

**RESOURCE FINANCE & INVESTMENT LTD.**

**(An Exploration Stage Company)**

**CONSOLIDATED FINANCIAL STATEMENTS**

**(Expressed in Canadian Dollars)**

**December 31, 2004 and 2003**

## Contents

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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**To the Shareholders of Resource Finance & Investment Ltd.:**

We have audited the accompanying consolidated balance sheets of Resource Finance & Investment Ltd. (an Exploration Stage Company) (the "Company") as at December 31, 2004 and 2003 and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years ended December 31, 2004 and 2003. 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 accounting principles and with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The financial statements as at December 31, 2002 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated March 26, 2003.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and 2003, and the results of its operations and its cash flows for each of the years ended December 31, 2004 and 2003, in accordance with Canadian generally accepted accounting principles.

Vancouver, B.C.

April 4, 2005 *except for note 5 which is as at April 11, 2005, and note 8 which is as at October 18, 2005*

***"Staley, Okada & Partners"***  
STALEY, OKADA & PARTNERS  
CHARTERED ACCOUNTANTS

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**Comments By Auditors For U.S. Readers On Canada - U.S. Reporting Difference**

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In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when financial statements are affected by future events, the outcome of which is indeterminable. As discussed in Note 1, the Company's continued existence as a going concern is dependent upon the future economic success of its exploration and development activities, the Company's ability to continue to secure adequate financing and the Company achieving a positive cash flow and profitable operations. Our report to the shareholders dated April 4, 2005, is expressed in accordance with Canadian reporting standards, which do not require a reference to such going concern considerations in the auditors' report when the situation is adequately disclosed in the financial statements.

Vancouver, B.C.

April 4, 2005 *except for note 5 which is as at April 11, 2005, and note 8 which is as at October 18, 2005*

***"Staley, Okada & Partners"***  
STALEY, OKADA & PARTNERS  
CHARTERED ACCOUNTANTS

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# Resource Finance & Investment Ltd.

Statement 1

(An Exploration Stage Company)

## Consolidated Balance Sheets

(Expressed in Canadian Dollars)

December 31

2004

2003

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### Assets

#### Current

Cash and cash equivalents

\$ 7,853 \$ 2,825

Prepaid expenses

28,500 -

36,353 2,825Property, plant and equipment, *net of accumulated amortization of \$1,478*

1,894 2,867

Mineral property costs *(Note 3) – Schedule*

492,447 245,407

Investment in Cadillac West Explorations Inc. *(Note 8)*420,497 -\$ 951,191 \$ 251,099

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### Liabilities

#### Current

Accounts payable

\$ 100,016 \$ 57,043

Accrued liabilities

16,069 18,718

116,085 75,761Loan payable *(Note 4)*176,317 11,787292,402 87,548Going concern *(Note 1)*

### Shareholders' Equity (Deficiency)

Capital stock *(Note 5) – Statement 3*

Authorized:

120,000,000 common shares with a par value of US\$0.001

Issued and allotted: *(Note 5)*

31,156,825 (2003 – 27,556,825) shares

33,253 28,579

Contributed surplus – *Statement 3*

11,752,599 10,710,096

Deficit accumulated during the exploration stage – *Statement 3*(11,127,063) (10,575,124)658,789 163,551\$ 951,191 \$ 251,099

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See accompanying notes to the consolidated financial statements.

# Resource Finance & Investment Ltd.

(An Exploration Stage Company)

## Consolidated Statements of Operations

(Expressed in Canadian Dollars)

Statement 2

	For the Year Ended December 31 2004	For the Year Ended December 31 2003	For the Year Ended December 31 2002	For the Period from October 16 1978 (inception) to December 31 2004 (Unaudited)
<b>Expenses</b>				
Consulting services	\$ 145,782	\$ 110,247	\$ 30,451	\$ 1,302,289
Depreciation	973	505	-	62,752
General expenses	42,960	5,182	2,705	365,863
Interest	17,195	38,125	20,034	221,177
Licenses, dues and taxes	-	1,772	13,639	70,695
Management services – stock-based compensation (Note 5)	247,759	149,566	-	397,325
Management services	-	8,000	12,000	502,644
Office, stationery and sundry	23,386	4,526	1,376	413,376
Professional fees	32,298	11,972	13,430	644,759
Rent (Note 7)	15,581	17,820	13,924	186,896
Salaries and benefits	-	36,447	68,973	244,360
Salaries and benefits – stock-based compensation (Note 5)	-	28,762	-	28,762
Shareholder, listing and public relations	48,034	18,787	25,292	425,993
Loss before other income (expense)	(573,968)	(431,711)	(201,824)	(4,866,891)
<b>Other income (expense)</b>				
Foreign exchange, interest and other	22,029	78,506	(3,532)	267,012
Gain on sale of marketable securities	-	-	-	18,662
Write-down of mineral property costs	-	-	(23,865)	(6,663,112)
Write-down of payables and accruals	-	(218)	-	127,266
Loss before income taxes	(551,939)	(353,423)	(229,221)	(11,117,063)
Income taxes	-	-	-	(10,000)
Net loss	\$ (551,939)	\$ (353,423)	\$ (229,221)	\$ (11,127,063)
Weighted average number of common shares outstanding	27,556,825	24,471,219	24,462,765	
Loss per common share – basic and diluted	\$ (0.02)	\$ (0.01)	\$ (0.01)	

See accompanying notes to the consolidated financial statements.

