

FINLAY MINERALS LTD.

Financial Statements

December 31, 2017

and

December 31, 2016

(Expressed in Canadian Dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Finlay Minerals Ltd.

We have audited the accompanying financial statements of Finlay Minerals Ltd. which comprise the statements of financial position as at December 31, 2017 and 2016 and the statements of comprehensive loss, cash flows and changes in equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Finlay Minerals Ltd. as at December 31, 2017 and 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which indicates that the Company is dependent upon its ability to raise adequate financing and generate profitable operations in the future. These conditions indicate the existence of a material uncertainty that may cast doubt about the Company's ability to continue as a going concern.



CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, Canada
April 30, 2018

FINLAY MINERALS LTD.

Statements of Financial Position

As at December 31,

(Expressed in Canadian Dollars)

	2017	2016
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	304,168	144,424
Amounts receivable	9,194	2,806
Prepaid expenses	10,583	3,043
	323,945	150,273
Reclamation deposits	82,200	57,200
Exploration and evaluation assets (note 4)	8,011,657	7,901,920
	8,417,802	8,109,393
Liabilities and Equity		
Current liabilities		
Accounts payable and accrued liabilities	14,195	8,295
Due to related parties (note 6)	1,757	6,062
Liability for flow-through shares (note 11)	25,500	-
	41,452	14,357
Non-current liability		
Deferred income taxes (note 10)	1,481,101	1,507,953
	1,522,553	1,522,310
Shareholders' equity		
Share capital (note 7)	8,435,946	8,068,018
Contributed surplus (note 7)	1,421,452	1,205,502
Deficit	(2,962,149)	(2,686,437)
	6,895,249	6,587,083
	8,417,802	8,109,393

See accompanying notes to the financial statements

Nature and continuance of operations (note 1)

Subsequent events (note 12)

Approved by the Board of Directors and authorized for issue on April 30, 2018.

"Robert F. Brown"

Robert Brown, Director

"John Barakso"

John Barakso, Director

FINLAY MINERALS LTD.

Statements of Comprehensive Loss
For the years ended December 31,
(Expressed in Canadian Dollars)

	2017	2016
	\$	\$
Operating costs and expenses		
Advertising and promotion	11,807	3,910
Bank charges and interest	494	426
Equipment rentals	-	600
Insurance	4,005	4,005
Legal and accounting	19,110	16,790
Office and administration	10,614	7,698
Rent	19,968	11,726
Shareholder relations	176	-
Share-based payments (note 5)	215,950	90,212
Telephone	1,088	947
Travel and accommodation	4,792	1,708
Trust and filing fees	14,894	16,455
Loss before other items	(302,898)	(154,477)
Interest income	334	356
Loss before income taxes	(302,564)	(154,121)
Deferred income tax recovery (note 10)	26,852	17,709
Net loss and comprehensive loss for the year	(275,712)	(136,412)
Weighted average number of common shares outstanding	70,228,006	67,144,724
Basic and diluted loss per share	(0.00)	(0.00)

See accompanying notes to the financial statements

FINLAY MINERALS LTD.

Statements of Cash Flows
For the years ended December 31,
(Expressed in Canadian dollars)

	2017	2016
	\$	\$
Cash provided by (used for):		
Operating activities		
Net loss for the year	(275,712)	(136,412)
Items not involving the use of cash:		
Share-based payments	215,950	90,212
Deferred income tax recovery	(26,852)	(17,709)
	(86,614)	(63,909)
Changes in non-cash operating capital:		
Amounts receivable	(6,388)	(1,602)
Prepaid expenses	(7,540)	-
Accounts payable and accrued liabilities	5,900	(433)
Due to related parties	(4,305)	6,062
	(98,947)	(59,882)
Investing activities		
Reclamation deposits	(25,000)	-
Exploration and evaluation assets	(109,737)	(49,685)
	(134,737)	(49,685)
Financing activities		
Proceeds from shares issued	410,270	205,000
Share issue costs	(16,842)	(7,700)
	393,428	197,300
Increase in cash and cash equivalents	159,744	87,733
Cash and cash equivalents, beginning of the year	144,424	56,691
Cash and cash equivalents, end of the year	304,168	144,424
Cash and cash equivalents consist of:		
Cash	291,910	132,166
Guaranteed Investment Certificate	12,258	12,258
	304,168	144,424

See accompanying notes to financial statements

Supplementary disclosure:

During the year ended December 31, 2017, the company received \$334 (2016 - \$356) in interest.

