

**ALTAI RESOURCES INC.**  
**CONSOLIDATED BALANCE SHEETS AS AT JUNE 30, 2005**  
**(PREPARED BY MANAGEMENT)**

	June 30, 2005 (UNAUDITED) \$	December 31, 2004 (AUDITED) \$
<b>ASSETS</b>		
Current		
Cash	79,849	51,173
Marketable securities (Note 2)	16,463	32,018
Accounts receivable	6,858	379
	103,170	83,570
Note receivable (Note 3)	546,903	546,903
Investment in subsidiaries (Note 3)	578,669	615,740
Interests in mining properties (Note 4)	1,011,499	1,011,499
Natural gas interests (Note 5)	1,518,971	1,434,505
Capital assets	1,565	-
Investment in technology projects	1	1
<b>Total Assets</b>	<b>3,760,778</b>	<b>3,692,218</b>
<b>LIABILITIES</b>		
Current		
Accounts payable	39,662	12,698
Loan from officer	-	35,000
Current portion of consulting charge payable	35,100	35,100
	74,762	82,798
Consulting charge payable	105,300	140,400
	180,062	223,198
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 6)	9,359,232	9,279,232
Contributed surplus	69,950	69,950
Deficit	(5,848,466)	(5,880,162)
	3,580,716	3,469,020
<b>Total liabilities and shareholders' equity</b>	<b>3,760,778</b>	<b>3,692,218</b>

**CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2005 (UNAUDITED)**

	Three months ended June 30		Six months ended June 30	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>Revenue</b>				
Investment and miscellaneous income	938	1,181	2,248	2,231
Gain on sale of marketable securities	-	-	56,416	-
	938	1,181	58,664	2,231
<b>Expenses</b>				
Administrative expenses	16,314	44,220	25,954	56,352
Prospecting and general	66	37	292	114
Amortization	142	-	142	-
	16,522	44,257	26,388	56,466
<b>Net income (loss) before share of net loss of equity investment</b>	<b>(15,584)</b>	<b>(43,076)</b>	<b>32,276</b>	<b>(54,235)</b>
Share of net loss of equity investment	(300)	(205)	(580)	(985)
<b>Net earnings (loss)</b>	<b>(15,884)</b>	<b>(43,281)</b>	<b>31,696</b>	<b>(55,220)</b>
<b>Net earnings (loss) per share – basic and fully diluted (Note 8)</b>	<b>(0.001)</b>	<b>(0.002)</b>	<b>0.001</b>	<b>(0.002)</b>

<b>CONSOLIDATED DEFICIT</b>				
Balance, beginning of period	(5,832,582)	(5,606,100)	(5,880,162)	(5,594,161)
<b>Net earnings (loss)</b>	(15,884)	(43,281)	31,696	(55,220)
Balance, end of period	(5,848,466)	(5,649,381)	(5,848,466)	(5,649,381)

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE SIX MONTHS ENDED JUNE 30, 2005 (UNAUDITED)**

	Three months ended June 30		Six months ended June 30	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>Operating activities</b>				
Net income (loss)	(15,884)	(43,281)	31,696	(55,220)
Items not affecting cash				
Share of net loss of equity investment	300	205	580	985
Amortization	142	–	142	–
Gain on sale of marketable securities	–	–	(56,416)	–
Decrease (increase) accounts receivable	126	(2,325)	(6,480)	(1,745)
Decrease in due to director	–	–	(35,000)	–
Increase (decrease) in accounts payable	4,971	13,482	26,965	9,885
Increase (decrease) in consulting charge payable	–	–	(35,100)	–
Cash used in operating activities	(10,345)	(31,919)	(73,613)	(46,095)
<b>Investing activities</b>				
Deferred exploration expenditures	–	(4,976)	–	(5,344)
Proceeds on sale of marketable securities	–	–	71,971	–
Natural gas interest	(32,035)	(5,762)	(84,465)	(17,865)
Purchase of capital assets	(1,707)	–	(1,707)	–
Investment in subsidiaries	(70)	(611)	36,490	39,217
Cash provided by (used in) investing activities	(33,812)	(11,349)	22,289	16,008
<b>Financing activities</b>				
Issue of shares	–	9,000	80,000	24,000
Contributed surplus	–	2,400	–	2,400
Cash provided by financing activities	–	11,400	80,000	26,400
<b>Change in cash</b>	(44,157)	(31,868)	28,676	(3,687)
Cash, beginning of period	124,006	55,094	51,173	26,913
<b>Cash, end of period</b>	79,849	23,226	79,849	23,226

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2005**

**1. Basis of presentation**

The interim period consolidated financial statements have been prepared by the Company (without being reviewed by auditors) in accordance with Canadian generally accepted accounting principles. The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of annual consolidated financial statements, except where there are changes in accounting policies which have been disclosed in these financial statements. Certain information and footnote disclosure normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These interim period consolidated financial statements should be read together with the audited consolidated financial statements and the accompanying notes included in the Company's latest annual report. In the opinion of the Company, its unaudited interim period consolidated financial statements contain all adjustments necessary in order to present a fair statement of the results of the interim periods presented.

**2. Marketable securities**

The marketable securities on hand at June 30, 2005 had a market value of \$89,830 (December 31, 2004—\$161,028).

**3. Investment in subsidiaries**

Note receivable is from Altai Philippines Mining Corporation ("Altai Philippines").

