
Net loss before tax	(128,357)	(88,041)
Future income tax recovery (note 2)	80,425	61,555
	<hr/>	<hr/>
Net loss for the year	(47,932)	(26,486)
Deficit - beginning of year	(435,818)	(409,332)
	<hr/>	<hr/>
Deficit - end of year	(483,750)	(435,818)
	<hr/> <hr/>	<hr/> <hr/>
 Basic and diluted loss per share	 <u>\$ (0.00)</u>	 <u>\$ (0.01)</u>
 Weighted-average number of common shares outstanding	 <u>29,569,150</u>	 <u>24,614,855</u>

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

	2006	2005
	\$	\$
Cash Provided by (Used for):		
Operating Activities		
Net loss for the year	(47,932)	(26,486)
Adjustment for items not affecting cash:		
Future income tax recovery	(80,425)	(61,555)
Write-off of mineral property	-	17,023
Stock-based compensation	54,546	-
	(73,811)	(71,018)
Changes in non-cash working capital components:		
GST receivable	(35,147)	124,701
Amounts receivable	-	8,019
Prepaid expenses	(4,209)	(2,164)
Accounts payable and accrued liabilities	5,739	(53,354)
Due to related parties	(13,752)	10,072
	(121,180)	16,256
Investing Activity		
Mineral property costs	(686,510)	(802,628)
Financing Activities		
Cash from shares issued	518,500	517,500
Share issue costs	(21,470)	(14,238)
	497,030	503,262
Net cash used during the year	(310,660)	(283,110)
Cash and short-term deposits - beginning of year	635,105	918,215
Cash and short-term deposits - end of year	324,445	635,105

Supplemental cash flow information:

During the current year the Company received interest of \$16,098 (2005 - \$15,267) and issued two million shares at \$0.08 per share for mineral properties. The Company has excluded from its investing cash flows \$53,581 (2005 - \$18,113) in accounts payable and due to or from related parties relating to mineral property costs.

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

	2004	Expenditures (Write-offs)	2005	Expenditures (Write-offs)	2006
	\$	\$	\$	\$	\$
BRITISH COLUMBIA					
Atty and Pil Claims					
Acquisition	72,620	600	73,220	-	73,220
Assay, IP and linecutting	357,483	39,541	397,024	48,460	445,484
Camp accommodation and travel	710,557	96,274	806,831	105,300	912,131
Drilling	766,407	286,017	1,052,424	167,317	1,219,741
Equipment rental	59,395	37,281	96,676	12,290	108,966
Field office	54,838	57,791	112,629	2,689	115,318
Geological and geophysical	775,065	270,711	1,045,776	230,370	1,276,146
Road construction	319,200	32,526	351,726	40,547	392,273
	<u>3,115,565</u>	<u>820,741</u>	<u>3,936,306</u>	<u>606,973</u>	<u>4,543,279</u>
Silver Hope Claims					
Acquisition	-	-	-	166,540	166,540
Assay, IP and linecutting	-	-	-	58,769	58,769
Camp accommodation and travel	-	-	-	6,667	6,667
Geological and geophysical	-	-	-	43,029	43,029
	<u>-</u>	<u>-</u>	<u>-</u>	<u>275,005</u>	<u>275,005</u>
Gold I, II and Spruce Claims					
Acquisition	1,854	(1,854)	-	-	-
Assay, IP and linecutting	4,656	(4,656)	-	-	-
Camp accommodation and travel	4,908	(4,908)	-	-	-
Field office	530	(530)	-	-	-
Geological and geophysical	5,075	(5,075)	-	-	-
	<u>17,023</u>	<u>(17,023)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Deferred Mineral Property Costs	<u><u>3,132,588</u></u>	<u><u>803,718</u></u>	<u><u>3,936,306</u></u>	<u><u>881,978</u></u>	<u><u>4,818,284</u></u>

See notes to the financial statements

FINLAY MINERALS LTD.
Notes to the Financial Statements
December 31, 2006 and 2005

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

The Company was incorporated in 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**

Basis of Accounting

These financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Summarized below are those policies considered particularly significant to the Company.

Use of Estimates

The preparation of financial statements in conformity with GAAP 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 Property 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 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

The Company has issued common shares 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.

In March 2006, the Company renounced \$1,036,000 (2005 - \$500,000) raised through the issuance of flow-through shares resulting in the recording of a future income tax recovery of \$369,023 (2005 - \$178,000).

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 potential future net tax assets which are attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and which 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. Such an allowance has been applied to all potential income tax assets of the Company.

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)*

Asset Retirement Obligations

The fair value of a liability for an asset retirement obligation is recognized on an undiscounted cash flow basis when a reasonable estimate of the fair value of the obligation can be made. The asset retirement obligation is recorded as a liability with a corresponding increase to the carrying amount of the related long-lived asset. Subsequently, the asset retirement cost is allocated to expense using a systematic and rational method and is adjusted to reflect period-to-period changes in the liability resulting from the passage of time and from revisions to either expected payment dates or the amounts comprising the original estimate of the obligation. As at September 30, 2006, the Company does not have any asset retirement obligations.

Retirement of Long-Lived Assets

Long-lived assets are assessed for impairment when events and circumstances warrant, when the carrying amounts of the assets exceeds its estimated undiscounted net cash flow from use or its fair value, at which time the impairment is charged to earnings.

