

ALTAI
RESOURCES INC.

ANNUAL REPORT 2003

TO OUR SHAREHOLDERS

The audited consolidated financial statements for the year ended December 31, 2003 and summaries of technical information on various projects in which the Company has an interest are presented in this annual report. These are also accessible on the websites of SEDAR at <www.sedar.com> and of our own at <www.altairesources.com>.

The last twelve months

“Unbundling” of Altai’s asset and “re-alignment” of our business model mentioned in my letter to shareholders in the 2002 annual report has started and is progressing albeit slowly. In April 2004 our Company and our joint venture partner in the Lac St. Pierre gas property, Petro St-Pierre Inc. (“PSP”), have signed an agreement with Bolcar Energie Inc. (“Bolcar”) for the conditional sale of the Lac St. Pierre gas property for \$7.9 million (our portion is about \$4.2 million) payable in Bolcar common shares at 25 cents per share: Altai’s portion will be 16,865,825 shares. For the sale to close, Bolcar has to be listed on the TSX Venture Exchange as a Tier 2 issuer and to have obtained a minimum additional equity financing of \$1.2 million on or before October 7, 2004 in addition to Altai and Bolcar obtaining approvals from the TSX Venture Exchange and all applicable regulatory authorities on the transaction. I am optimistic that Bolcar will fulfill those conditions.

In 2003, Altai and PSP have acquired the adjacent Sorel gas property of 49,500 hectares. A report has been commissioned on this new project. The consultant will compile, interpret the existing information and recommend a course of action.

I came to the conclusion that in spite of rising energy prices and good results we announced on the Lac St. Pierre gas project, our gas assets are not contributing to our shareholders’ value. Perhaps our audience is essentially mining and we intend to emphasize on that area of our business. Therefore we will very likely spin-off the Sorel project as well.

In the Philippines we have initiated discussion with a major company from the Far East to advance our Sibuyan lateritic nickel deposit. There is no agreement yet at the date of this letter.

Going Forward

We will continue, in cooperation with our affiliate Altai Philippines Mining Corporation, our efforts to sell some of our properties in the Philippines, and if we generate funds from such sales we intend to redeploy them in advancing the Mabulao (copper-gold), Samar (gold) and Bulan (gold) properties and updating the prefeasibility report carried out by the others on the Lahuy gold deposit in the Philippines in light of current costs and gold prices.

Altai gets a steady stream of project submittals from others and until recently we were reluctant to acquire new projects due to lack of funds and our low share price which will make new financing highly dilutive. Going forward we intend to be more aggressive in acquisitions. Recent markets have shown that even junior companies with very high number of shares trade at lofty levels as long as they have the “right” asset at the “right” places.

I take this opportunity to thank our shareholders, directors and consultants.

On Behalf of the Board

“Niyazi Kacira”

Dr. Niyazi Kacira
President and CEO
April 27, 2004

MINING PROPERTIES

CANADA

Altai Resources Inc. has interest in three properties in Canada.

Malartic Township Gold Property, Quebec

This 50% owned property of 120 hectares (300 acres) is located 10 km northeast of the town of Malartic, Val d'Or area, Quebec.

In 1989 Jean-Pierre Labelle, an independent consultant based in Noranda, Quebec prepared a pre-feasibility study entitled "Pre-Feasibility Study of the Abior Project, Malartic, Quebec" for the property.

The reserves were estimated by Mr. Labelle for veins Nos. 7, 11, 12 and 13 as:

Probable reserves: 135,406 m.t. at a grade of 13.9 g/t (uncut) or 6.98 g/t (cut).

Possible reserves : 120,566 m.t. at a grade of 12.6 g/t (uncut) or 6.50 g/t (cut).

For all the veins the resources calculated by consultant amount to 466,000 tonnes grading 7.11 g/t gold (513,900 tons grading 0.21 oz/t) cut. The resources are to a depth of 200 meters (600 feet). The deposit has not been explored below that depth.

The variability of the gold content is related to the occurrence of several high grade intersections bearing free gold.

