

FINLAY MINERALS LTD.

Financial Statements

December 31, 2008

and

December 31, 2007

DE VISSER GRAY LLP

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, 2008 and 2007 and the statements of operations, comprehensive income (loss) 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, 2008 and 2007 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 21, 2009

FINLAY MINERALS LTD.Balance Sheets
As at December 31,

	2008	2007
	\$	\$
ASSETS		
Current assets		
Cash and short-term deposits	79,288	141,393
GST receivable	2,993	38,135
Prepaid expenses	-	4,164
	<u>82,281</u>	<u>183,692</u>
Reclamation deposits	57,200	57,200
Mineral property costs (note 4)	5,885,644	5,764,749
	<u>6,025,125</u>	<u>6,005,641</u>

LIABILITIES

Current liabilities		
Accounts payable and accrued liabilities	20,307	12,112
Due to related parties (note 5)	26,246	1,105
	<u>46,553</u>	<u>13,217</u>
Future income taxes (note 9)	1,249,219	1,311,790
	<u>1,295,772</u>	<u>1,325,007</u>

SHAREHOLDERS' EQUITY

Share capital (note 7(a))	4,703,884	5,012,536
Obligation to issue shares (note 7(f))	70,000	-
Contributed surplus (note 7(a))	445,740	445,740
Deficit	(490,271)	(777,642)
	<u>4,729,353</u>	<u>4,680,634</u>
	<u>6,025,125</u>	<u>6,005,641</u>

Nature and 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 Comprehensive Income (Loss) and Deficit
For the Years Ended December 31,

	2008	2007
	\$	\$
Expenses		
Consulting	13,418	18,546
Filing and transfer agent	15,255	14,697
Interest and bank charges	3,840	1,226
Interest income	(6,249)	(22,613)
Office and miscellaneous	6,889	12,069
Professional fees	30,817	15,145
Rent	9,427	2,150
Shareholder communication	849	12,774
Stock-based compensation	-	200,902
Travel	9,606	29,771
	<u> </u>	<u> </u>
Net loss and comprehensive loss for the year before tax	(83,852)	(284,667)
Future income tax recovery (expense)	<u>371,223</u>	<u>(9,225)</u>
	<u> </u>	<u> </u>
Net income (loss) and comprehensive income (loss) for the year	287,371	(293,892)
Deficit - beginning of year	<u>(777,642)</u>	<u>(483,750)</u>
Deficit - end of year	<u><u>(490,271)</u></u>	<u><u>(777,642)</u></u>
	<u> </u>	<u> </u>
Basic and diluted earnings (loss) per share	<u>\$ 0.01</u>	<u>\$ (0.01)</u>
	<u> </u>	<u> </u>
Basic and diluted weighted-average number of common shares outstanding	<u>37,655,907</u>	<u>36,371,042</u>
	<u> </u>	<u> </u>

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

	2008	2007
	\$	\$
Cash Provided by (Used for):		
Operating Activities		
Net income (loss) and comprehensive income (loss) for the year	287,371	(293,892)
Adjustment for items not affecting cash:		
Future income tax recovery	(371,223)	9,225
Stock-based compensation	-	200,902
	(83,852)	(83,765)
Changes in non-cash working capital components:		
GST receivable	35,142	3,281
Prepaid expenses	4,164	2,209
Accounts payable and accrued liabilities	8,477	(15,173)
Due to related parties	11,891	1,412
	(24,178)	(92,036)
Investing Activities		
Reclamation deposit	-	(27,200)
Mineral property costs	(107,927)	(998,659)
	(107,927)	(1,025,859)
Financing Activities		
Cash from shares issued	-	1,000,000
Cash from shares to be issued	70,000	-
Share issue costs	-	(65,157)
	70,000	934,843
Net cash used during the year	(62,105)	(183,052)
Cash and short-term deposits - beginning of year	141,393	324,445
Cash and short-term deposits - end of year	79,288	141,393

Supplemental cash flow information:

During the current year the Company received interest of \$6,249 (2007 - \$22,613) and during the comparative year issued 173,913 shares at \$0.23 per share for a finder's fee on its private placement. The Company has excluded from its investing cash flows \$14,355 (2007 - \$1,387) 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,

	2006	Expenditures	2007	Expenditures	2008
	\$	\$	\$	\$	\$
BRITISH COLUMBIA					
Atty and Pil Claims					
Acquisition	73,220	-	73,220	-	73,220
Assay, IP and linecutting	445,484	82,622	528,106	408	528,514
Camp accommodation and travel	912,131	107,928	1,020,059	-	1,020,059
Drilling	1,219,741	246,946	1,466,687	-	1,466,687
Equipment rental	108,966	20,647	129,613	-	129,613
Field office	115,318	-	115,318	931	116,249
Geological and geophysical	1,276,146	168,100	1,444,246	5,808	1,450,054
Road construction	392,273	-	392,273	-	392,273
	<u>4,543,279</u>	<u>626,243</u>	<u>5,169,522</u>	<u>7,147</u>	<u>5,176,669</u>
Silver Hope Claims					
Acquisition	166,540	7,388	173,928	2,406	176,334
Assay, IP and linecutting	58,769	13,759	72,528	82,653	155,181
Camp accommodation and travel	6,667	8,569	15,236	2,884	18,120
Drilling	-	230,428	230,428	-	230,428
Equipment rental	-	3,233	3,233	-	3,233
Geological and geophysical	43,029	37,969	80,998	25,805	106,803
Road construction	-	18,876	18,876	-	18,876
	<u>275,005</u>	<u>320,222</u>	<u>595,227</u>	<u>113,748</u>	<u>708,975</u>
Total Deferred Mineral Property Costs	<u><u>4,818,284</u></u>	<u><u>946,465</u></u>	<u><u>5,764,749</u></u>	<u><u>120,895</u></u>	<u><u>5,885,644</u></u>

See notes to the financial statements

FINLAY MINERALS LTD.
Notes to the Financial Statements
December 31, 2008 and 2007

1. **NATURE AND CONTINUANCE OF OPERATIONS**

The Company was 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.

These financial statements have been prepared assuming the Company will continue on a going-concern basis, or that it will continue to realize its assets and meet its obligations in the normal course of business. The Company has incurred losses since inception and has an accumulated operating deficit of \$490,271 at December 31, 2008 (2007 - \$777,642). The ability of the Company to continue as a going-concern depends upon its ability to develop profitable operations and to continue to raise adequate equity financing to fund its exploration and administrative expenses. The statements contain no adjustments which would likely become necessary should the Company become unable to continue as a going concern.

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 variables 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)*

Financial Instruments and Financial Risk

The Company's financial instruments consists of cash and short-term deposits, GST receivable, accounts payable and accrued liabilities, the fair values of which approximate their carrying amounts due to the short-term nature of these investments.

Share Capital

Common shares issued for non-monetary consideration are recorded at their fair market value based upon the lower of the trading price of the Company's shares on the TSX Venture Exchange on the date of the agreement to issue the shares or the date of share issuance. Shares issued as property option payments are valued at their fair market value on the date of 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 February 2008, the Company renounced \$995,652 raised through the issuance of flow-through shares in fiscal 2007 resulting in the recording of a future income tax recovery during the current year of \$308,652.

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 and the related contributed surplus, originally recognized when the options were granted, is transferred to share capital.

Income Taxes

The Company accounts for the tax consequences of the differences in the carrying amounts of assets and liabilities and their tax bases using tax rates expected to apply when these 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)*

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, 2008, 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.

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.

3. **CHANGES IN ACCOUNTING POLICIES**

Capital Disclosures

Effective January 1, 2008, the Company adopted new CICA Handbook section 1535 which requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance (note 11).

Financial Instruments - Disclosure and Presentation

Effective January 1, 2008, the Company adopted new CICA Handbook sections 3862 and 3863 which replace CICA Handbook Section 3861, Financial Instruments - Disclosure and Presentation. These standards increase the disclosures currently required, which will enable users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk (note 10). The quantitative disclosures must provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel.