Loss Per Share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Basic 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 PROPERTY COSTS**

**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.

Silver Hope Claims

The Company acquired a 100% interest in 37 mineral claims, subject to a 1 ½ % NSR, during the current year by the issue of two million common shares. One half of the NSR (3/4 %) is purchasable prior to a production decision for one million dollars. Refer to Note 6.

Gold I, II and Spruce Claims

The Company had 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 wrote-off all deferred costs during the comparative year after it decided not to continue exploration.

4. **SHARE CAPITAL**

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

Common Shares Issued

	Number of Shares	Total Value	Contributed Surplus
		\$	\$
Balance at December 31, 2004	24,077,503	3,493,788	145,388
Issued for:			
Private placements (flow-through shares)	3,600,000	503,262 ⁽²⁾	-
Future income tax recovery (note 2)	-	(178,000)	-
Balance at December 31, 2005	<u>27,677,503</u>	<u>3,819,050</u>	<u>145,388</u>
Issued for:			
Private placements (flow-through shares)	3,456,667	497,030 ⁽¹⁾	-
Mineral property	2,000,000	160,000	-
Future income tax recovery (note 2)	-	(353,483)	-
Fair value of options vested: stock based compensation	-	-	54,546
Balance at December 31, 2006	<u><u>33,134,170</u></u>	<u><u>4,122,597</u></u>	<u><u>199,934</u></u>

(1) Net of share issue costs of \$21,470.

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

- 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, 2006 of \$54,546, which amount was expensed and offset to contributed surplus.

The fair value of stock options granted during 2006 was estimated using the Black-Scholes Option Pricing Model with the following assumptions: risk-free interest rate - 3.99%-4.16%; expected life of 1-5 years; expected stock price volatility of 117-121%; and no expectation for the payment of dividends.

The continuity of share purchase options is as follows:

	2006		2005	
	Number of Shares	Weighted Price \$	Number of Shares	Weighted Price \$
Opening balance	1,200,000	0.315	1,200,000	0.315
Granted during the year	500,000	0.21	-	-
Closing balance	<u>1,700,000</u>	0.26	<u>1,200,000</u>	0.315
Weighted remaining life in years		1.74		2.3
Range of exercise prices		0.20-0.375		0.25-0.375

4. **SHARE CAPITAL** (continued)

c) Share purchase warrants

The continuity of share purchase warrants is as follows:

	2006		2005	
	Number of Shares	Weighted Price \$	Number of Shares	Weighted Price \$
Opening balance	2,550,000	0.15	725,000	0.60
Issued during the year	-	-	2,550,000	0.15
Exercised/cancelled during the year	-	-	(725,000)	0.60
Closing balance	<u>2,550,000</u>	0.15	<u>2,550,000</u>	0.15
Weighted remaining life in years		0.99		1.99
Range of exercise prices		0.15		0.15

5. **DUE TO RELATED PARTIES**

As at December 31, 2006, \$1,412 is due from a director. The amount is unsecured, does not bear interest and has no fixed terms of repayment.

As at December 31, 2005, the amounts outstanding of \$22,090 is comprised of amounts owed to three private companies, each separately controlled by a different Company director (\$12,110; \$2,825 and \$7,155). The amounts are unsecured, bear no interest and have no fixed terms for 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 with these related parties \$301,218 (2005 - \$318,326) for property exploration costs and \$8,576 (2005 - \$14,040) for consulting and rent. The Company's solicitor is a director of the Company and charged \$22,088 (2005 - \$19,021) in legal and share issue costs during the current year.

During 2006, the Company acquired the Silver Hope Claims, in part from a director of the Company, at a nil tax cost by the issue of 2,000,000 shares valued at \$160,000 and during 2005 acquired the Gold I, II and Spruce claims from a director of the Company.

Refer to note 3.

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:

	2006	2005
	\$	\$
Net loss for the year	<u>(47,932)</u>	<u>(26,486)</u>
Expected income tax recovery	(16,354)	(9,434)
Net adjustment for deductible and non-deductible amounts	(40,598)	(46,158)
Unrecognized benefit of non-capital losses	<u>56,952</u>	<u>55,592</u>
Total income taxes	<u>-</u>	<u>-</u>

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

	2006	2005
	\$	\$
Future income tax liabilities:		
Mineral property carrying amounts in excess of tax pools	(1,541,915)	(1,221,879)
Non-capital loss carryforwards	<u>239,350</u>	<u>192,372</u>
Net future tax liabilities	<u>(1,302,565)</u>	<u>(1,029,507)</u>

The Company has non-capital losses of approximately \$701,000 (2005-\$540,000), which are available to reduce future taxable income and which expire between 2008 and 2026. Subject to certain restrictions, the Company also has mineral property expenditures of approximately \$460,000 (2005 - \$230,000) 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, 2006, the Company is to incur approximately \$59,000 (2005 - \$237,000) in eligible exploration expenditures prior to December 31, 2007 in order to complete obligations entered into under flow-through share purchase agreements.

9. SUBSEQUENT EVENTS

In addition to items disclosed elsewhere in these notes, the following occurred during the period subsequent to December 31, 2006:

- The Company is completing a 4,347,826 flow-through unit private placement at \$0.23 per unit. Each unit consists of one flow-through share and one non flow-through two-year share purchase warrant, with each warrant exercisable to acquire one share at \$0.35 during the first year and \$0.50 per share during the second year.