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**Resource Finance & Investment Ltd.**

(An Exploration Stage Company)

Statement 3

**Consolidated Statements of Shareholders' Equity (Deficiency)**

(Expressed in Canadian Dollars)

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	Common Shares		Contributed Surplus	Accumulated Deficit	Total
	Number	Amount			
Balance – December 31, 2001	24,462,765	\$ 24,463	\$ 9,751,410	\$ (9,992,480)	\$ (216,607)
Loss for the year	-	-	-	(229,221)	(229,221)
Balance – December 31, 2002	24,462,765	24,463	9,751,410	(10,221,701)	(445,828)
Shares issued in settlement of debt	3,094,060	4,116	661,034	-	665,150
Stock-based compensation	-	-	297,652	-	297,652
Loss for the year	-	-	-	(353,423)	(353,423)
Balance – December 31, 2003	27,556,825	\$ 28,579	\$ 10,710,096	\$ (10,575,124)	\$ 163,551
Stock-based compensation <i>(Note 5)</i>	-	-	247,759	-	247,759
Loss for the year	-	-	-	(551,939)	(551,939)
Private placement	3,600,000	4,674	794,744	-	799,418
Balance – December 31, 2004	31,156,825	\$ 33,253	\$ 11,752,599	\$ (11,127,063)	\$ 658,789

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See accompanying notes to the consolidated financial statements.

# Resource Finance & Investment Ltd.

(An Exploration Stage Company)

Statement 4

## Consolidated Statements of Cash Flows

(Expressed in Canadian Dollars)

	For the Year Ended December 31 2004	For the Year Ended December 31 2003	For the Year Ended December 31 2002	October 16 1978 (inception) to December 31 2004 (Unaudited)
Cash derived from (applied to)				
<b>Operating</b>				
Net loss	\$ (551,939)	\$ (353,423)	\$ (229,221)	\$ (11,127,063)
Depreciation	973	505	-	62,752
Stock-based compensation	247,759	178,328	-	426,087
Gain on sale of marketable securities	-	-	-	(18,662)
Write-down of mineral property costs	-	-	37,504	6,676,751
Changes in non-cash operating working capital				
Prepaid expenses	(28,500)	-	437	(28,500)
Accounts payable	42,973	(61,540)	29,431	91,288
Accrued liabilities	(2,649)	8,718	(16,157)	24,787
Due to related party	-	(24,000)	24,000	-
	<u>(291,383)</u>	<u>(251,412)</u>	<u>(154,006)</u>	<u>(3,892,560)</u>
<b>Investing</b>				
Proceeds on sale of interests in mineral properties	-	-	-	797,802
Proceeds on sale of marketable securities	-	-	-	98,662
Mineral property costs	(247,040)	(126,083)	(37,504)	(5,962,807)
Acquisition of mineral properties	-	-	-	(1,703,857)
Acquisition of property, plant and equipment	-	(3,372)	-	(139,744)
Proceeds on sale of property, plant and equipment	-	-	-	75,098
Investment in Cadillac West Explorations Inc.	(420,497)	-	-	(420,497)
	<u>(667,537)</u>	<u>(129,455)</u>	<u>(37,504)</u>	<u>(7,255,343)</u>
<b>Financing</b>				
Issue of common shares for cash, net of issue costs	799,418	-	-	10,314,279
Loan payable	164,530	380,752	185,069	841,467
	<u>963,948</u>	<u>380,752</u>	<u>185,069</u>	<u>11,155,746</u>
Increase (decrease) in cash	5,028	(115)	(6,441)	7,853
Cash and cash equivalents, beginning of period	2,825	2,940	9,381	-
Cash and cash equivalents, end of period	<u>\$ 7,853</u>	<u>\$ 2,825</u>	<u>\$ 2,940</u>	<u>\$ 7,853</u>

See accompanying notes to the consolidated financial statements.