The property is within the prolific Val d'Or gold camp. The auriferous quartz veins spaced at about 10 m intervals occur in sheared diorite. Apart from mineralized quartz stringers and veins, diorite breccia and "bedded" carbonate-albite material is associated with the gold mineralization. The property has potential for hosting similar ore bodies as found elsewhere in the Val d'Or camp.

The property needs additional exploration to test zones with the high gold grade.

Lac St. Pierre Gas And Gas Storage Property, Quebec

This property of five oil and gas permits aggregating to 73,700 hectares (182,100 acres) is located in the Sorel area, 100 kilometers east of Montreal in the industrial heartland of Quebec. The property is owned 53.369% by Altai and 46.631% by Petro St-Pierre Inc. ("PSP") of Montreal. To date approximately 40% of the property has been covered by seismic surveys. Twenty three shallow (less than 150 meters deep) gas targets have been outlined and two have been drilled with gas discoveries. One major deep target has been outlined. Paul Laroche, consulting geologist-geophysicist, has prepared an updated report (November 2003) on the property, including analysis of the results of the deep seismic survey. Highlights of the report are summarized below.

DEEP GAS TARGET

The deep (at depth of about 1,000 meters) exploration target, has been delineated. The target is a NE trending fault zone 24 kilometers long averaging one kilometer in width, all on land. The zone appears as a depression (a graben) at the top of Trenton formation of Ordovician age. The depression is interpreted to have been caused by hydrothermal dolomitization of fractured limestones (hydrothermal dolomite reservoir facies). The report points out that targets in similar geological setting along former shoreline of Cambro-Ordovician craton have produced large quantities of gas and oil in Ohio, Michigan, New York state, West Virginia and elsewhere in the Appalachian region of North America. Such targets are long and narrow.

In the Lac St. Pierre property, based on assumptions of 10% porosity and 30 meters of thickness of pay zone (assumption based on analogy with known deposits of similar type), the Consultant estimates that the target is capable of hosting 7.2 billion cubic feet (BCF) of gas per square kilometer of closure (gas traps) and recommends a 1,300 meters deep well in the first phase of the exploration program, to reach the target and stratigraphically lower Beekmantown formation which

elsewhere contains gas and oil. This deep target has not been drilled to date. Several wells drilled by others to the south and north of the target indicated gas.

SHALLOW GAS TARGET

With respect to shallow gas targets in Pleistocene (Quaternary era), the Consultant makes a number of useful observations and recommendations summarized below.

On the one third of the lake (Lac St. Pierre) that has been surveyed by the joint venture to date, he estimates total gas initially in place potential at 29.9 BCF but producible gas potential at 12 BCF. He also believes that producing gas from these small deposits under the lake may present logistical challenges due to icing of the St. Lawrence River (Lac St. Pierre is a widening of the river) and moving ice. He proposes some possible ways to overcome the challenges and recommends an engineering study to select the optimum solution.

RECOMMENDED WORK PROGRAM

The Consultant recommends a multiphase program consisting mostly of drilling and some seismic surveys at an estimated cost of \$5 million. Most of the seismic surveys will be conducted on the land portion of the permits, particularly on Sorel Islands where no logistical challenge is anticipated in the production from eventual deposits.

Altai believes that the property has, over the long run, an unparalleled value as a gas storage site due to its location. The property is located 5 kilometers south of the TransCanada Pipeline. According to publicly available information, Point du Lac shallow reservoir facility of 0.8 BCF, located two kilometers NE of the property, generates \$6.6 million revenue per year.

Altai and PSP have signed on April 8, 2004, an agreement with Bolcar Énergie Inc. ("Bolcar"), of Montreal, for the conditional sale of the Lac St. Pierre property for \$7.9 million payable in Bolcar common shares at 25 cents per share. Bolcar is a capital pool company quoted on the TSX Venture Exchange. The closing conditions to be satisfied on or before October 7, 2004 include the listing of Bolcar as a Tier 2 company on the TSX Venture Exchange. The transaction is subject to approvals of all applicable regulators and the TSX Venture Exchange.

