

ALTAI RESOURCES INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002

ALTAI RESOURCES INC.
CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT
FOR THE YEAR ENDED DECEMBER 31, 2002

	2002	2001
Revenue		
Investment and miscellaneous income	\$ 3,466	\$ 3,610
Interest earned on note receivable (Note 13)	242,163	205,242
Recovery on disposition of share investment	–	48,443
	245,629	257,295
Expenses		
Administrative expenses	33,005	113,778
Convertible note interest expense	–	19,313
Provision for doubtful accounts (Note 13)	242,163	205,242
Abandonment and write offs	–	832,105
Write down investment in technology projects (Note 9)	1,029	1,067,285
Write down share investment	250	–
Prospecting and general	1,283	843
Amortization	835	1,145
	278,565	2,239,711
Net loss before share of net loss of equity investment	(32,936)	(1,982,416)
Share of net loss of equity investment	(83,638)	(67,553)
Net loss	(116,574)	(2,049,969)
Accumulated deficit, beginning of year	(5,397,013)	(3,347,044)
Accumulated deficit, end of year	\$ (5,513,587)	\$ (5,397,013)
Net loss per share (weighted average)	\$ (0.005)	\$ (0.114)

The accompanying notes are an integral part of the financial statements.

ALTAI RESOURCES INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2002

	2002	2001
Operating activities		
Net loss	\$ (116,574)	\$ (2,049,969)
Items not affecting cash		
Share of net loss of equity investment	83,638	67,553
Write down of share investment	250	-
Abandonment and write offs	-	832,105
Write down investment in technology projects	1,029	1,067,285
Amortization	835	1,145
Loss on sale of marketable securities	-	10,432
Decrease (increase) in accounts receivable	14,911	(5,116)
Decrease in convertible note interest payable	-	(23,736)
Decrease in accounts payable	(3,007)	(22,718)
Cash used in operating activities	(18,918)	(123,019)
Investing activities		
Deferred exploration expenditures	(801)	(7,712)
Proceeds on sale of marketable securities	-	9,060
Natural gas interest	(97,511)	(188,588)
Share investment	(6,500)	-
Investment in technology projects	(1,029)	(852)
Investment in subsidiaries	83,175	34,766
Cash used in investing activities	(22,666)	(153,326)
Financing activities		
Issue of shares	1,950	821,253
Conversion of convertible note	-	(450,000)
Cash provided by financing activities	1,950	371,253
Change in cash	(39,634)	94,908
Cash, beginning of year	104,315	9,407
Cash, end of year	\$ 64,681	\$ 104,315

The accompanying notes are an integral part of the financial statements.

ALTAI RESOURCES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2002

1. Nature of operations

The Company has interests in mining properties which it is in the process of exploring and has not yet determined whether these properties contain reserves that are economically recoverable. The recoverability of expenditures on resource properties, including deferred exploration expenditures, is dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain necessary financing to complete the exploration and the development of the resource properties, and upon future profitable production or proceeds from the disposition thereof.

2. Summary of significant accounting policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries in Canada, Peru and the United States.

(b) Marketable securities

Marketable securities are carried at the lower of cost and market value.

(c) Interests in mining properties

Interests in mining properties and claims are stated at cost. Exploration expenditures relating to mining properties in which an interest is retained are deferred and are carried as an asset until the result of the projects are known. If a project is successful, the acquisition cost and related deferred exploration expenditures would be amortized by charges against income from future mining operations. If a project is unsuccessful or if exploration has ceased because continuation is not economically feasible, the cost of the property and the related exploration expenditures are written off.

Exploration expenditures, which are general in nature and cannot be associated with a specific group of mining claims, and general administrative expenses are written off in the year in which they are incurred.

(d) Natural gas interest

Natural gas interest is stated at cost and includes expenditures for carrying and retaining undeveloped properties.

(e) Capital assets

Capital assets are stated at cost less accumulated amortization. Amortization of capital assets has been provided in the accounts on the straight line basis at the following rates:

- Furniture and fixtures - over 5 years
- Computer equipment - over 3 years

(f) Financial instruments

All significant financial assets, financial liabilities and equity instruments of the Company are either recognized or disclosed in the financial statements together with available information for a reasonable assessment of future cash flows, interest rate risk and credit risk.