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**Resource Finance & Investment Ltd.**

(An Exploration Stage Company)

Statement 4 (Continued)

**Consolidated Statements of Cash Flows** (Continued)

(Expressed in Canadian Dollars)

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	For the Year Ended December 31 2004	For the Year Ended December 31 2003	For the Year Ended December 31 2002	For the Period from October 16 1978 (inception) to December 31 2004 (Unaudited)
<b>Non-cash investing and financing transactions</b>				
Marketable securities received on the sale of interest in resource property	\$ -	\$ -	\$ -	\$ 80,000
Stock-based compensation included in mineral property costs	\$ -	\$ 119,324	\$ -	\$ 119,324
Stock-based compensation included in expenses	\$ 247,759	\$ 178,328	\$ -	\$ 426,087
Common shares issued in exchange for mineral properties	\$ -	\$ -	\$ -	\$ 200,000
Common shares issued in payment of agents' fees	\$ -	\$ -	\$ -	\$ 71,500
Common shares issued on settlement of debt	\$ -	\$ 665,150	\$ -	\$ 665,150

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See accompanying notes to the consolidated financial statements.

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**Resource Finance & Investment Ltd.**

Schedule

(An Exploration Stage Company)

**Consolidated Schedules of Mineral Property Costs**

(Expressed in Canadian Dollars)

December 31

2004

2003

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**Shawnee Project, Kentucky, U.S.A.**

## Acquisition costs

Mineral lease payments

\$ 16,219 \$ 16,022

Recovery costs

- (4,203)

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16,219 

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11,819

## Exploration costs

Camp and general

- 19,171

Consulting

4,765 25,238

Consulting – stock-based compensation

- 90,562

Salaries and wages

16,409 14,634

Salaries and wages – stock-based compensation

- 14,381

Sample analysis

- 35,557

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21,174 

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199,543

## Total

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37,393 

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211,362**Oregon Mineral Sands Project, Oregon, U.S.A.**

## Acquisition costs

Mineral lease payments

4,609 13,417

Recovery costs

- (8,390)

Royalty payment

129,840 -

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134,449 

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5,027

## Exploration costs

Salaries and wages

49,217 14,637

Salaries and wages – stock-based compensation

- 14,381

Consulting

20,727 -

Sample analysis

5,254 -

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75,198 

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29,018

## Total

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209,647 

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34,045

## Costs for the year

247,040 245,407

## Balance – Beginning of year

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245,407 

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## Balance – End of Year

\$ 

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492,447 \$ 

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245,407

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See accompanying notes to the consolidated financial statements.

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# Resource Finance & Investment Ltd.

(An Exploration Stage Company)

## Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

December 31, 2004 and 2003

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### 1. Operations and Going Concern

Until fiscal year 1999, the Company was a junior resource company engaged in the business of acquiring, exploring and developing mineral resource properties in the United States and Venezuela.

An extraordinary general meeting of shareholders was held on September 9, 1994, at which time shareholders of the Company approved, by special resolution, the continuance of the Company from British Columbia to Bermuda in accordance with provisions of Part XA of the Companies Act, 1981 (Bermuda), as amended, and the British Columbia Company Act. On April 4, 1997, the Company changed its name to Resource Finance & Investment Ltd.

During 2000, management determined that the Company would no longer pursue its resource business and instead switched the Company's focus to that of the maintenance of existing leases (Note 3) and identification of business opportunities of a more general nature. In 2003, in response to escalating prices for commodities and rare minerals, the Company decided to reactivate its interests in Kentucky lands and conduct ongoing appraisals and evaluations for various minerals. In addition the Company continues to evaluate potential acquisitions and joint venture partnerships where significant value can be generated for shareholders. These represent the main activities of the Company as a business concern.

These financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future.

The Company has incurred significant losses and negative cash flow from operations since inception. The Company's ability to continue as a going concern is uncertain and is dependent upon obtaining additional financing and achieving a profitable level of operations. The Company converted shares for debt during fiscal year 2003, but will require additional funding to continue in its efforts to identify a business opportunity. Management undertook a private placement of 3,600,000 shares to raise US\$648,000 (CDN\$841,493). As of the balance sheet date, these shares had been allotted but not issued. Subsequent to the date of the financial statements, these shares were issued from the treasury of the Company. Management intends to raise further financing in the future by private share placements and by utilising the US\$500,000 line of credit currently available. There can be no assurance that future private share placements can be successfully concluded.

These consolidated financial statements do not give effect to any adjustments which would be necessary 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 different from those reflected in the accompanying consolidated financial statements.

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### 2. Summary of Significant Accounting Policies

The consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles, which as applied in these consolidated financial statements, conform in all material respects with accounting principles generally accepted in the United States except as disclosed in Note 10.

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# Resource Finance & Investment Ltd.

