

FINLAY MINERALS LTD.

Financial Statements

December 31, 2015
and
December 31, 2014

(Expressed in Canadian Dollars)

INDEPENDENT AUDITORS' 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, 2015 and 2014, and the statements of comprehensive loss, changes in equity and cash flows for the years ended December 31, 2015 and 2014, 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.

Auditors' 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 about whether the financial statements are free from 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, 2015 and 2014 and their financial performance and their cash flows for the years ended December 31, 2015 and 2014 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 has limited working capital, no current sources of revenue and is dependent upon its ability to secure new sources of financing. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.



CHARTERED ACCOUNTANTS

Vancouver, BC
April 29, 2016

FINLAY MINERALS LTD.

Statements of Financial Position

As at December 31,

(Expressed in Canadian Dollars)

	2015	2014
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	56,691	145,227
Amounts receivable	1,204	10,352
Prepaid expenses	3,043	2,984
	60,938	158,563
Reclamation deposits	57,200	57,200
Exploration and evaluation assets (note 4)	7,852,235	7,826,650
	7,970,373	8,042,413
Liabilities and Equity		
Current liabilities		
Accounts payable and accrued liabilities	8,728	14,235
Due to related parties (note 6)	-	7,514
	8,728	21,749
Non-current liability		
Deferred income taxes (note 10)	1,525,662	1,501,382
	1,534,390	1,523,131
Shareholders' equity		
Share capital (note 7)	7,870,718	7,870,718
Contributed surplus (note 7)	1,115,290	1,115,290
Deficit	(2,550,025)	(2,466,726)
	6,435,983	6,519,282
	7,970,373	8,042,413

See accompanying notes to the financial statements

Nature and continuance of operations (note 1)

Approved by the Board of Directors and authorized for issue on April 29, 2016.

"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)

	2015	2014
	\$	\$
Operating costs and expenses		
Advertising and promotion	5,319	5,382
Bank charges and interest	367	317
Insurance	3,947	3,927
Legal and accounting	16,343	15,805
Office and administration	7,241	8,791
Rent	11,726	11,508
Shareholder relations	40	79
Telephone	931	878
Travel and accommodation	1,613	1,858
Trust and filing fees	12,065	14,632
Loss before other items	(59,592)	(63,177)
Interest income	573	309
Flow-through share premium	-	29,167
Loss before income taxes	(59,019)	(33,701)
Deferred income tax expense	(24,280)	(72,858)
Net loss and comprehensive loss for the year	(83,299)	(106,559)
Weighted average number of common shares outstanding	62,924,372	58,810,216
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)

	2015	2014
	\$	\$
Cash provided by (used for):		
Operating activities		
Net loss for the year	(83,299)	(106,559)
Items not involving the use of cash:		
Flow-through share premium	-	(29,167)
Deferred income tax expense	24,280	72,858
	(59,019)	(62,868)
Changes in non-cash operating capital:		
Amounts receivable	9,148	(6,727)
Prepaid expenses	(59)	(39)
Accounts payable and accrued liabilities	(5,507)	(464)
Due to related parties	(7,514)	(4,246)
	(62,951)	(74,344)
Investing activity		
Exploration and evaluation assets	(25,585)	(166,327)
Financing activities		
Cash from shares issued	-	350,000
Share issue costs	-	(20,514)
	-	329,486
Increase (decrease) in cash and cash equivalents	(88,536)	88,815
Cash and cash equivalents, beginning of the year	145,227	56,412
Cash and cash equivalents, end of the year	56,691	145,227
Cash and cash equivalents consist of:		
Cash	44,433	133,212
Guaranteed Investment Certificate	12,258	12,015
	56,691	145,227

See accompanying notes to financial statements

Supplementary disclosure:

During the year ended December 31, 2015, the company received \$573 (2014 - \$309) 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, 2013	56,507,705	7,570,399	1,115,290	(2,360,167)	6,325,522
Private placement (flow-through)	2,916,667	145,833	-	-	145,833
Private placement (non-flow-through)	3,500,000	175,000	-	-	175,000
Share issue costs	-	(20,514)	-	-	(20,514)
Net loss for the year	-	-	-	(106,559)	(106,559)
December 31, 2014	62,924,372	7,870,718	1,115,290	(2,466,726)	6,519,282
Net loss for the year	-	-	-	(83,299)	(83,299)
December 31, 2015	62,924,372	7,870,718	1,115,290	(2,550,025)	6,435,983

See accompanying notes to financial statements

FINLAY MINERALS LTD.