The Company's financial instruments, at December 31, 2008, consist of cash and short-term deposits, GST receivable and accounts payable and accrued liabilities. Cash and short-term deposits and GST receivable have been classified as available for sale. The carrying values of cash and short-term deposits and GST receivable approximate their fair values due to their short term nature. Accounts payable and accrued liabilities are classified as other financial liabilities, measured at amortized cost using the effective interest rate method, however due to their short term nature, their carrying amounts approximate fair value.

New Canadian Accounting Pronouncements

International Financial Reporting Standards ("IFRS")

In February 2008 the Canadian Accounting Standards Board announced 2011 as the changeover date for publicly-listed companies to use IFRS, replacing Canada's own generally accepted accounting principles. The specific implementation is set for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

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 six million common shares (post subdivision) and a 3% Net Smelter Returns (“NSR”) royalty. The Company is also obligated to issue a further two million 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 two million dollars.

Silver Hope Claims

The Company acquired a 100% interest in 37 mineral claims, subject to a 1½% NSR, during 2006 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.

5. DUE TO RELATED PARTIES

As at December 31, 2008, \$26,246 (2007 - \$1,105) is due to a director’s private company. 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 directors are paid consulting fees at the rate of \$300-\$600 per day. During the current year, the Company incurred with these related parties \$32,395 (2007 - \$288,286) for property exploration costs and \$13,178 (2007 - \$2,470) for consulting. The Company’s solicitor is a director of the Company and charged \$9,517 (2007 - \$25,389) in legal costs.

All 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, 2006	33,134,170	\$ 4,122,597	\$ 199,934
Issued for:			
Private placement (flow-through shares)	4,521,737	889,939 ⁽¹⁾	44,904
Fair value of options vested: stock based compensation	-	-	200,902
Balance at December 31, 2007	37,655,907	5,012,536	445,740
Future income tax recovery (note 2)	-	(308,652)	-
Balance at December 31, 2008	<u>37,655,907</u>	<u>4,703,884</u>	<u>445,740</u>

(1) 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, which amount was expensed and offset to contributed surplus.

7. **SHARE CAPITAL** (continued)

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

The continuity of share purchase options is as follows:

	2008		2007	
	Number of Shares	Weighted Price \$	Number of Shares	Weighted Price \$
Opening balance	2,050,000	0.26	1,700,000	0.26
Granted during the year	-	-	1,200,000	0.20
Expired during the year	(525,000)	0.35	(850,000)	0.23
Closing balance	<u>1,525,000</u>	0.23	<u>2,050,000</u>	0.26
Weighted remaining life in years		2.88		3.03
Range of exercise prices		0.20-0.375		0.20-0.375

c) Share purchase warrants

The continuity of share purchase warrants is as follows:

	2008		2007	
	Number of Shares	Weighted Price \$	Number of Shares	Weighted Price \$
Opening balance	4,347,824	0.35	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>	0.50	<u>4,347,824</u>	0.35
Weighted remaining life in years		0.28		1.28
Range of exercise prices ⁽¹⁾		0.50		0.35

(1) Warrants were exercisable at \$0.35 per warrant during their first year and at \$0.50 during their second.

d) Agent options

The continuity of agent options is as follows:

	2008		2007	
	Number of Units	Weighted Price \$	Number of Units	Weighted Price \$
Opening balance	347,826	0.20	-	-
Granted during the year	-	-	347,826	0.20
Closing balance	<u>347,826</u>	0.20	<u>347,826</u>	0.20
Weighted remaining life in years		0.28		1.28
Range of exercise prices		0.20		0.20

Each Agent's option is exercisable into one unit at \$0.20 per unit until April 13, 2009, with 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.

7. **SHARE CAPITAL** (continued)

- 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.
- f) Obligation to issue shares

The Company received \$70,000 to December 31, 2008 under a private placement of units at \$0.05 per unit, each unit comprising one common share and one warrant exercisable into one common share at \$0.08 per share for two years. The private placement had not been finalized by report date. Refer to note 12.