(An Exploration Stage Company)

## Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

December 31, 2004 and 2003

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### 2. Summary of Significant Accounting Policies (Continued)

#### Basis of Consolidation

The consolidated financial statements include the accounts of Resource Finance & Investment Ltd. ("RFI") and its wholly-owned U.S.A. subsidiaries:

- Oregon Resources Corporation ("ORC");
- Dynamex Resources Corporation ("DYN").

Both subsidiaries have been recorded under the purchase method of accounting. All intercompany transactions and balances have been eliminated on consolidation. Included in these consolidated financial statements are the results of operations of the parent company and the above subsidiaries from their respective dates of incorporation.

#### Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

#### Property, Plant and Equipment, and Depreciation

Property, plant and equipment are valued at cost less accumulated depreciation. Property, plant and equipment are depreciated over their estimated useful lives at the following rates and methods:

- Computer equipment - 30% declining balance

One-half of the above rate is applied in the year of acquisition. The Company regularly reviews its property, plant and equipment to eliminate obsolete items.

#### Mineral Properties

Mineral properties consist of exploration and mining concessions, options and contracts. Acquisition and leasehold costs and exploration costs are capitalized and deferred until such time as the property is put into production or the property is disposed of either through sale or abandonment. If put into production, the costs of acquisition and exploration will be written off over the life of the property, based on estimated economic reserves. Proceeds received from the sale of any interest in a property will first be credited against the carrying value of the property, with any excess included in operations for the period. If a property is abandoned, the property and deferred exploration costs will be written off to operations.

The costs capitalized for mineral properties are reviewed on a property-by-property basis to consider if there is any impairment on the subject property. When the carrying value of the property exceeds the net estimated recoverable amount for that property a provision is made for impairment in value. The net realizable value is determined based on identifiable geological reserves, joint venture expenditures or commitments or the Company's assessment of its ability to sell the property for its carrying value.

The recorded costs do not necessarily reflect present or future values of the mineral properties.

When the Company acquires or disposes of a property subject to an option agreement the option is exercisable at the option of the optionee and as such the accounts payable or receivable are not recorded relating to requirements under the subject option agreement. Option payments and expenditures are recorded as mineral property costs when the payments are made or the expenditures are completed.

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# Resource Finance & Investment Ltd.

(An Exploration Stage Company)

## Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

December 31, 2004 and 2003

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### 2. Summary of Significant Accounting Policies (Continued)

#### Cash and Cash Equivalents

Cash and cash equivalents consists of cash on hand and balances with banks and highly liquid temporary money market instruments with original maturities of three months or less.

#### Income Taxes

The Company follows the liability method of accounting for income taxes based on the accounting recommendations issued by the Canadian Institute of Chartered Accountants. Under the liability method, future income tax assets and liabilities are computed based on differences between the carrying amount of assets and liabilities on the balance sheet and their corresponding tax values, using the enacted income tax rates at each balance sheet date. Future income tax assets can also result from unused loss carry-forwards and other deductions. The valuation of any future income tax assets is reviewed annually and adjusted, if necessary, by use of a valuation allowance to reflect the uncertainty that the assets will be realized.

#### Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated at year-end exchange rates.

The monetary assets and liabilities of ORC and DYN, integrated foreign subsidiaries financially dependent on the parent company, are translated at the rates of exchange on the balance sheet date. Other consolidated balance sheet items and revenues and expenses are translated at the rates prevailing on the respective transaction dates.

Gains and losses on foreign exchange are included in the results of operations.

#### Financial Instruments

The Company has various financial instruments including cash and cash equivalents, accounts payable and loan payable. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The carrying value of these financial instruments approximates their fair value.

#### Stock-Based Compensation

As encouraged by CICA Handbook Section 3870, the Company has enacted prospectively early adoption of the fair value based method of accounting for awards issued to employees for the fiscal year beginning January 1, 2003.

The new standard requires that all stock-based awards made to employees and non-employees be measured and recognized using a fair value based method. In prior years, stock-based compensation expense was only recognized when stock-based compensation awards were made to non-employees, while pro-forma disclosure was acceptable for awards made to employees.

#### Loss per Common Share

Basic loss per share is computed by dividing net loss available to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted loss per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on loss per share. The dilutive effect of convertible securities is reflected in diluted loss per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted loss per share by application of the treasury stock method.

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# Resource Finance & Investment Ltd.

(An Exploration Stage Company)

## Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

December 31, 2004 and 2003

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### 2. Summary of Significant Accounting Policies (Continued)

#### Share Capital

The proceeds from the exercise of stock options, warrants and escrow shares are recorded as share capital in the amount for which the option, warrant or escrow share enabled the holder to purchase a share in the Company.

Share capital issued for non-monetary consideration is recorded at an amount based on fair market value.