FINLAY MINERALS LTD.Statements of Changes in Equity
(Expressed in Canadian dollars)

	Number of Shares	Share Capital	Contributed Surplus	Deficit	Total
		\$	\$	\$	\$
December 31, 2015	62,924,372	7,870,718	1,115,290	(2,550,025)	6,435,983
Share-based payments	-	-	90,212	-	90,212
Private placement	5,857,143	205,000	-	-	205,000
Share issue costs	-	(7,700)	-	-	(7,700)
Net loss for the year	-	-	-	(136,412)	(136,412)
December 31, 2016	68,781,515	8,068,018	1,205,502	(2,686,437)	6,587,083
Share-based payments	-	-	215,950	-	215,950
Private placement	5,386,333	384,770	-	-	384,770
Share issue costs	-	(16,842)	-	-	(16,842)
Net loss for the year	-	-	-	(275,712)	(275,712)
December 31, 2017	74,167,848	8,435,946	1,421,452	(2,962,149)	6,895,249

See accompanying notes to financial statements

FINLAY MINERALS LTD.

Notes to the Financial Statements

For the years ended December 31, 2017 and 2016

(Expressed in Canadian dollars)

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. The properties of the Company are without a known economically feasible ore body. The exploration programs undertaken and proposed constitute an exploratory search. There is no assurance that the Company will be successful in its search. The business of exploring for minerals and mining involves a high degree of risk. Few properties that are explored are ultimately developed into producing mines. Major expenses may be required to establish ore reserves, to develop metallurgical processes, and to construct mining and processing facilities at a particular site. It is not possible to ensure that the current exploration programs planned by the Company will result in a profitable commercial mining operation.

Although the Company has taken steps to verify title to resource properties in which it has an interest in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and noncompliance with regulatory requirements.

These financial statements have been prepared on the going concern basis, which assumes the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. Several adverse conditions cast substantial doubt on the validity of this assumption. The Company has incurred operating losses over the past several fiscal years (2017 - \$275,712; 2016 - \$136,412), has limited financial resources, no source of operating cash flow, and no assurances that sufficient funding, including adequate financing, will be available to conduct further exploration and development of its mineral property projects.

The application of the going-concern concept is dependent upon the Company's ability to generate future profitable operations and receive continued financial support from its creditors and shareholders. These financial statements do not give effect to any adjustments that might be required should the Company be unable to continue as a going concern and therefore, be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts differing from those reflected in the financial statements.

Management plans to continue to pursue equity or debt financing to support operations. Management believes this plan will be sufficient to meet the Company's liabilities and commitments as they become payable over the next twelve months. There can be no assurance that management's plan will be successful. Failure to maintain the support of creditors and obtain additional external equity financing will cause the Company to curtail operations and the Company's ability to continue as a going concern will be impaired. The outcome of these matters cannot be predicted at this time.

2) SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

Basis of preparation

These financial statements have been prepared on the historical cost basis. The presentation and functional currency of the Company is the Canadian dollar.

Cash and cash equivalents

Cash and cash equivalents are comprised of cash on hand, deposits in banks and highly liquid investments having terms to maturity of 90 days or less when acquired.

FINLAY MINERALS LTD.

Notes to the Financial Statements

For the years ended December 31, 2017 and 2016

(Expressed in Canadian dollars)

2) SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Significant accounting judgments, estimates and assumptions

The preparation of the Company's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Critical judgements in applying accounting policies:

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the financial statements:

- the determination that the Company will continue as a going concern for the next year; and
- the determination that there have been no events or changes in circumstances that indicate the carrying amount of exploration and evaluation assets may not be recoverable.

Exploration and evaluation expenditures

Once a license to explore an area has been secured, expenditures on mineral properties are capitalized to exploration and evaluation assets and classified as a non-current asset.

Exploration and evaluation expenditures relate to the initial search for deposits with economic potential and to detailed assessments of deposits or other projects that have been identified as having economic potential.

All capitalized exploration and evaluation expenditures are monitored for indications of impairment. Where a potential impairment is indicated, assessments are performed for each area of interest. To the extent that exploration and evaluation expenditures are not expected to be recovered they are charged to operations.

Share capital

The Company records proceeds from share issuances net of issue costs and any tax effects. Common shares issued for consideration other than cash are valued based on their market value at the date the agreement to issue shares was concluded.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting year. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been adversely impacted.

For all financial assets objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

FINLAY MINERALS LTD.