Sorel Gas Property, Quebec

This property of two permits aggregating to 49,500 hectares (122,300 acres) is located adjacent to and to the south of Lac St. Pierre property. It was acquired in the summer of 2003. As at December 31, 2003, Altai owns 53.369% interest in this property and Petro St-Pierre Inc. has 46.631% interest. Roche Ltd., a consulting group, has been commissioned to compile all the existing data, interpret them and recommend, if warranted, an exploration program on these permits.

PHILIPPINES

Altai Resources Inc. 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, Altai may elect to give up its 10% NSR interest in return for building and owning 80% of the ore processing facilities; in such event, Altai 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 Altai until it recovers its past expenditures in the Philippines and 40% to Altai Philippines. After recovery of Altai's expenditures, proceeds will be shared equally.

Sibuyan Island Lateritic Nickel - Cobalt Property, Romblon

This property of 1,822 hectares (4,500 acres) is located on the Sibuyan Island, Province of Romblon, on the tidewaters of the Visayan Sea.

The property was explored in 1970's first by Pacific Metals Company and later by Mitsui Mining, both of Japan, in search for feed stock for the Japanese ferronickel smelting industry. Work for both companies was supervised by the same consultant. Based on 431 drill holes and test pits, the consultant estimated the resources at 19 million tonnes averaging 1.3% nickel at a cut-off grade of 1% nickel or 7.26 million tonnes at 1.6% Ni at a cutoff grade of 1.3% nickel. The material contains one pound of cobalt per tonne.

The potential to increase the resource by further exploration of the property is excellent.

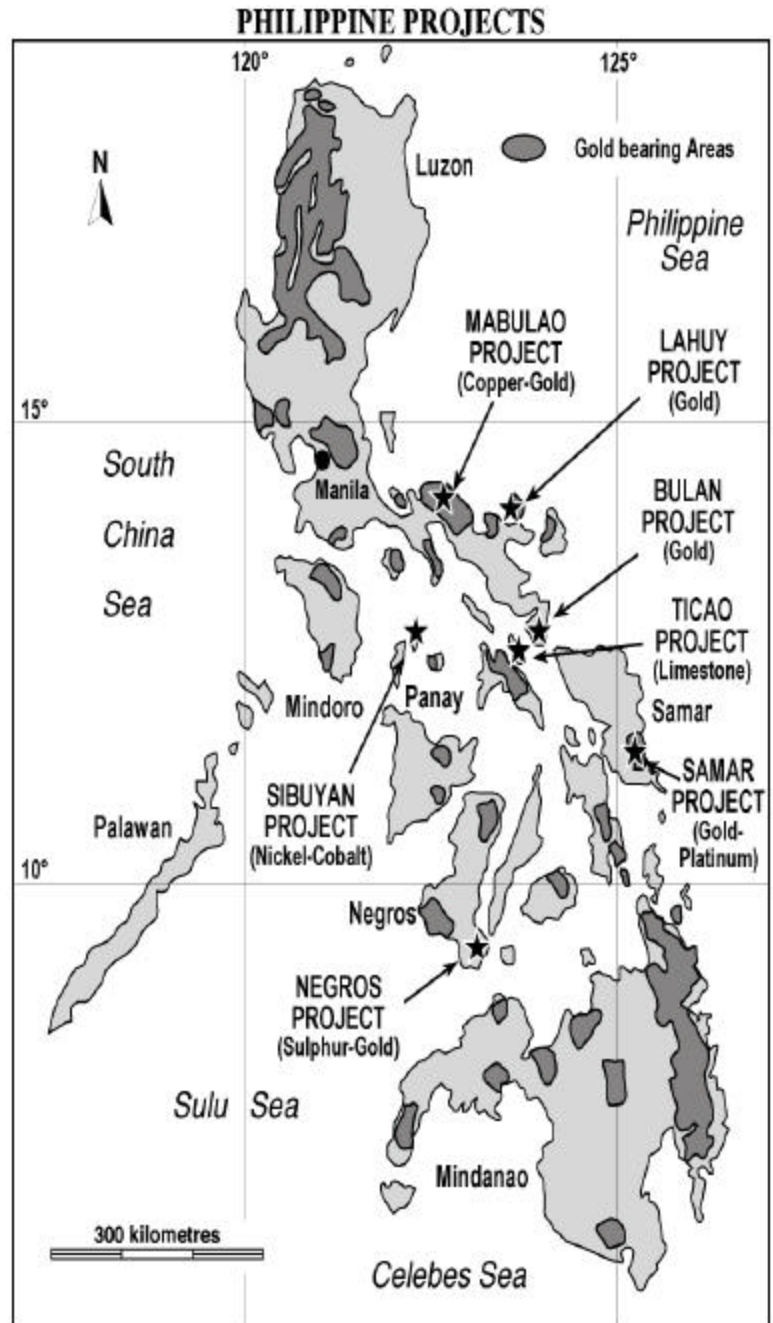
Discussion are on going with an overseas major company to develop this deposit. The outcome of this discussion is not yet known at this time.

