

**FINLAY MINERALS LTD.**

Financial Statements

December 31, 2007

*and*

December 31, 2006

# **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, 2007 and 2006 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, 2007 and 2006 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 1, 2008

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

	2007	2006
	\$	\$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and short-term deposits	141,393	324,445
GST receivable	38,135	41,416
Prepaid expenses	4,164	6,373
Due from related parties (note 5)	-	1,412
	<u>183,692</u>	<u>373,646</u>
Reclamation deposit	57,200	30,000
Mineral property costs (note 4)	5,764,749	4,818,284
	<u>6,005,641</u>	<u>5,221,930</u>

**LIABILITIES**

<b>Current liabilities</b>		
Accounts payable and accrued liabilities	12,112	80,584
Due to related parties (note 5)	1,105	-
	<u>13,217</u>	<u>80,584</u>
Future income taxes (note 9)	1,311,790	1,302,565
	<u>1,325,007</u>	<u>1,383,149</u>

**SHAREHOLDERS' EQUITY**

Share capital (note 7(a))	5,012,536	4,122,597
Contributed surplus (note 7(b))	445,740	199,934
Deficit	(777,642)	(483,750)
	<u>4,680,634</u>	<u>3,838,781</u>
	<u>6,005,641</u>	<u>5,221,930</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,**

	2007	2006
	\$	\$
<b>Expenses</b>		
Consulting	18,546	6,176
Filing and transfer agent	14,697	18,438
General exploration	-	2,886
Interest and bank charges	1,226	5,556
Interest income	(22,613)	(16,098)
Office and miscellaneous	12,069	5,875
Professional fees	15,145	29,918
Rent	2,150	5,400
Shareholder communication	12,774	10,588
Stock-based compensation	200,902	54,546
Travel	29,771	5,072
	<u>                    </u>	<u>                    </u>
<b>Net loss before tax</b>	(284,667)	(128,357)
<b>Future income tax (expense) recovery</b>	(9,225)	80,425
	<u>                    </u>	<u>                    </u>
<b>Net loss for the year</b>	(293,892)	(47,932)
<b>Deficit - beginning of year</b>	(483,750)	(435,818)
	<u>                    </u>	<u>                    </u>
<b>Deficit - end of year</b>	<u>(777,642)</u>	<u>(483,750)</u>
	<u>                    </u>	<u>                    </u>
 <b>Basic and diluted loss per share</b>	 <u>\$ (0.01)</u>	 <u>\$ (0.00)</u>
	<u>                    </u>	<u>                    </u>
 <b>Weighted-average number of common shares outstanding</b>	 <u>36,371,042</u>	 <u>29,569,150</u>
	<u>                    </u>	<u>                    </u>

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

	2007	2006
	\$	\$
<b>Cash Provided by (Used for):</b>		
<b>Operating Activities</b>		
Net loss for the year	(293,892)	(47,932)
Adjustment for items not affecting cash:		
Future income tax recovery	9,225	(80,425)
Stock-based compensation	200,902	54,546
	<u>(83,765)</u>	<u>(73,811)</u>
Changes in non-cash working capital components:		
GST receivable	3,281	(35,147)
Prepaid expenses	2,209	(4,209)
Accounts payable and accrued liabilities	(15,173)	5,739
Due to related parties	1,412	(13,752)
	<u>(92,036)</u>	<u>(121,180)</u>
<b>Investing Activities</b>		
Reclamation deposit	(27,200)	-
Mineral property costs	(998,659)	(686,510)
	<u>(1,025,859)</u>	<u>(686,510)</u>
<b>Financing Activities</b>		
Cash from shares issued	1,000,000	518,500
Share issue costs	(65,157)	(21,470)
	<u>934,843</u>	<u>497,030</u>
<b>Net cash used during the year</b>	<b>(183,052)</b>	<b>(310,660)</b>
<b>Cash and short-term deposits - beginning of year</b>	<b>324,445</b>	<b>635,105</b>
<b>Cash and short-term deposits - end of year</b>	<b>141,393</b>	<b>324,445</b>

**Supplemental cash flow information:**

*During the current year the Company received interest of \$22,613 (2006 - \$16,098) and issued 173,913 shares at \$0.23 per share for a finder's fee on its private placement (2006 - issued two million shares at \$0.08 per share for mineral properties). The Company has excluded from its investing cash flows \$1,387 (2006 - \$53,581) 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,