#### Asset Retirement Obligations – Change in Accounting Policy

Effective January 1, 2004, the Company adopted the recommendations of CICA Handbook Section 3110, *Asset Retirement Obligations*. This new section requires recognition of a legal liability for obligations relating to retirement of property, plant, and equipment, and arising from the acquisition, construction, development, or normal operation of those assets. Such asset retirement cost must be recognized at fair value, when a reasonable estimate of fair value can be estimated, in the period in which it is incurred, added to the carrying value of the asset, and amortized into income on a systematic basis over its useful life.

There is no material impact on the consolidated financial statements resulting from the adoption of Section 3110 either in the current or prior years presented.

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### 3. Mineral Property Costs

The Company has mineral leases in Oregon via its subsidiary ORC and in Kentucky via DYN.

The Oregon leases consist of two principal leases: the Yoder Lease, which was renegotiated in 2003 on which the first payment was made in January 2004, and the Weyerhauser Lease, to which verbal commitment has been made by the leaseholder once activity to develop the area commences. At present, the annual lease payment commitment on the Yoder Lease is US\$6,400, should this lease be maintained.

As at December 31, 2004, the Company was current on its active Kentucky leases. As at December 31, 2004, the Company was required to make the annual lease payments on the Kentucky project of approximately US\$9,540 (2003 – US\$15,060) to maintain the current leases.

The Company does not have a legal obligation to make lease payments. The effect of non-payment is cancellation of a resource property lease.

Details of deferred mineral property costs are as follows:

	Acquisition	Exploration	Total 2004	Total 2003
Shawnee Project, Kentucky, U.S.A.	\$ 2	\$ 22	\$ 248	\$ 211
Oregon Project, Oregon, U.S.A.	13	10	243	34
	\$ 16	\$ 32	\$ 492	\$ 245

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# Resource Finance & Investment Ltd.

(An Exploration Stage Company)

## Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

December 31, 2004 and 2003

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### 4. Loan Payable

As at December 31, 2004, borrowings on the maximum US\$500,000 (2003 - US\$250,000) line of credit had a balance of \$176,317 (2003- \$11,787). The facility bears interest at a rate of 8%, and is secured by the Company's shares in subsidiaries. The loan is repayable on December 31, 2006. This loan facility is with a company whose director is also an officer of the Company. Current year's interest expense on this loan was \$11,693 (2003 - \$32,933).

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### 5. Capital Stock

#### Par Value

During the fiscal year 2002, the par value of common shares was changed from CDN\$0.001 to US\$0.001.

#### Issuance of Shares

During the year, the Company signed an agreement to issue 3,600,000 shares to raise US\$648,000 (CDN\$799,418, net of a finders fee of \$42,075) as a private placement to various investors. As of the date of the financial statements, all funds had been received, however, no shares were issued. Subsequent to the date of the financial statements, these shares were issued from the treasury of the Company. They have been showed as allotted as at December 31, 2004.

#### Stock Options

The Company has granted stock options to directors, officers and employees as follows:

Number Outstanding December 31, 2003	Granted	Exercised	Expired / Cancelled	Number Outstanding December 31, 2004	Exercise Price per Share (USD)	Expiry Date
900,000	-	-	-	900,000	\$ 0.17	August 31, 2008
1,000,000	-	-	1,000,000	-	\$ 0.19	February 19, 2004
-	150,000	-	-	150,000	\$ 0.18	August 2, 2009
-	1,500,000	-	-	1,500,000	\$ 0.19	June 24, 2006
1,900,000	1,650,000	-	1,000,000	2,550,000		

On May 27, 2003, the Company entered an agreement with Marum Resources Inc. to explore and evaluate its Kentucky lands for Kimberlite. The remuneration offered included the grant of 1,000,000 options exercisable at US\$0.19 until February 19, 2004. These options lapsed during the current year.

On September 1, 2003, each of the directors were granted stock options under the terms of the Company's stock option plan. Mr. Nicholas Plumbridge received 250,000 options; Mr. Michael Brickell received 250,000; Mr. Isaac Moss received 150,000; and Ms. Cheryl Wilson received 250,000. These options are exercisable from September 1, 2003 to August 31, 2008 at an exercise price of US\$0.17 per share.

On June 25, 2004, Mr. Phillip Garratt, in conjunction with his appointment as Chief Executive of the Company, was awarded 1,500,000 options exercisable at a price per share of US\$0.19, within two years of the date of the grant. On August 3, 2004, Mr. Michael Brickell was granted a further 150,000 options exercisable at a price per share of US\$0.18 within five years of the date of the grant.

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# Resource Finance & Investment Ltd.

(An Exploration Stage Company)

## Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

December 31, 2004 and 2003

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### 5. Capital Stock (Continued)

#### Stock-Based Compensation

For the newly granted options, compensation expense is based on the fair value of the options at the grant date. For any options that have alteration in their conditions, compensation expense is based on the fair value of the options on the alteration date less the fair value of the original options based on the shorter of the remaining expanded life of the old option or the expected life of the modified option.