Notes to the Financial Statements

For the years ended December 31, 2015 and 2014

(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 (2015 - \$83,299; 2014 - \$106,559), 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, 2015 and 2014

(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 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, 2015 and 2014

(Expressed in Canadian dollars)

2) SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets

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 the balance sheet 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

FINLAY MINERALS LTD.

Notes to the Financial Statements

For the years ended December 31, 2015 and 2014

(Expressed in Canadian dollars)

2) SIGNIFICANT ACCOUNTING POLICIES *(continued)*

received on the exercise of stock options is recorded as share capital and a corresponding amount is transferred to share capital from contributed surplus.

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 auditors 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.

FINLAY MINERALS LTD.

Notes to the Financial Statements

For the years ended December 31, 2015 and 2014

(Expressed in Canadian dollars)

2) SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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

New standards, amendments and interpretations to existing standards not adopted by the Company

The following revised standards are effective for annual periods beginning on or after January 1, 2015 with earlier application permitted. The Company has assessed the impact of these standards and has determined that they would not have a material impact on the Company.

- IFRS 9, Financial Instruments (January 1, 2015)

There are no other IFRS's or IFRIC interpretations that are not yet effective that are expected to have a material impact on the Company.

4) EXPLORATION AND EVALUATION ASSETS

Omineca Mining Division British Columbia

Silver Hope Claims

The Company has a 100% interest in 29 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 (formerly 376 mineral claim units), 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.

FINLAY MINERALS LTD.

Notes to the Financial Statements

For the years ended December 31, 2015 and 2014

(Expressed in Canadian dollars)

4) EXPLORATION AND EVALUATION ASSETS (continued)

	December 31, 2013	Net Additions	December 31, 2014	Net Additions	December 31, 2015
	\$	\$	\$	\$	\$
BRITISH COLUMBIA					
Silver Hope Claims					
Acquisition	166,873	-	166,873	-	166,873
Assay	159,815	13,112	172,927	3,143	176,070
Camp and travel	83,175	26,681	109,856	580	110,436
Drilling	1,179,317	95,635	1,274,952	-	1,274,952
Equipment rental	27,913	3,474	31,387	-	31,387
Field office	8,392	2,238	10,630	-	10,630
Geological and geophysical	772,493	28,286	800,779	2,835	803,614
Road construction	43,498	1,741	45,239	-	45,239
Tenure management	31,644	3,826	35,470	167	35,637
BCMETS refund	(14,514)	(1,361)	(15,875)	(3,620)	(19,495)
	2,458,606	173,632	2,632,238	3,105	2,635,343
Atty and Pil Claims					
Acquisition	29,076	-	29,076	-	29,076
Assay	254,062	430	254,492	3,630	258,122
Camp and travel	1,022,794	1,920	1,024,714	12,170	1,036,884
Drilling	1,466,687	-	1,466,687	-	1,466,687
Equipment rental	130,483	-	130,483	-	130,483
Field office	117,449	-	117,449	-	117,449
Geological and geophysical	1,725,052	944	1,725,996	5,670	1,731,666
Road construction	392,273	-	392,273	-	392,273
Tenure management	53,500	174	53,674	1,010	54,684
BCMETS refund	(432)	-	(432)	-	(432)
	5,190,944	3,468	5,194,412	22,480	5,216,892
Total exploration and evaluation expenditures	7,649,550	177,100	7,826,650	25,585	7,852,235

5) RELATED PARTY TRANSACTIONS

Key management personnel compensation:

	2015	2014
	\$	\$
Mineral property geological consulting	14,078	49,101

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, 2015, the Company owes private companies owned by a director and the Company's Chairman of the Board \$Nil (2014 - \$7,514) for mineral property costs and administration expenses. 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, 2015 and 2014

(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 October 7, 2014 the Company issued 2,916,667 flow-through units at a price of \$0.06 for gross proceeds of \$175,000 in a private placement. Each unit is comprised of one flow-through common share of the Company and one-half warrant of which each whole warrant is exercisable into a common share at \$0.10 per share for two years.