	2005	Expenditures (Write-offs)	2006	Expenditures (Write-offs)	2007
	\$	\$	\$	\$	\$
<b>BRITISH COLUMBIA</b>					
<b>Atty and Pil Claims</b>					
Acquisition	73,220	-	73,220	-	73,220
Assay, IP and linecutting	397,024	48,460	445,484	82,622	528,106
Camp accommodation and travel	806,831	105,300	912,131	107,928	1,020,059
Drilling	1,052,424	167,317	1,219,741	246,946	1,466,687
Equipment rental	96,676	12,290	108,966	20,647	129,613
Field office	112,629	2,689	115,318	-	115,318
Geological and geophysical	1,045,776	230,370	1,276,146	168,100	1,444,246
Road construction	351,726	40,547	392,273	-	392,273
	<u>3,936,306</u>	<u>606,973</u>	<u>4,543,279</u>	<u>626,243</u>	<u>5,169,522</u>
<b>Silver Hope Claims</b>					
Acquisition	-	166,540	166,540	7,388	173,928
Assay, IP and linecutting	-	58,769	58,769	13,759	72,528
Camp accommodation and travel	-	6,667	6,667	8,569	15,236
Drilling	-	-	-	230,428	230,428
Equipment rental	-	-	-	3,233	3,233
Geological and geophysical	-	43,029	43,029	37,969	80,998
	-	-	-	18,876	18,876
	-	<u>275,005</u>	<u>275,005</u>	<u>320,222</u>	<u>595,227</u>
Total Deferred Mineral Property Costs	<u><u>3,936,306</u></u>	<u><u>881,978</u></u>	<u><u>4,818,284</u></u>	<u><u>946,465</u></u>	<u><u>5,764,749</u></u>

See notes to the financial statements

**FINLAY MINERALS LTD.**  
Notes to the Financial Statements  
December 31, 2007 and 2006

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

The Company is incorporated under the Business Corporations 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**

**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 presentation of financial statements in conformity with Canadian GAAP requires the Company's management to make estimates and assumptions that affect the amounts reported in these financial statements and related notes. Management regularly reviews the estimates and assumptions that affect the consolidated financial statements, although actual results may be materially different from these estimates and assumptions. Areas where significant estimates and assumptions are required by management include the determination of impairment for capitalized mineral property expenditures and the variable for use in calculating stock-based compensation.

**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.

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

### **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.

### **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 raised through the issuance of flow-through shares resulting in the recording of a future income tax recovery of \$353,483.

### **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 December 31, 2007, the Company does not have any asset retirement obligations.

### **Impairment 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.

### **Changes In Accounting Policies**

Effective January 1, 2007, the Company retroactively adopted, without restatement of prior periods, the following new accounting standards issued by the CICA:

CICA Handbook Section 1530: "Comprehensive Income" establishes standards for reporting comprehensive income, defined as a change in value of net assets that is not due to owner activities, by introducing a new requirement to temporarily present certain gains and losses outside of net income. Certain gains and losses such as unrealized gains or losses on available-for-sale securities are recognized as other comprehensive income until considered appropriate for recognition in the results of operations. CICA Handbook Section 3251: "Equity" establishes presentation and disclosure standards for equity and changes in equity. There is currently no impact on these financial statements of this standard.

CICA Handbook Section 3855: "Financial Instruments - Recognition and Measurement" ("Section 3855") establishes standards for the recognition, classification and measurement of financial instruments including the presentation of any resulting gains and losses. Assets classified as available-for-sale securities will have revaluation gains and losses included in other comprehensive income until these assets are no longer included on the balance sheet. CICA Handbook Section 3861: "Financial Instruments - Disclosure and Presentation" establishes presentation and disclosure standards for financial instruments. At December 31, 2007, the Company did not have any marketable securities.

CICA Handbook Section 3865: "Hedges" establishes standards for hedge accounting allowing for different reporting options than those Under Section 3855 for qualifying transactions. The adoption of this new standard did not have a material impact on the Company's consolidated financial statements; and

CICA Handbook Section 1506: "Accounting Changes" establishes expanded disclosures for changes in accounting policies, accounting estimates and correction of errors. The adoption of this new standard did not have a material impact on the Company's consolidated financial statements.

### 3. **RECENTLY RELEASED ACCOUNTING STANDARDS**

In January 2006, the Accounting Standards Board of the CICA adopted a strategic plan for the direction of Canadian accounting standards, which includes converging with International Financial Reporting Standards effective January 1, 2011 for publicly-traded companies. This adoption will require restatement of the 2010 comparative figures presented. The Company will continue to monitor and assess the impact of this strategic plan.

Effective January 1, 2008, the Company will adopt CICA Handbook Section 1535: "Capital Disclosures", which requires disclosures of its objectives, policies and processes for managing capital including compliance with externally imposed capital requirements. The Company does not expect adoption of this new standard to have a material impact on its consolidated financial statements.

Effective January 1, 2008, the Company will adopt CICA Handbook Section 3862: "Financial Instruments - Disclosures" and CICA Handbook Section 3863: "Financial Instruments - Presentation", which will replace CICA Handbook Section 3861: "Financial Instruments - Disclosure and Presentation", which establishes presentation and disclosure requirements increasing emphasis on the risks associated with both recognized and unrecognized financial instruments and the management of those risks. The Company does not expect adoption of these new standards to have material impact on its consolidated financial statements.