Effective January 1, 2003, the Company recognizes compensation expense on stock options granted to both employees and non-employees using the fair value method, which the Company records as an expense or adds to mineral property costs as applicable. The stock option compensation expense is calculated using the Black-Scholes Option Pricing Model in 2004 and 2003 with the following weighted average assumptions from the date of grant:

Risk-free interest rate	3.97%
Expected dividend yield	-
Expected stock price volatility	188%
Expected option life in years	3.72

Current year stock-based compensation amounted to \$247,759 (2003 - \$297,652), which was included in the contributed surplus account. The stock option benefit related to 1,500,000 options granted to Mr. Phillip Garratt and amounting to \$220,188 was included in management services stock-based compensation. The stock option benefit related to 150,000 options granted to Mr. Michael Brickell and amounting to \$27,571 was included in management services stock-based compensation.

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 estimated, 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.

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### 6. Income Taxes

At December 31, 2004, the Company had net deferred tax assets of approximately \$1,190,000, arising from net operating loss carryforwards, for income tax purposes. The expected federal income tax rate was 34% as of December 31, 2004. As management of the Company cannot determine that it is more likely than not that the Company will realize the benefit of the net deferred tax asset, a valuation allowance equal to the net deferred tax asset has been established at December 31, 2004.

The following summarized the provisions for taxes:

	December 31, 2004
Net operating loss carryforwards	\$3,500,000
Deferred tax asset	\$1,190,000
Deferred tax asset valuation allowance	\$(1,190,000)

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# Resource Finance & Investment Ltd.

(An Exploration Stage Company)

## Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

December 31, 2004 and 2003

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### 6. Income Taxes (Continued)

At December 31, 2004, the Company has net operating loss carryforwards of approximately \$3,500,000, which expire periodically over the next 20 years.

The potential future tax benefits of these losses have not been recognized in the accounts of the Company.

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### 7. Related Party Transactions

Except as noted elsewhere in these consolidated financial statements, related party transactions are as follows:

Salaries and benefits of \$87,494 (2003 - \$65,718) were paid to a director of the Company. Out of the total amount of salaries, \$24,943 (2003 - \$36,447) was expensed as part of administrative expenses, and the remaining amount was recorded as part of exploration costs.

Office rent expense of \$ 15,581 (2003 - \$16,755) was paid to a director of the Company.

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### 8. Investment in Cadillac West Explorations Inc.

On June 30, 2004, RFI entered into an agreement with the unincorporated *partnership* of Andre Audet and Victor Erickson ("A&E") to take assignment of 282 mineral claims comprising approximately 9,450 hectares in Beauchastel and Dasserat Townships in the province of Quebec. Messrs. Audet and Erickson have become advisors to RFI. A&E has also signed an agreement ("Richmont Agreement") with Richmont Mines Inc., of Rouyn-Noranda, Quebec. Per the agreement, A&E, or its assignee has the right to earn a 50% interest via two separate options in 77 claims covering approximately 2,185 hectares in Beauchastel and Dasserat Townships.

As per the agreement between RFI and A&E, the A&E claims and the Richmont Agreement have been transferred into Cadillac West Explorations Inc. ("CWE"), a company incorporated in the province of British Columbia on June 8, 2004.

A&E will be issued 3,000,000 common shares in CWE, with a further 1,000,000 common shares for each of the two property options contained in the Richmont Agreement, to be released or cancelled, as the case may be, upon satisfaction or termination of the said property options.

RFI is to fund CWE CDN\$1,000,000. These funds will be secured by a note which shall be convertible into common shares of CWE at the rate of 10 CWE shares for each dollar advanced on or before March 31, 2005. Upon conversion of the full \$1,000,000 of advances, RFI shall also be granted 2,000,000 CWE share purchase warrants exercisable until November 30, 2008 at \$0.25 per CWE common share.

As at the balance sheet date, total funds advanced by RFI amount to \$420,497.

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### 8. Investment in Cadillac West Explorations Inc. (Continued)

This agreement was extended and modified by an amended agreement signed June 8, 2005. As per the modifications, RFI agreed to fund CWE \$700,000 instead of the original \$1,000,000. Pursuant to this amended agreement, CWE agreed to issue to RFI 7,000,000 CWE common shares and 1,400,000 CWE share purchase warrants exercisable until November 30, 2008 at \$0.25 per share in settlement of \$700,000 RFI's advances (\$420,497 of advances were made in 2004 and \$279,503 of advances made in 2005). These shares and warrants have been reserved and allotted for issuance by CWE, but they have not been physically issued yet.