On October 7, 2014 the Company issued 1,000,000 units at a price of \$0.05 for gross proceeds of \$50,000 in a private placement. Each unit is comprised of one common share of the Company and one-half warrant of which each whole warrant is exercisable into a common share at \$0.10 per share for two years.

On June 11, 2014 the Company issued 2,500,000 units at a price of \$0.05 for gross proceeds of \$125,000 in a private placement. Each unit is comprised of one common share of the Company and one warrant of which is exercisable into a common share at \$0.06 for one year.

- b) The continuity of stock options is as follows:

	2015		2014	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
		\$		\$
Balance, beginning of the year	3,450,000	0.17	4,600,000	0.15
Expired	-	-	(1,150,000)	0.10
Balance, end of the year	3,450,000	0.17	3,450,000	0.17
Exercisable, end of the year	3,450,000	0.17	3,450,000	0.17
Weighted average years to expiry		1.01		2.01

- c) Share purchase warrants

The continuity of share purchase warrants is as follows:

	2015		2014	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
		\$		\$
Balance, beginning of the year	9,215,833	0.18	10,763,399	0.18
Issued	-	-	4,458,333	0.08
Expired	(4,257,500)	(0.12)	(6,005,899)	0.21
Balance, end of the year	4,958,333	0.10	9,215,833	0.18
Weighted average years to expiry		0.99		1.43

FINLAY MINERALS LTD.

Notes to the Financial Statements

For the years ended December 31, 2015 and 2014

(Expressed in Canadian dollars)

7) SHARE CAPITAL *(continued)*

d) Contributed surplus

Contributed surplus records the fair value of share-based compensation, 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.

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 \$56,691 at December 31, 2015 (2014 - \$145,227). 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, 2015.

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:

FINLAY MINERALS LTD.

Notes to the Financial Statements

For the years ended December 31, 2015 and 2014

(Expressed in Canadian dollars)

9) FINANCIAL INSTRUMENT RISKS (continued)

- 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.

The fair value classification of the Company's financial instruments as at December 31, 2015 and 2014 is as follows:

	Fair value level	2015		2014	
		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	56,691	-	145,227	-
Reclamation deposits		-	57,200	-	57,200
		56,691	57,200	145,227	57,200
<i>Financial liabilities:</i>					
Accounts payable and accrued liabilities		-	8,728	-	14,235
Due to related parties		-	-	-	7,514
		-	8,728	-	21,749

During the years ended December 31, 2015 and 2014, 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:

	2015	2014
	\$	\$
Net loss for the year before tax	(59,019)	(33,701)
Expected income tax recovery	(15,345)	(8,762)
Net adjustment for deductible and non-deductible amounts	(2,799)	(20,675)
Net change in valuation allowance	42,424	131,462
Flow-through share premium	-	(29,167)
Total income tax expense	24,280	72,858

FINLAY MINERALS LTD.

Notes to the Financial Statements

For the years ended December 31, 2015 and 2014

(Expressed in Canadian dollars)

10) INCOME TAXES *(continued)*

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

	2015	2014
	\$	\$
Deferred income tax liabilities:		
Exploration and evaluation assets carrying amounts in excess of tax pools	(1,905,225)	(1,905,225)
Non-capital loss carry forwards and share issue costs	379,563	403,843
Net deferred tax liabilities	(1,525,662)	(1,501,382)

Subject to certain restrictions, the Company has exploration and evaluation expenditures at December 31, 2015 of approximately \$513,000 (2014 - \$499,000) 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 \$1,440,000 (2014 - \$1,525,000). 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	70,000
	<u>1,440,000</u>

11) SUBSEQUENT EVENTS

Subsequent to year-end the Company completed a private placement financing, issuing a total of 5,857,143 units at \$0.035 per unit for proceeds of \$205,000. Each unit consists of one common share and one half share purchase warrant. Each warrant is exercisable until April 12, 2018 at an exercise price of \$0.05 per share. The units will have a four month holding period expiring August 12, 2016.