Lahuy Island Gold Property, Camarines Sur

This property of 1,377 hectares (3,400 acres) is located on the Lahuy Island in the Province of Camarines Sur.

It has a former gold producer (1936-1941), Treasure Island Mine, which was closed due to the Japanese invasion during the Second World War. The mine operated at rates of up to 250 tonnes per day and produced 66,000 oz of gold from two veins with an average grade of 14 g/t. The A-vein has been explored and developed by drifts down to the 1,150 feet level. Most of the production took place above the 400 feet level. An ore reserve/resource of similar grade exists below the 400 feet level. Since the war, only small scale high grade gouging operations were carried out in the upper part of the vein systems by the local people. In 1987, an Australian exploration company, the Genoa Group, explored the veins and a zone of disseminated mineralization by completing 3,800 meters of diamond drilling. The exploration program was supervised by a well-known Australian consulting firm, Robertson Research Minerals Ltd. (now Amco Robertson Mineral Services Ltd.).

In 1988, Minproc Engineers Pty Ltd., an Australian consulting firm, evaluated the historical mining data and the results of the 1987 drill program and concluded that in the A-vein the measured, indicated and inferred reserves/resources amount to 174,000 tonnes with a grade of 13 g/t gold. According to Minproc Engineers, the potential resource in the A and B veins, down to a depth of 200 meters, is estimated to be 434,000 tonnes, also at 13 g/t. In the zone of disseminated mineralization, the indicated resource is 214,000 tonnes grading 2.46 g/t gold and the potential resource is 5 to 10 million tonnes of similar grade.



Map showing geographic locations of Altai Resources Inc. and their relative position to known gold bearing areas of the Philippine Archipelago

Negros Island Sulfur Property, Negros Oriental

This property of 4,052 hectares (10,000 acres) is located 15 km north of the city of Dumaguete, Negros Island, Province of Negros Oriental, and 3 km from the tidewaters of the Visayan Sea. The property was extensively explored in the 1960's, mostly by Benguet Corporation; 178 drill holes totaling about 24,500 meters were completed. In the 1970's ore reserve estimates were prepared by G. R. Oca, a Philippine consultant, and by the Philippine Bureau of Mines. Both studies indicate that there are about 59 million tonnes of mineable resources and 24 million tonnes of measured resources (drill indicated resources). The latter was left out of the open pit design by the consultant. Both the mineable and measured resources grade about 30% sulfur in native and sulfide form. The deposit is mineable by open pit and has a very low waste to ore ratio. There is an excellent potential to increase the combined reserve/resource to well over 100 million tonnes. The deposit has sufficient resources to support a large fertilizer plant or metallurgical plants. At present there is no sulfur production in the Philippines; all the sulfur is imported.

In 1998, Crew Minerals Philippines Inc. ("Crew" and formerly Mindex Resources Development, Inc.), a wholly-owned subsidiary of Crew Gold Corporation, a TSX listed company, signed an option agreement to put the property into production for 75% net profit interest (NPI), while Altai Philippines will be carried at 25% NPI. In late 2002, Altai Philippines and Crew signed an amendment to the option agreement, revising the payment terms of the agreement. Altai Philippines will receive yearly advance royalty payments which will rise to US\$125,000/year by January 2007 and thereafter, until the property reaches a production rate of at least 50,000 tonnes/month. Crew has the option to buy, at any time, Altai Philippines' NPI for US\$750,000 on or before January 2007 and for US\$1 million thereafter. The revision was made in consideration of the current world market conditions for sulfur and at the request of Crew. To date, Crew has not yet put the property into production. In 2004, Crew will carry out work at the property.