Notes to the Financial Statements

For the years ended December 31, 2017 and 2016

(Expressed in Canadian dollars)

2) SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets (continued)

At the end of each reporting year, and when relevant triggering events and circumstances occur, the carrying amounts of the Company's non-financial assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and the value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the year.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Income taxes

The Company uses the balance sheet method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred income tax assets also result from unused loss carry forwards, resource related pools and other deductions. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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 flow-through shares are issued, the sale of the tax deduction is valued (using the residual method) and deferred as a flow-through liability. When resource expenditures are renounced to the investors and the Company has reasonable assurance that the expenditures will be completed, the flow-through liability is reversed, and a deferred income tax liability is recognized.

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

Share-based payments

The Company's Stock Option Plan allows employees and consultants to acquire shares of the Company. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The fair value of the share-based payment is measured using the Black-Scholes option pricing model. The fair value of the share-based payment is recognized as an expense or capitalized to exploration and evaluation assets with a corresponding increase in contributed surplus. Consideration received on the exercise of stock options is recorded as share capital and a corresponding amount is transferred to share capital from contributed surplus.

FINLAY MINERALS LTD.

Notes to the Financial Statements

For the years ended December 31, 2017 and 2016

(Expressed in Canadian dollars)

2) SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Loss per share

Basic loss per share is calculated by dividing the loss available to common shareholders by the weighted average number of common shares outstanding in the period. Diluted loss per share is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period. Where the effects of including all outstanding options and warrants would be anti-dilutive, no dilution is calculated and the diluted loss per share is presented as the same as basic loss per share.

Reclamation deposits

The Company maintains cash deposits, or letters of credit secured by cash deposits, as required by regulatory bodies as assurance for the funding of reclamation costs. These funds are restricted to that purpose and are not available to the Company until the reclamation obligations have been fulfilled. Reclamation deposits are designated as loans and receivables, are recorded at amortized costs and are classified as non-current assets.

Mineral exploration tax credit (“METC”)

The Company recognizes METC amounts when the Company’s METC application is approved by Canada Revenue Agency or when the amount to be received can be reasonably estimated and collection is reasonably assured.

Financial instruments

Financial assets

The Company classifies its financial assets in the following categories: fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at recognition.

i. At fair value through profit or loss

Financial assets at fair value through profit or loss are initially recognized at fair value with changes in fair value recorded through profit or loss. Cash and cash equivalents are included in this category of financial assets.

ii. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets or non-current assets based on their maturity date. Loans and receivables are carried at amortized cost less any impairment. Amounts receivable, excluding HST, and reclamation deposits are included in this category of financial assets.

iii. Available-for-sale

Available-for-sale (“AFS”) financial assets are non-derivatives that are either designated as AFS or not classified in any of the other financial asset categories. Changes in the fair value of AFS financial assets are recognized as other comprehensive income and classified as a component of equity. Management assesses the carrying value of AFS financial assets at each reporting period and any impairment charges are also recognized in profit or loss. When financial assets classified as AFS are sold, the accumulated fair value adjustments recognized in other comprehensive income are included in profit or loss.

FINLAY MINERALS LTD.

Notes to the Financial Statements

For the years ended December 31, 2017 and 2016

(Expressed in Canadian dollars)

2) SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities

The Company's financial liabilities are classified as other financial liabilities.

Other financial liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs incurred and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in the statement of comprehensive loss over the period to maturity using the effective interest method.

Other financial liabilities are classified as current or non-current based on their maturity dates. Financial liabilities include accounts payable and accrued liabilities and due to related parties.

The Company does not have any derivative financial assets and liabilities.

3) NEW ACCOUNTING STANDARDS AND RECENT PRONOUNCEMENTS

The Company does not expect that the changes to IFRS that are effective as of January 1, 2018 and 2019 will have a significant impact on the Company's results of operations or financial position.

4) EXPLORATION AND EVALUATION ASSETS

Omineca Mining Division, British Columbia

Silver Hope Claims

The Company has a 100% interest in 30 mineral tenures, eight of which are subject to a 1½% Net Smelter Returns royalty ("NSR"), and were acquired 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.

Atty and Pil Claims

The Company has a 100% interest in 52 mineral claims, of which 23 mineral claims were acquired from a private company controlled by a director of the Company, in consideration for the issuance to that private company of nine million common shares (post subdivision) and a 3% NSR. 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. Subsequent to year-end, the Company entered into an option agreement, an amending agreement and a royalty agreement in respect of these claims (note 12).

FINLAY MINERALS LTD.