(g) Foreign currency translation

Balances denominated in foreign currencies are translated into Canadian dollars as follows:

- i) monetary assets and liabilities at year end rates;
- ii) all other assets and liabilities at historical rates; and
- iii) revenue and expense transactions at the average rate of exchange prevailing during the year.

Exchange gains or losses arising on these transactions are reflected in income in the year incurred.

(h) 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, 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.

(i) Income taxes

Income taxes are accounted for using the future income tax method. Under this method Income taxes are recognized for the estimated Income taxes payable for the current year and future income taxes are recognized for temporary differences between tax and accounting bases of assets and liabilities and for the benefit of losses available to be carried forward for tax purposes that are likely to be realized. Future income tax assets and liabilities are measured using tax rates expected to be recovered or settled. Tax benefits have not been recorded due to uncertainty regarding their utilization.

(j) Stock based compensation

Effective January 1, 2002 the Company adopted the new accounting recommendations relating to stock based compensation and other stock based payments as detailed in the Canadian Institute of Chartered Accountants handbook section 3870. CICA 3870 establishes standards for the recognition, measurement and disclosure of stock based compensation and other stock based payments made in exchange for goods and services applying the fair value method of accounting. As permitted by CICA 3870 the Company is using the intrinsic value method of accounting for stock options awarded to its employees and directors. On the date options on the Company's shares are granted to the employees and directors no compensation will be recorded when the exercise price is equal to or greater than the market price of the shares. The application of CICA 3870 had no impact on the Company's consolidated financial statements.

3. Marketable securities

The marketable securities on hand at December 31, 2002 had a market value of \$108,122 (2001-\$111,004).

4. Share investment

The share investment represents 50,000 common shares of Geostar Metals Inc. ("Geostar") issued in 2002 to the Company re the Option Agreement between Altai Philippines Mining Corporation ("Altai Philippines") and Geostar on the Sibuyan laterite nickel property of Altai Philippines signed in February 2002 and terminated in November 2002.

Trading of Geostar common shares has been halted since December 3, 2002 to date at the request of Geostar pending approval of its proposed company restructure and financing. The value of the Geostar shares as at December 31, 2002 has been adjusted based on the information provided by the Geostar press release of December 3, 2002 on the terms of the proposed transactions of four Geostar shares to be exchanged for one share of the new consolidated company and of the financing of the consolidated company at \$0.50 per unit comprising of one consolidated company share and one share purchase warrant.

5. Note receivable

The note receivable represents a promissory note due from Altai Philippines Mining Corporation ("Altai Philippines"). This note bears interest at the rate of 18% per annum compounded annually. Although this note has no fixed terms of repayment, Altai Philippines is required under the terms of its shareholders' agreement to use at least 60% of its operating income to first pay any and all loans and accrued interest due to the Company. The monies advanced under this promissory note were for the purposes of exploration and acquisition of properties by Altai Philippines.

6. Investment in subsidiaries

The Company has a 40% equity interest in Altai Philippines Mining Corporation ("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 main properties of Altai Philippines are Sibuyan Island lateritic nickel-cobalt property, Lahuy Island gold property, Negros Island sulfur property, Ticao limestone property, Mabulao copper-gold property, Samar gold property and Bulan gold property.

Since September 1998 Crew Development Corporation ("Crew"), through its wholly owned subsidiary, Crew Minerals Philippines Inc. (formerly Mindex Resources Development, 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 December 31, 2002 and to date, Crew has not yet put the property into production. In November 2002, the payment terms of the option agreement have been revised in consideration of the current world market conditions for sulfur and at the request of Crew. The purchase price of Altai Philippines' NPI in the property has been revised to US\$750,000 if the purchase is made on or before January 2007 and to US\$1 Million thereafter.

In February 2002, Altai Philippines entered into an option agreement with Geostar Metals Inc. ("Geostar") of Vancouver on Altai Philippines' nickel laterite property on Sibuyan Island. Under the option agreement, Geostar would have one year from the date of an exploration permit or a similar permit being granted to conduct its due diligence and to decide whether or not to exercise the option and Geostar was to fund the expenses for the application of the said permit. 50,000 common shares of Geostar were issued to the Company after the TSX Venture Exchange has accepted the agreement as consideration for the granting of the option. The option agreement has been terminated in November 2002 due to Geostar's lack of funding to finance the expenses for the application of the said permit.