Mabulao Copper-Gold Property, Camarines Norte

This property of 8,262 hectares (20,400 acres) is within the Larap-Paracale mining district, Camarines Norte Province, Luzon Island. The district has a long history of gold mining which dates back to the 16th century. The area had 12 producing gold mines in the late 1930's; it is one of the most productive gold mining camps in the Philippines. Within the area of the property there is one small past producing gold mine: the Opeso Gold Mine.

In addition to gold, the district has numerous porphyry copper and skarn occurrences. The presence of widespread copper mineralization within the Mabulao property suggests that there is also potential for the discovery of porphyry copper deposits. Some of these porphyry and skarn mineralizations were partially explored by previous owners in the 1970's using geophysical surveys and drilling. The results of this preliminary exploration were encouraging. Porphyry copper type disseminated mineralization was detected in three mineralized centers.

Altai's surface exploration programs carried out in 1996 and 1997 resulted in the discovery of additional copper and gold occurrences and in the delineation of copper and gold geochemical anomalies. These are attractive exploration targets which remain to be tested.

Ticao Limestone Property, Masbate

This property of 2,500 hectares (6,200 acres) is located on the island of Ticao in Masbate Province. There are abundant exposures of a thick limestone unit adjacent to a shale deposit. Though the property has no established reserve or resource, the presence of large and abundant limestone outcrops suggests a large resource potential in the order of at least 150 million tonnes of limestone.

Altai Philippines carried out site visits and sampled the limestone and shale deposits. The limestone is of high purity, suitable for the manufacture of cement. Certain portions of the deposit are also suitable for use as filler in the paper, plastic and rubber industries. The combination of pure limestone and shale and the possibility of inexpensive transportation by sea would provide an ideal source of raw material for the manufacture of cement.

Ticao Island Cement Corporation ("Ticao") (the private Philippine company which signed a letter of intent in 1997 to purchase the property for US\$1 million but had to let the agreement expire later since it could not finance the project due to the economic downturn in SE Asia at that time) reportedly conducted some geotechnical work on the deposit (results are not available to Altai). Ticao commissioned R.G. Abiera and Associates ("RGA"), Mandaluyong City, Philippines to carry out

a scoping study on the economics of setting up a cement plant on this property. RGA estimated that the optimum plant size will have a yearly production capacity of 1.2 million tons of Portland cement. The capital cost was estimated at US\$275 million with a payback period of two years.

Altai Resources Inc. intends to sell the property. As yet, there are no expenditures required to keep the MPSA application in good standing.

Samar Gold Property, Eastern Samar

This property of 3,900 hectares (9,650 acres) is located on southeastern Samar Island, in the Province of Eastern Samar. There is artisanal gold mining activity in the area; gold is panned from lateritic soil and from alluvial deposits.

In 1987, Minimax Mineral Exploration Corp. ("Minimax") carried out exploration on behalf of Baron Mineral Exploration Corp. of Australia. According to Minimax, in the area where the gold panners are active, there are boulders of vein quartz, hydrothermally altered rocks and silicified breccias in the creekbeds. The deeply incised creeks expose intensely altered rocks which may be the source of gold panned from the alluvial sediments. The property has excellent exploration potential for finding a lateritic gold deposit.

Minimax also reported that an unidentified white metallic mineral was at times found by the gold panners. This was thought to be platinum or a platinum group metal. Historical assay data pertaining to a sample of pan concentrate presumably taken from the Samar property in 1993, indicate platinum as well as palladium, iridium and osmium.

Planned reconnaissance exploration program will involve a search for both gold and platinum group metals.

Bulan Gold Property, Sorsogon

This property of 3,000 hectares (7,400 acres) is located on the Bicol Peninsula, at the south end of Luzon Island, Province of Sorsogon. In the 1991 to 1993 period, the Philippine Government carried out reconnaissance and semi-detailed geochemical surveys. Large gold-silver geochemical anomalies were detected and floats of hydrothermally altered, gold-mineralized rocks were found within the area of the property. The silica and clay alteration is typical of epithermal deposits. Boulders of mineralized rocks found in creekbeds assayed up to 1.44 g/t gold.