Notes to the Financial Statements

For the years ended December 31, 2017 and 2016

(Expressed in Canadian dollars)

4) EXPLORATION AND EVALUATION ASSETS (continued)

	December 31, 2015	Net Additions	December 31, 2016	Net Additions	December 31, 2017
	\$	\$	\$	\$	\$
BRITISH COLUMBIA					
Silver Hope Claims (note 5)					
Acquisition	166,873	-	166,873	-	166,873
Assay	176,070	206	176,276	405	176,681
Camp and travel	110,436	-	110,436	1,579	112,015
Drilling	1,274,952	-	1,274,952	-	1,274,952
Equipment rental	31,387	-	31,387	74	31,461
Field office	10,630	-	10,630	2,286	12,916
Geological and geophysical	803,614	-	803,614	2,520	806,134
Road construction	45,239	-	45,239	-	45,239
Tenure management	35,637	976	36,613	1,582	38,195
BCMETS refund	(19,495)	-	(19,495)	-	(19,495)
	2,635,343	1,182	2,636,525	8,446	2,644,971
Atty and Pil Claims (note 5)					
Acquisition	29,076	-	29,076	-	29,076
Assay	258,122	5,134	263,256	3,909	267,165
Camp and travel	1,036,884	16,248	1,053,132	31,151	1,084,283
Drilling	1,466,687	-	1,466,687	-	1,466,687
Equipment rental	130,483	944	131,427	-	131,427
Field office	117,449	28	117,477	30	117,507
Geological and geophysical	1,731,666	30,060	1,761,726	81,717	1,843,443
Road construction	392,273	-	392,273	-	392,273
Tenure management	54,684	333	55,017	333	55,350
BCMETS refund	(432)	(4,244)	(4,676)	(15,849)	(20,525)
	5,216,892	48,503	5,265,395	101,291	5,366,686
Total exploration and evaluation expenditures	7,852,235	49,685	7,901,920	109,737	8,011,657

5) RELATED PARTY TRANSACTIONS

Key management personnel compensation:

	2017	2016
	\$	\$
Mineral property geological consulting	20,924	14,378
Share-based payments	148,080	80,750

All transactions with related parties have occurred in the normal course of operations and management represents that they have occurred on a basis consistent with those involving unrelated parties.

6) DUE TO RELATED PARTIES

At December 31, 2017, the Company owes the Company's Chairman of the Board \$98 (2016 - \$630) for mineral property costs and administration expenses, \$29 (2016 - \$Nil) to the Company's President and CEO for administrative expenses, as well as \$1,630 (2016 -\$5,432) to a private company owned by a director and the Company's VP – Exploration for geological consulting costs. The amounts are unsecured, do not bear interest and have no fixed terms of repayment.

FINLAY MINERALS LTD.

Notes to the Financial Statements

For the years ended December 31, 2017 and 2016

(Expressed in Canadian dollars)

7) SHARE CAPITAL

- a) The authorized share capital of the Company consists of: an unlimited number of common shares
100,000,000 Class A preference shares
100,000,000 Class B preference shares

Common shares

On August 2, 2017 the Company issued 3,333,333 units at a price of \$0.06 for gross proceeds of \$200,000 in a private placement. Each unit consists of one common share and one-half of one share purchase warrant. Each whole warrant is exercisable for the purchase of an additional common share at \$0.10 for two years.

On December 19, 2017, the Company issued a total of 2,053,000 units of which 1,275,000 were flow-through units at \$0.11 and 778,000 were non-flow-through units at \$0.09 for gross proceeds of \$210,270 in a private placement. Each flow-through unit consists of one common share and one-half of one share purchase warrant. Each non-flow-through unit consists of one common share and one full share purchase warrant. Each whole warrant is exercisable for the purchase of an additional common share at \$0.20 for four years.

- b) Stock options

The continuity of stock options is as follows:

	2017		2016	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
		\$		\$
Balance, beginning of the year	3,650,000	0.09	3,450,000	0.17
Expired	(1,750,000)	0.14	(1,700,000)	0.20
Issued	1,750,000	0.10	1,900,000	0.05
Balance, end of the year	3,650,000	0.07	3,650,000	0.09
Exercisable, end of the year	3,650,000	0.07	3,650,000	0.09
Weighted average years to expiry		4.18		2.60

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Notes to the Financial Statements
For the years ended December 31, 2017 and 2016
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7) SHARE CAPITAL (continued)

c) Share purchase warrants

The continuity of share purchase warrants is as follows:

	2017		2016	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
		\$		\$
Balance, beginning of the year	7,886,905	0.08	4,958,333	0.10
Issued	3,082,166	0.15	2,928,572	0.05
Expired	(3,000,000)	0.10	-	-
Balance, end of the year	7,969,071	0.10	7,886,905	0.08
Weighted average years to expiry		1.33 ⁽²⁾		0.96 ⁽¹⁾

Notes:

- (1) During the year ended December 31, 2016, the Company extended 1,958,333 warrants with an original term of 24 months to 48 months; the new expiry date of these warrants is now October 7, 2018.
- (2) Subsequent to December 31, 2017, the Company extended 2,928,572 warrants with an original term of 24 months to 48 months; the new expiry date of these warrants is now April 12, 2020.

d) Share-based compensation

The weighted average fair value of stock options granted during the years ended December 31, 2017 and 2016 was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2017	2016
Expected dividend yield	0%	0%
Risk-free interest rate	1.63%	0.61%
Expected stock price volatility	168%	174%
Expected life of options	5 years	5 years
Weighted average fair value per stock option	\$0.1234	\$0.0475

Share-based compensation expense of \$215,950 was recorded during the year ended December 31, 2017 (2016 - \$90,212). The offsetting credit was recorded as contributed surplus.

Option pricing models require the input of highly subjective assumptions, particularly as to the expected price volatility of the stock. Changes in these assumptions can materially affect the fair value estimate and therefore it is management's view that the existing models do not necessarily provide a single reliable measure of the fair value of the Company's stock option grants.

e) Contributed surplus

Contributed surplus records the fair value of share-based payments, agent options and agent warrants until such time that the options and warrants are exercised, at which time the corresponding amount will be transferred to share capital.

FINLAY MINERALS LTD.

Notes to the Financial Statements

For the years ended December 31, 2017 and 2016

(Expressed in Canadian dollars)

8) CAPITAL MANAGEMENT

The Company's objectives for the management of capital are to safeguard the Company's 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 cash equivalents 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. The Company accesses capital markets as necessary and may also acquire additional funds where advantageous circumstances arise.

The Company currently has no externally-imposed capital requirements except to maintain sufficient cash and deposit balances to meet exploration commitments.

9) 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 cash equivalents, amounting to \$304,168 at December 31, 2017 (2016 - \$144,424). As the Company's policy is to limit cash holdings to instruments issued by major Canadian banks, or investments of equivalent or better quality, the credit risk is considered by management to be negligible.

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 liquidity risk from financial instruments is its need to meet accounts payable and accrued liabilities and related party balance obligations. The Company maintained sufficient cash and cash equivalent balances to meet these needs at December 31, 2017.

Interest Rate Risk

The Company has cash balances and only fixed interest-bearing guaranteed investment certificates. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institution. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

Fair Value of Financial Instruments

The fair value of the Company's financial assets and liabilities approximates the carrying amount. Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

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For the years ended December 31, 2017 and 2016

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9) FINANCIAL INSTRUMENT RISKS (continued)

The fair value classification of the Company's financial instruments as at December 31, 2017 and 2016 is as follows:

	Fair value level	2017		2016	
		Fair value through profit or loss	Loans and receivables and other financial liabilities at amortized cost	Fair value through profit or loss	Loans and receivables and other financial liabilities at amortized cost
		\$	\$	\$	\$
<i>Financial assets:</i>					
Cash and cash equivalents	1	304,168	-	144,424	-
Reclamation deposits		-	82,200	-	57,200
		304,168	82,200	144,424	57,200
<i>Financial liabilities:</i>					
Accounts payable and accrued liabilities		-	14,195	-	8,295
Due to related parties		-	1,757	-	6,062
		-	15,952	-	14,357

During the years ended December 31, 2017 and 2016, there were no transfers between level 1, level 2 and level 3 classified assets and liabilities.

10) INCOME TAXES

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

	2017	2016
	\$	\$
Net loss for the year before tax	(302,564)	(154,121)
Expected income tax recovery	(78,666)	(40,071)
Net adjustment for deductible and non-deductible amounts	51,832	21,177
Net change in valuation allowance	18	1,185
Total income tax recovery	(26,852)	(17,709)

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

	2017	2016
	\$	\$
Deferred income tax liabilities:		
Exploration and evaluation assets carrying amounts in excess of tax pools	(1,905,202)	(1,905,218)
Non-capital loss carry forwards and share issue costs	424,101	397,265
Net deferred tax liabilities	(1,481,101)	(1,507,953)