The Company records its investment in Altai Philippines Mining Corporation on the equity basis. Under this method, the Company reflects in its earnings its proportionate share of the earnings (losses) of the subsidiary. The investment in the subsidiary is recorded at cost minus undistributed losses since inception.

	2002	2001
40% equity shares and investment expenses	\$ 962,765	\$ 1,045,940
Share of net losses to date	(319,258)	(235,620)
	\$ 643,507	\$ 810,320

The investment in the Company's wholly owned subsidiary, Compania Minera Carrera S.A., has been written down to a nominal value. The Company has abandoned all activities in Chile and currently retains no interest in any properties in the country.

7. Interests in mining properties

	Balance, Beginning of Year	Expenditure	Write-off/ Disposition	Balance, End of Year
Malartic Township, Quebec				
Property	\$ 283,711	\$ -	\$ -	\$ 283,711
Expenditure	722,660	801	-	723,461
	\$ 1,006,371	\$ 801	\$ -	\$ 1,007,172

Mining property description:

Malartic Township gold property, Quebec

50% working interest in three mining claims totalling 120 hectares (300 acres).

8. Natural gas interest

At the beginning of 2002 the Company owned a 52.4% working interest in a natural gas and gas storage property comprising natural gas permits covering 73,700 hectares (182,100 acres) in the Sorel area of Quebec.

As at December 31, 2002 this working interest was 52.47%. The project partner, Petro St-Pierre Inc. ("PSP"), had 47.53% working interest at December 31, 2002. Menora Resources Inc. holds a 10% net profit interest participation in the Company's future share of net profits after payback from the project. Menora's participation is limited to the recovery of its investment carrying value of \$259,010.

In June 2002, the Company and PSP signed an agency agreement with AJL International, a Quebec private company, on non-exclusive and commission basis, for the latter to find a joint venture partner for the Company and PSP to further explore and develop the project. The agreement expires on June 15, 2003.

9. Investment in technology projects

The Company, through its wholly-owned subsidiary, Altai Technologies Inc. ("Altai Technologies"), has one high technology project, the Mapcheck Inc. project. As at December 31, 2002 and to date, Altai Technologies has made investment of \$1,000,000 in Mapcheck Inc. of Waterloo, Ontario and has 28.01% equity interest (33.33% voting interest) in that company. The investment in the project has been written down to \$1 as it has to date been unable to generate any operating income.

The enMonitor project, which had been written down to a nominal value in 2001, was written off in 2002.

The Company has a loan agreement with Altai Technologies that the total amount of all expenses, including any investment payments for the projects of Altai Technologies, which have been and will be paid by the Company on behalf of Altai Technologies in excess of \$400,000 will be treated as a non-interest bearing loan and will be repayable to the Company immediately upon the earlier of the completion of any financing of Altai Technologies or the day before Altai Technologies becomes a publicly traded company.

10. Capital assets

			2001	2000
	Cost	Accumulated Amortization	Net	Net
Furniture and equipment	\$ 3,866	\$ 3,758	\$ 108	\$ 943

11. Accounts payable

Accounts payable includes \$11,235 payable to an officer of the Company.

12. Share capital**Authorized**

An unlimited number of common shares of no par value.

Issued	No. of shares	Amount
Issued at December 31, 2001	22,918,554	\$ 9,145,282
Issued for cash – exercise of warrants	15,000	1,950
Issued at December 31, 2002	22,933,554	\$ 9,147,232

- a) Effective June 27, 2002, the Company's 1987 and 1996 Stock Option Plans have been terminated and replaced by 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. The options are generally exercisable for up to five years from the date of grant. The six stock options to directors, officers and employees totalling 393,000 shares granted under the former two stock option plans outstanding at June 27, 2002 remain in full force until they are fully exercised, expired or cancelled.

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

At December 31, 2002, there were 697,000 option shares available for grant.