The Company has a 40% equity interest in Altai Philippines and has a direct 10% Net Smelter Return (NSR) royalty interest in all properties in which Altai Philippines has an interest. Alternatively, the Company may elect to give up its 10% NSR interest in return for building and owning 80% of the ore processing facilities; in such event, the Company will buy the ore from Altai Philippines by paying a

royalty equal to 10% of the direct mining costs of the ore delivered to the processing facilities. Altai Philippines will subsequently have 20% ownership of the processing plant.

In the event that properties are joint-ventured, leased or sold to a third party interest(s), 60% of residual proceeds will accrue to the Company until it recovers its expenditures and 40% to Altai Philippines. After recovery of the Company's expenditures, proceeds will be shared equally.

The properties of Altai Philippines are Sibuyan Island lateritic nickel-cobalt property, Lahuy Island gold property, Negros Island sulfur property, Ticao limestone property and Bulan gold property.

Since September 1998 Crew Gold Corporation ("Crew"), through its subsidiary, Crew Minerals Philippines Inc., has an option agreement to put the Negros Island sulfur property into production for 75% net profit interest (NPI) of the property while Altai Philippines will be carried at 25% NPI. As at June 30, 2005, Crew has not yet put the property into production.

#### 4. Interest in mining properties

	Balance, Beginning of Year \$	Expenditure \$	Balance, End of Period \$
<b>Malartic Township, Quebec</b>			
Property	283,711	–	283,711
Expenditure	727,788	–	727,788
	1,011,499	–	1,011,499

#### 5. Natural gas interests

	Balance, Beginning of Year \$	Expenditure \$	Balance, End of Period \$
<b>Lac St. Pierre and Sorel, Quebec</b>			
Expenditure	1,434,505	84,465	1,518,971

#### 6. Share capital and options

##### Share Capital

##### Authorized

An unlimited number of common shares of no par value.

Issued	No. of shares	Amount \$
Issued at December 31, 2004	24,133,554	9,279,232
Issued for cash in 2005		
– flow through shares private placement	800,000	80,000
Issued at June 30, 2005	24,933,554	9,359,232

At June 30, 2005, there were 219,667 escrowed common shares outstanding.

##### Options

- a) The 2002 Stock Option Plan which authorizes the Board to grant up to 2,293,000 option shares to directors, officers and employees of the Company or of its subsidiaries is in effect. The options are generally exercisable for up to five years from the date of grant.

The prices of all stock options granted are greater than or equal to the fair market value of each common share on the dates the options were granted.

At June 30, 2005, there were 1,050,000 option shares available for grant.

The following table summarizes share option activities since December 31, 2004:

	Number of shares	Options outstanding Weighted average exercise price \$
Balance at December 31, 2004	1,343,000	0.107
Cancelled	(550,000)	0.103
Balance at June 30, 2005	793,000	0.110

The following table summarizes outstanding share options at June 30, 2005:

Number of share options outstanding			Expiry date	Weighted average Exercise price
Exercisable	Unexercisable	Total		\$
583,000	–	583,000	August 18, 2007	0.100
10,000	–	10,000	March 18, 2008	0.100
200,000	–	200,000	June 17, 2009	0.140
793,000	–	793,000		0.110

**b) Accounting for stock-based compensation cost**

In 2004, the Company adopted, retroactively without restating prior periods, the recommendations of the CICA Handbook Section 3870, "Stock-based compensation and other stock-based payments", which now require that the fair value based method be applied to awards granted to employees. Under the recommendations, the Company recognises the stock-based compensation cost related to options granted on the basis of fair value at the date of grant in accordance with the fair value method of accounting for stock-based compensation.

For the six months ended June 30, 2005, no stock-based compensation cost had been incurred.

**7. Related Party transaction**

- a) Consulting services were provided by two officers (one effective June 16, 2005). Fees for such services amounted to \$17,613. The fees have been allocated to administrative expense (\$2,309) and to resource properties (\$15,304).
- b) The contingent liability of the Company to an officer of the Company for consulting fees of approximately \$450,000 resulted from voluntary reductions from consulting fees payable to July 31, 2004 in accordance with the terms of the consulting agreement has been cancelled with the officer's renunciation of the said claim.

**8. Earnings (loss) per share**

Basic net earnings (loss) per share is calculated by dividing the net earnings (loss) by the weighted average number of shares outstanding during the period. Diluted net earnings (loss) per share is calculated by dividing the net earnings (loss) by the sum of the weighted average number of shares outstanding and all additional shares that would have been outstanding if potentially dilutive securities had been issued during the period.

The following table sets forth the computation of basic and diluted loss per share:

	June 30, 2005	June 30, 2004
	\$	\$
Numerator		
Net earnings ( loss) for the period – basic and diluted	31,696	(55,220)
Denominator		
Weighted average number of shares – basic	24,802,047	24,065,275
Effect of dilutive shares		
Stock options	793,000	1,532,180
Weighted average number of shares – diluted	25,595,047	25,597,455
Basic and diluted net earnings (loss) per share	0.001	(0.002)

**9. Subsequent event**

In July 2005 the Company and its joint venture partner in the Lac St. Pierre and Sorel natural gas properties, Petro St-Pierre Inc. have signed an agreement with Talisman Energy Canada ("Talisman") for a portion of their oil and gas permits in the two properties. The agreement involves four permits and a fraction of a fifth one aggregating to approximately 74,250 hectares (183,500 acres).

Talisman may earn a 100% equity interest in any permit by drilling one well in that permit. Talisman has committed to drilling one well, while the other wells are optional. Altai and Petro St-Pierre Inc. will retain an aggregate 15% (fifteen percent) gross royalty on all net receipts from the earned Farmout Lands.