The property has potential for the discovery of bulk mineable low grade gold mineralization.

**CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31, 2003**

	2003		2002
ASSETS			
Current			
Cash	\$	26,913	\$ 64,681
Marketable securities (Note 3)		32,018	30,768
Accounts receivable		1,617	1,827
		60,548	97,276
Share investment		–	6,250
Note receivable (Note 4)		546,903	546,903
Investment in subsidiaries (Note 5)		629,138	643,508
Interests in mining properties (Note 6)		1,007,210	1,007,172
Natural gas interests (Note 7)		1,444,245	1,370,104
Investment in technology project (Note 8)		1	1
Capital assets (Note 9)		–	108
Total Assets	\$	3,688,045	\$ 3,671,322
LIABILITIES			
Current			
Accounts payable (Note 10)	\$	38,974	\$ 37,677
SHAREHOLDERS' EQUITY			
Share capital (Note 11)		9,243,232	9,147,232
Deficit		(5,594,161)	(5,513,587)
		3,649,071	3,633,645
Total liabilities and shareholders' equity	\$	3,688,045	\$ 3,671,322

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

Approved on behalf of the board

Niyazi Kacira
President and CEO

K. Sethu Raman
Director

**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
FOR THE YEAR ENDED DECEMBER 31, 2003**

	2003		2002
Revenue			
Investment and miscellaneous income	\$	9,541	\$ 3,466
Interest earned on note receivable (Note 12)		53,195	242,163
		62,736	245,629
Expenses			
Administrative expenses		74,905	33,005
Provision for doubtful accounts (Note 12)		53,195	242,163
Write down investment in technology projects		–	1,029
Write down share investment		–	250

	2003	2002
Prospecting and general	384	1,283
Amortization	108	835
	128,592	278,565
Net Income before share of net loss of equity investment	(65,856)	(32,936)
Share of net loss of equity investment	(14,718)	(83,638)
Net loss	(80,574)	(116,574)
Accumulated deficit, beginning of year	(5,513,587)	(5,397,013)
Accumulated deficit, end of year	\$ (5,594,161)	\$ (5,513,587)
Net loss per share	\$ (0.003)	\$ (0.005)
Weighted average number of shares outstanding	23,703,444	22,926,650

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2003**

	2003	2002
Operating activities		
Net loss	\$ (80,574)	\$ (116,574)
Items not affecting cash		
Share of net loss of equity investment	14,718	83,638
Write down of share investment	-	250
Write down investment in technology projects	-	1,029
Amortization	108	835
Gain on sale of marketable securities	(5,405)	-
Decrease in accounts receivable	211	14,911
Decrease (increase) in accounts payable	1,297	(3,007)
Cash used in operating activities	(69,645)	(18,918)
Investing activities		
Deferred exploration expenditures	(38)	(801)
Proceeds on sale of marketable securities	10,405	-
Natural gas interests	(74,141)	(97,511)
Share investment	-	(6,500)
Investment in technology projects	-	(1,029)
Investment in subsidiaries	(349)	83,175
Cash used in investing activities	(64,123)	(22,666)
Financing activities		
Issue of shares	96,000	1,950
Cash provided by financing activities	96,000	1,950
Change in cash	(37,768)	(39,634)
Cash, beginning of year	64,681	104,315
Cash, end of year	\$ 26,913	\$ 64,681

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2003

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 interests

Natural gas interests are 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:

Equipment - over 5 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) Earnings (loss) per share

Net earnings (loss) per share is computed using the weighted average number of shares outstanding during the period.

(i) 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.

(j) 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.

(k) 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, officers 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, 2003 had a market value of \$139,785 (2002-\$108,122).

4. 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.

5. 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, Mabulao copper-gold property, Ticao limestone property, Samar gold property and Bulan gold property.

Since September 1998 Crew Gold Corporation ("Crew" and formerly Crew Development Corporation), through its wholly owned 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 December 31, 2003 and to date, Crew has not yet put the property into production.