### 4. **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 1½% NSR, during the comparative 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.

### 5. **DUE TO RELATED PARTIES**

As at December 31, 2007, \$1,105 is due to a director's private company (2006 - \$1,412 due from a director). The amount is unsecured, does not bear interest and has 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 with these related parties \$288,286 (2006 - \$301,218) for property exploration costs, \$10,014 (2006 - nil) for shareholder communication and office costs and \$2,470 (2006 - \$8,576) for consulting and rent. The Company's solicitor is a director of the Company and charged \$25,389 (2006 - \$22,088) 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.

Refer to note 4.

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

7. **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, 2005	27,677,503	3,819,050	145,388
Issued for:			
Private placements (flow-through shares)	3,456,667	497,030 <sup>(1)</sup>	-
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	33,134,170	4,122,597	199,934
Issued for:			
Private placement (flow-through shares)	4,521,737	889,939 <sup>(2)</sup>	44,904
Fair value of options vested: stock based compensation	-	-	5,903
	<u>37,655,907</u>	<u>5,012,536</u>	<u>250,741</u>

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

(2) Net of share issue costs of \$65,157 and fair value of Agent options of \$44,904. Includes finder's fee of 173,913 shares at \$0.23 per share

- 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, 2007 of \$200,902 (2006 - \$54,546), which amount was expensed and offset to contributed surplus.

The fair value of stock options granted was estimated using the Black-Scholes Option Pricing Model with the following assumptions: risk-free interest rate - 4.34% (2006 - 3.99%); expected life of 5 years (2006 - 1 year); expected stock price volatility of 112% (2006 - 121%); and no expectation for the payment of dividends.

The continuity of share purchase options is as follows:

	2007		2006	
	Number of Shares	Weighted Price \$	Number of Shares	Weighted Price \$
Opening balance	1,700,000	0.26	1,200,000	0.315
Granted during the year	1,200,000	0.20	500,000	0.21
Expired during the year	(850,000)	0.23	-	-
Closing balance	<u>2,050,000</u>	0.26	<u>1,700,000</u>	0.26
Weighted remaining life in years		3.03		1.74
Range of exercise prices		0.20-0.375		0.20-0.375

7. **SHARE CAPITAL** (continued)

c) Share purchase warrants

The continuity of share purchase warrants is as follows:

	2007		2006	
	Number of Shares	Weighted Price \$	Number of Shares	Weighted Price \$
Opening balance	2,550,000	0.15	2,550,000	0.15
Issued during the year	4,347,824	0.35	-	-
Expired during the year	(2,550,000)	0.15	-	-
Closing balance	<u>4,347,824</u>	0.35	<u>2,550,000</u>	0.15
Weighted remaining life in years		1.28		0.99
Range of exercise prices		0.35		0.15

d) Agent options

The continuity of agent options is as follows:

	2007		2006	
	Number of Units	Weighted Price \$	Number of Units	Weighted Price \$
Opening balance	-	-	-	-
Granted	347,826	0.20	-	-
Closing balance	<u>347,826</u>	0.20	<u>-</u>	-
Weighted remaining life in years		1.28		-
Range of exercise prices		0.20		-

Each Agent's option is exercisable into one unit at \$0.20 per unit until April 13, 2009, each unit comprised of one common share and one share purchase warrant exercisable at \$0.35 per share to April 13, 2008 and \$0.50 per share to April 13, 2009.

- e) The fair value of agent options granted during 2007 was estimated using the Black-Scholes Option Pricing Model with the following assumptions: risk-free interest rate- 4.13%; expected life of two years; expected stock price volatility of 115%; and no expectation for the payment of dividends.

8. **COMMITMENT**

At December 31, 2007, the Company is to incur approximately \$115,575 (2006 - \$59,000) in eligible exploration expenditures prior to December 31, 2008 (2006 - December 31, 2007) in order to complete obligations entered into under flow-through share purchase agreements.

9. **INCOME TAXES**

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

	2007	2006
	\$	\$
Net loss for the year	<u>(293,892)</u>	<u>(47,932)</u>
Expected income tax recovery	(100,218)	(16,354)
Net adjustment for deductible and non-deductible amounts	36,743	(40,598)
Unrecognized benefit of non-capital losses	<u>63,475</u>	<u>56,952</u>
Total income taxes	<u>-</u>	<u>-</u>

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

	2007	2006
	\$	\$
Future income tax liabilities:		
Mineral property carrying amounts in excess of tax pools	(1,602,508)	(1,541,915)
Non-capital loss carryforwards	<u>290,718</u>	<u>239,350</u>
Net future tax liabilities	<u>(1,311,790)</u>	<u>(1,302,565)</u>

The Company has non-capital losses of approximately \$969,000 (2006-\$783,000), which are available to reduce future taxable income and which expire between 2008 and 2027. Subject to certain restrictions, the Company also has mineral property expenditures of approximately \$423,000 (2006 - \$460,000) 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.