8. **COMMITMENT**

At December 31, 2007, the Company was to incur approximately \$115,575 in eligible exploration expenditures prior to December 31, 2008 (incurred) 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:

	2008	2007
	\$	\$
Net loss for the year before tax recovery	<u>(83,852)</u>	<u>(284,667)</u>
Expected income tax expense (recovery)	(25,994)	(96,787)
Net adjustment for deductible and non-deductible amounts	(14,040)	33,312
Net change in valuation allowance	(22,537)	72,700
Tax assets recognized on flow-through renunciation	(308,652)	-
Total income tax (recovery) expense	<u>(371,223)</u>	<u>9,225</u>

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

	2008	2007
	\$	\$
Future income tax liabilities:		
Mineral property carrying amounts in excess of tax pools	(1,555,589)	(1,602,508)
Non-capital loss carryforwards	<u>306,370</u>	<u>290,718</u>
Net future tax liabilities	<u>(1,249,219)</u>	<u>(1,311,790)</u>

Subject to certain restrictions, the Company has mineral property expenditures at December 31, 2008 of approximately \$427,000 (2007 - \$423,000) available to reduce taxable income in future years. The Company also has non-capital losses available for deduction against future year's taxable income amounting to \$1,075,000 (2007 - \$969,000). 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. If unused, these tax losses will expire as follows:

2009	75,000
2010	115,000
2014	184,000
2015	156,000
2026	243,000
2027	173,000
2028	129,000
	<u>1,075,000</u>

10. **FINANCIAL INSTRUMENT RISKS**

The Company's financial instruments are exposed to the following risks:

Credit Risk

The Company's primary exposure to credit risk is the risk of illiquidity of cash and short-term deposits, amounting to \$9,288 at December 31, 2008. As the Company's policy is to limit cash holdings and short-term deposits to instruments issued by major Canadian banks, or investments of equivalent or better quality, the credit risk is considered by management to be negligible.

GST receivable at December 31, 2008, is \$2,993 due from the Canadian government.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to pay financial instrument liabilities as they come due. The Company's only liquidity risk from financial instruments is its need to meet operating accounts payable requirements. The Company has not maintained sufficient cash balances to meet these needs at December 31, 2008.

Foreign Exchange Risk

The Company has virtually no foreign exchange risk as all its activities are carried out in Canada and all its financial assets and liabilities are denominated in Canadian dollars.

Interest Rate Risk

The Company has been exposed to interest rate risk on its cash and short-term deposits. The majority of these deposits have been in discounted instruments with pre-determined fixed yields. Interest rate movements will affect the fair value of these instruments so the Company manages maturity dates of these instruments to match cash flow needs, enabling realization at no loss in almost all cases. Unrealized gains and losses are reported in other comprehensive income.

At December 31, 2008 the Company maintained all of its cash balance on deposit in a chequing account with a major Canadian bank.

Price Risk

The Company is not exposed to price risk.

11. **CAPITAL MANAGEMENT**

The Company's objectives for the management of capital are to safeguard its ability to continue as a going concern including the preservation of capital, and to achieve reasonable returns on invested cash after satisfying the objective of preserving capital.

The Company considers its cash and short-term deposits to be its manageable capital. The Company's policy is to maintain sufficient cash and deposit balances to cover operating and exploration costs over a reasonable future period, generally one to one and a half years. The Company accesses capital markets through equity issues as necessary and may also acquire additional funds where advantageous circumstances arise.

Excess cash deposits are restricted to guaranteed investment certificates of major banks or instruments of equivalent or better quality. No investments in asset-backed commercial paper are permitted.

The Company currently has no externally-imposed capital requirements except to maintain sufficient cash and deposit balances to meet exploration commitments entered into pursuant to flow-through share purchase agreements.

12. **SUBSEQUENT EVENT**

The Company received a further \$21,250 for a total of \$91,250 for its private placement of units which was still to be finalized at report date. Refer to note 7(f).