The following table summarizes share option activities since December 31, 2001:

	Options outstanding	
	Number of shares	Weighted average exercise price
Balance at December 31, 2001	1,019,333	\$ 0.23
Granted	1,263,000	0.10
Cancelled	(686,333)	0.21
Balance at December 31, 2002	1,596,000	\$ 0.13

The following table summarizes outstanding share options at December 31, 2002:

Number of share options outstanding			Expiry date	Weighted average exercise price
Exercisable	Unexercisable	Total		
30,000	–	30,000*	January 27, 2003	\$ 0.49
163,000	–	163,000*	July 3, 2003	0.35
26,667	13,333	40,000*	May 13, 2004	0.16
66,667	33,333	100,000*	October 10, 2004	0.10
1,203,000	–	1,203,000	August 18, 2007	0.10
60,000	–	60,000	October 31, 2007	0.10
1,549,334	46,666	1,596,000		\$ 0.13

* granted under the 1987 and 1996 Stock Option Plans.

- b) At December 31, 2002, there were 1,235,000 share purchase warrants outstanding. Each warrant allows the warrant holder to purchase one common share of the Company at \$0.15 per share on or before October 9, 2003.
- c) At December 31, 2002, there were 219,667 escrowed common shares outstanding.

13. Interest earned on note receivable and provision for doubtful accounts

A provision for doubtful accounts has been made for the annual interest income of the note receivable from Altai Philippines as it has to date been unable to generate operating income (see Note 5) and accordingly has been unable to meet its interest obligations to the Company.

14. Related party transactions

Consulting services were provided by officers. Fees for such services amounted to \$72,000 (2001 – \$74,200). These fees have been allocated to administrative expenses (\$36,000) and investment in subsidiaries and resource properties (\$36,000).

15. Income taxes

The provision for income taxes is different from the amount that would have been computed by applying statutory federal and provincial rates due to the following:

	2002	2001
Statutory rate	19.49%	19.49%
Loss before income taxes	\$ (116,574)	\$ (2,049,969)
Amortization per statements	835	1,145
Abandonment and write offs	–	832,105
Write down of share investment	250	–
Write down of investment in technology projects	1,029	1,067,285
Share of loss of equity investment	83,638	67,553
Non-taxed capital loss	–	(48,443)
Non-deductible (gain)/losses of subsidiaries	(5,939)	62,748
Loss for tax purposes	\$ (36,761)	\$ (67,576)

The Company has income tax losses in the amount of \$904,000 (2001 - \$1,082,000) and tax pools in the amount of \$1,082,000 (2001 - \$984,000) available to reduce future taxable income. The potential benefits of these amounts have not been reflected in these financial statements.

Income tax losses by year of expiry:

2003	\$ 394,000
2004	212,000
2005	94,000
2006	27,000
2007	73,000
2008	67,000
2009	37,000
	\$ 904,000

16. Subsequent events

- (a) In January 2003, 30,000 option shares at \$0.10 per share were exercised and 30,000 option shares at \$0.49 per share expired without being exercised.
- (b) In February 2003 the Company has assumed the operatorship of the Lac St. Pierre gas and gas storage project, Quebec from Petro St-Pierre Inc., the project joint-venture partner.
- (c) In February 2003 the Company closed a private placement of \$75,000 for 750,000 common shares of which 300,000 shares are flow-through shares, at \$0.10 per share to an accredited investor.

Bolton & Bolton
Chartered Accountants
25 Oak crest Avenue, Unionville, Ontario L3R 2B9

AUDITORS' REPORT

To the Shareholders of Altai Resources Inc.

We have audited the consolidated balance sheets of Altai Resources Inc. as at December 31, 2002 and 2001 and the consolidated statements of operations and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Unionville, Ontario
February 14, 2003

"Bolton & Bolton" (signed)
Chartered Accountants

**COMMENTS BY AUDITORS FOR U.S. READERS ON
CANADA - UNITED STATES REPORTING DIFFERENCES**

In the United States, reporting standards for auditors require the expression of a qualified opinion when the financial statements are affected by significant uncertainties such as those referred to in notes 1 and 2 to the financial statements. The opinion in our report to the shareholders dated February 14, 2003 is not qualified with respect to, and provides no reference to, these uncertainties since such an opinion would not be in accordance with Canadian reporting standards for auditors when the uncertainties are adequately disclosed in the financial statements.

Unionville, Ontario
February 14, 2003

"Bolton & Bolton" (signed)
Chartered Accountants