As well, CWE will require additional funding which will be obtained through private placement equity funding, at a price not less than \$0.20 per share. If CWE is unable to obtain additional funding in the amount of \$150,000 by June 20, 2005, RFI will provide, on a best efforts basis, funding equal to the shortfall (i.e. the amount by which \$150,000 exceeds the funding raised by CWE). RFI will receive for this funding additional shares of CWE at the rate of one share for each \$0.10 of additional funding provided. CWE will attempt to raise an additional \$150,000 on or before October 10, 2005 through private placement equity funding, at a price not less than \$0.20 per share. If CWE is unable to obtain \$150,000 in funding by October 10, 2005, RFI will, on a best efforts basis, provide funding in the amount equal to the shortfall. RFI will receive, for this second round of financing, additional shares of CWE at the rate of one share for each \$0.10 of additional funding provided. As of October 18, 2005, RFI has not provided any additional funding with respect to the above mentioned two equity financing arrangements contemplated by CWE.

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### 9. Agreement with IBK Capital Corp.

On August 18, 2004, RFI entered into an agreement with IBK Capital Corp. on their assistance in obtaining equity financing of C\$1.25 million by way of a private placement. As per the agreement, IBK Capital will prepare the necessary materials on the Company to be used in the financing, they will approach selected parties on behalf of RFI with respect to seeking interest from parties to participate in the financing with RFI and IBK Capital will advise RFI as to the structure and terms of any proposed financing. In consideration of the services rendered by IBK Capital, IBK will receive a work fee of \$25,000 (paid as of December 31, 2004), a commission equal to 7% of the total amount of funds provided through IBK and warrants equal to 6% of the funds provided through IBK at US\$0.30. These warrants will have a life of one year.

As of balance sheet date, total funds advanced to IBK totalled \$28,500. No shares have been placed through the services of IBK as of December 31, 2004.

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### 10. Reconciliation of Generally Accepted Accounting Principles

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada. Except as set out below, these financial statements also comply, in all material aspects, with accounting principles generally accepted in the United States and the rules and regulations of the Securities Exchange Commission.

Under Canadian GAAP, the mineral properties are carried at cost and written off or written down if the properties are abandoned, sold or if management decides not to pursue the properties. Under United States GAAP, the Company would periodically review and obtain independent reports in determining adjustments to the mineral properties and record properties at net realizable value. The Company has not yet obtained an independent report for United States GAAP purposes, therefore, the Company's mineral property costs have been written off.

# Resource Finance & Investment Ltd.

(An Exploration Stage Company)

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(Expressed in Canadian Dollars)

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### 10. Reconciliation of Generally Accepted Accounting Principles (Continued)

The impact of the above differences between Canadian and United States GAAP on loss for the period is as follows:

	Year Ended December 31 2004	Year Ended December 31 2003	Year Ended December 31 2002	For the period from October 16, 1978 (Inception) to December 31 2004
Loss for the period as reported	\$ (551,939)	\$ (353,423)	\$ (229,221)	\$ (11,127,063)
Write-off of mineral property costs	(247,040)	(245,407)	-	(492,447)
Loss for the period in accordance with United States GAAP	\$ (798,979)	\$ (598,830)	\$ (229,221)	\$ (11,619,510)
Loss per share for the year in accordance with United States GAAP – basic and diluted	\$ (0.03)	\$ (0.02)	\$ (0.01)	

The impact of the above differences between Canadian and United States GAAP on the statement of changes in shareholders' equity (deficiency) as reported, is as follows:

	Common Shares		Contributed Surplus	Comprehensive Income	Accumulated Deficit	Total
	Number	Amount				
Shareholders' equity (deficiency) as reported at December 31, 2002	24,462,765	\$ 24,46	\$ 9,751,410	\$ -	\$ (10,221,701)	\$ (445,828)
Write-off of mineral property costs	-		-	-	-	-
Shareholders' equity (deficiency) in accordance with United States GAAP at December 31, 2002	24,462,765	\$ 24,46	\$ 9,751,410	\$ -	\$ (10,221,701)	\$ (445,828)
Shareholders' equity (deficiency) as reported at December 31, 2003	27,556,825	\$ 28,57	\$ 10,710,096	\$ -	\$ (10,575,124)	\$ 163,551
Write-off of mineral property costs	-		-	-	(245,407)	(245,407)
Shareholders' equity (deficiency) in accordance with United States GAAP at December 31, 2003	27,556,825	\$ 28,57	\$ 10,710,096	\$ -	\$ (10,820,531)	\$ (81,856)
Shareholders' equity (deficiency) as reported at December 31, 2004	31,156,829	\$ 33,25	\$ 11,752,599	\$ -	\$ (11,127,063)	\$ 658,789
Write-off of mineral property costs	-		-	-	(492,447)	(492,447)
Shareholders' equity (deficiency) in accordance with United States GAAP at December 31, 2004	31,156,829	\$ 33,25	\$ 11,752,599	\$ -	\$ (11,619,510)	\$ 166,342