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10) INCOME TAXES (continued)

Subject to certain restrictions, the Company has exploration and evaluation expenditures at December 31, 2017 of approximately \$684,000 (2016 - \$574,000) available to reduce taxable income in future years. The Company also has non-capital losses available for possible deduction against future years' taxable income of approximately \$1,609,000 (2016 - \$1,512,000). The Company has not recognized any future benefit for these tax losses, credits and resource deductions, as it is not considered likely that they will be utilized. If unused, these non-capital losses will expire as follows:

	\$
2026	243,000
2027	173,000
2028	133,000
2029	79,000
2030	141,000
2031	212,000
2032	154,000
2033	122,000
2034	113,000
2035	69,000
2036	73,000
2037	97,000
	<u>1,609,000</u>

11) LIABILITY AND INCOME TAX EFFECT ON FLOW-THROUGH SHARES

Funds raised through the issuance of flow-through shares are expected to be expended on qualified Canadian mineral exploration expenditures, as defined pursuant to Canadian income tax legislation. The flow-through gross proceeds less the qualified expenditures made to date represent the funds received from flow-through share issuances that have not been spent and are held by the Company for such expenditures

On December 19, 2017, the Company issued 1,275,000 units on a flow-through basis at \$0.11 per unit for gross proceeds of \$140,250 and recognized a liability for flow-through shares of \$25,500. As at December 31, 2017, the Company has spent \$nil of the flow-through funds and have reversed \$nil of the flow-through liability.

12) SUBSEQUENT EVENTS

On March 1, 2018, the Company entered into an option agreement (the "OA") with Serengeti Resources Inc. ("Serengeti") and Electrum Resource Corp. (the "RH") to (i) grant Serengeti the exclusive right and option to acquire a 100% interest in and to the ATTY claims and (ii) to provide for the amendment of certain terms of the purchase agreement entered into between the Company and the RH dated as of July 29, 1999 (the "PA"). On execution of the OA, Serengeti paid \$25,000 to the Company. To exercise the option, Serengeti must, within 8 years of exchange approval and in accordance with the specific schedules:

- Pay \$975,000 by issuing shares, paying cash or a combination thereof, with the first \$25,000 being paid on exchange approval;
- Pay \$600,000 in cash and
- Incur at least \$12 million in expenditures, with the first \$300,000 incurred on or before the first anniversary of exchange approval.

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Notes to the Financial Statements

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12) SUBSEQUENT EVENTS *(continued)*

Pursuant to the OA, Serengeti was also granted the additional option whereby, upon its exercise, the PA will be amended by: (i) reducing the NSR payable from 3% to 1.5%, (ii) terminating the buydown right relating to the NSR and (iii) terminating certain provisions providing for additional consideration and area of mutual interest rights. In order to exercise the additional option, Serengeti must, within 8 years of exchange approval and in accordance with the specified payment schedule, pay \$250,000 to each of the Company and RH by issuing shares, paying cash or a combination thereof. Following the exercise of the option and the additional option, if Serengeti makes an ATTY Project Production Decision (as defined in the OA), it must make a payment, in cash or shares at its option, to RH equal to the lesser of the market value of 500,000 of its shares and \$1 million.

The OA received exchange approval on April 9, 2018.

On March 1, 2018, the Company and the RH entered into an amending agreement to amend the PA so that (i) certain clauses only apply to the ATTY claims and not the Pil claims; and (ii) to provide for a separate royalty agreement between the Company and the RH relating to the Pil claims. The PA was amended as follows:

- As additional consideration for the original purchase, the Company will issue 500,000 shares of the Company to RH immediately following an ATTY Project Production Decision (as defined in the OA); and
- Prior to an ATTY Project Production Decision (as defined in the OA), the Company may, at its sole discretion, purchase one half (1.5%) of the NSR from RH by paying \$1 million.

On March 1, 2018, the Company and the RH entered into a royalty agreement (the "RA") in respect of the Pil claims. The RA incorporates the mineral claims acquired under the Purchase Agreement with the RH dated as of October 1, 2001, as well as the rights and interest pertaining to the Pil claims, into the RA, and terminates the 2001 Purchase Agreement. As additional consideration for the purchase of the Pil claims, the Company:

- Will issue 1 million shares of the Company to RH immediately following a Pil Project Production Decision (as defined in the RA);
- Will pay an NSR of 3% to the RH; and
- May, at its sole discretion, and prior to a Pil Project Production Decision, purchase one half (1.5%) of the NSR from RH by paying \$2 million.