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### 10. Reconciliation of Generally Accepted Accounting Principles (Continued)

The impact of the above difference between Canadian and United States GAAP on the statement of cash flows, as reported, is as follows:

	Year Ended December 31 2004	Year Ended December 31 2003	Year Ended December 31 2002
Cash flows from operating activities			
As reported	\$ (291,383)	\$ (251,412)	\$ (154,006)
Mineral property costs	(247,040)	(245,407)	-
Per United States GAAP	\$ (538,423)	\$ (496,819)	\$ (154,006)
Cash flows from investing activities			
As reported	\$ (667,537)	\$ (129,455)	\$ (37,504)
Mineral property costs	247,040	245,407	-
Per United States GAAP	\$ (420,497)	\$ 115,952	\$ (37,504)

In January 2003, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 46 ("FIN 46"), "*Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51.*" FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity, if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. However, in December 2003, the FASB published a revision to FIN 46 to clarify some of the provisions of FIN 46, and to exempt certain entities from its requirements. Under the new guidance, there are new effective dates for companies that have interests in structures that are commonly referred to as special-purpose entities. The rules are effective in financial statements for periods ending after March 15, 2004. The adoption did not have any impact on the Company's financial statements.

On April 30, 2003, the FASB issued SFAS No. 149, "*Amendment of Statement 133 on Derivative Instruments and Hedging Activities.*". SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. The new guidance amends SFAS No. 133 for decisions made as part of the Derivatives Implementation Group ("*DIG*") process that effectively required amendments to SFAS No. 133, and decisions made in connection with other FASB projects dealing with financial instruments and in connection with implementation issues raised in relation to the application of the definition of a derivative and characteristics of a derivative that contains financing components. In addition, it clarifies when a derivative contains a financing component that warrants special reporting in the statement of cash flows. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The Company adopted SFAS 149, as required, on July 1, 2003, with no material impact on its financial statements.

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### 10. Reconciliation of Generally Accepted Accounting Principles (Continued)

In May 2003, the FASB issued SFAS 150, "*Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*". SFAS No. 150 establishes standards for classifying and measuring as liabilities certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity. SFAS No. 150 is effective for all financial instruments created or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company adopted SFAS 150, as required, on July 1, 2003, with no material impact on its financial statements.

In December 2003, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition. SAB 104 revises or rescinds portions of the interpretive guidance included in Topic 13 of the codification of staff accounting bulletins in order to make this interpretive guidance consistent with current authoritative accounting and auditing guidance and SEC rules and regulations. The adoption of SAB 104 did not have a material effect on the Company's financial statements.

In December 2004, the FASB issued Statement of Financial Accounting Standard (SFAS) No. 123R, "Share Based Payment". SFAS 123R is a revision of SFAS No. 123 "Accounting for Stock-Based Compensation", and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees" and its related implementation guidance. SFAS 123R establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. SFAS 123R focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS 123R does not change the accounting guidance for share-based payment transactions with parties other than employees provided in SFAS 123 as originally issued in Emerging Issues Task Force Issue No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services". SFAS 123R does not address the accounting for employee share ownership plans, which are subject to AICPA Statement of Position 93-6, "Employers' Accounting for Employee Stock Ownership Plans". SFAS 123R requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award – the requisite service period (usually the vesting period). SFAS 123R requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. The scope of SFAS 123R includes a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. Public entities (other than those filing as small business issuers) will be required to apply SFAS 123R as of the first interim or annual reporting period that begins after June 15, 2005. Public entities that file as small business issuers will be required to apply SFAS 123R in the first interim or annual reporting period that begins after December 15, 2005. For nonpublic entities, SFAS 123R must be applied as of the beginning of the first annual reporting period beginning after December 15, 2005. The adoption of this standard is not expected to have a material effect on the Company's results of operations or financial position.

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## Notes to the Consolidated Financial Statements

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### 10. Reconciliation of Generally Accepted Accounting Principles (Continued)

In December 2004, FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets - An Amendment of APB Opinion No. 29". The guidance in APB Opinion No. 29, "Accounting for Nonmonetary Transactions", is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in that Opinion, however, included certain exceptions to that principle. SFAS No. 153 amends Opinion No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The provisions of SFAS No. 153 are effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Early application is permitted and companies must apply the standard prospectively. The adoption of this standard is not expected to have a material effect on the Company's results of operations or financial position.

Management's preliminary assessment of these recent pronouncements is that they will not have a material impact on the Company's financial position or results of operations.

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