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.

	2003	2002
40% equity shares and investment expenses	\$ 963,112	\$ 962,765
Share of net losses to date	(333,975)	(319,258)
	\$ 629,137	\$ 643,507

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.

6. Interests in mining properties

	Balance, Beginning of Year	Expenditure	Balance, End of Year
Malartic Township, Quebec			
Property	\$ 283,711	\$ –	\$ 283,711
Expenditure	723,461	–	723,461
Other Property			
Property	–	–	–
Expenditure	–	38	38
Total Mining Properties			
Property	\$ 283,711	\$ –	\$ 283,711
Expenditure	723,461	38	723,499
	\$ 1,007,172	\$ 38	\$ 1,007,210

Mining properties description:

Malartic Township gold property, Quebec

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

Grevet rare earth property, Quebec

The Company has an option to purchase from two private parties a 100% equity interest in fifteen mining claims totalling 500 hectares (1,236 acres) in the Grevet and Franquet Townships of Quebec on or before April 30, 2004 subject to a 10% net profit interest to the vendors.

7. Natural gas interests

	Balance, Beginning of Year	Expenditure	Balance, End of Year
Lac St. Pierre property, Quebec	\$ 1,370,104	\$ 71,500	\$ 1,441,604
Sorel Property, Quebec	\$ –	\$ 2,641	\$ 2,641
Total Natural Gas Properties	\$ 1,370,104	\$ 74,141	\$ 1,444,245

Natural gas properties description:

Lac St. Pierre natural gas property, Quebec

At the beginning of 2003 the Company owned a 52.47% working interest in five oil and gas permits covering 73,700 hectares (182,100 acres) in the Sorel area of Quebec.

As at December 31, 2003 this working interest was 53.369%. The project partner, Petro St-Pierre Inc. ("PSP"), had 46.631% working interest at December 31, 2003. Mengold Resources Inc. ("Mengold" and formerly known as Menora Resources Inc.) holds a 10% net profit interest participation in the Company's future share of net profits after payback from the project. Mengold's participation is limited to the recovery of its investment carrying value of \$259,010.

Sorel natural gas property, Quebec

In July 2003, the Company and Petro St-Pierre Inc. ("PSP") acquired two oil and gas permits covering 49,455 hectares (122,200 acres) in the Sorel area of Quebec.

As at December 31, 2003 the Company owned 53.369% working interest in the property, while PSP had 46.631% working interest.

8. Investment in technology project

The Company, through its wholly-owned subsidiary, Altai Technologies Inc. ("Altai Technologies"), has one high technology project, the Mapcheck Inc. project which has been written down to a nominal value of \$1.

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.

9. Capital assets

			2003	2002
	Cost	Accumulated Amortization	Net	Net
Equipment	\$ 1,081	\$ 1,081	\$ –	\$ 943

10. Accounts payable

Accounts payable includes \$21,935 payable to an officer of the Company (2002 – \$11,235).

11. Share capital

Authorized

An unlimited number of common shares of no par value.

Issued	No. of shares	Amount
Issued at December 31, 2002	22,933,554	\$9,147,232
Issued for cash in 2003		
– private placement	750,000	\$ 75,000
– exercise of stock options	210,000	96,000
Issued at December 31, 2003	23,893,554	\$9,243,232

- 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. Two stock options to directors totalling 140,000 shares granted under the former 1987 and 1996 Stock Option Plans remain outstanding as at December 31, 2003.

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 December 31, 2003, there were 300,000 option shares available for grant.

The following table summarizes share option activities since December 31, 2002:

	Options outstanding	
	Number of shares	Weighted average exercise price
Balance at December 31, 2002	1,596,000	\$ 0.13
Granted	590,000	0.10
Exercised	(210,000)	0.10
Cancelled	(193,000)	0.37
Balance at December 31, 2003	1,783,000	\$ 0.10

The following table summarizes outstanding share options at December 31, 2003

Number of share options outstanding			Expiry date	Weighted average exercise price
Exercisable	Unexercisable	Total		
40,000	–	40,000*	May 13, 2004	\$ 0.16
100,000	–	100,000*	October 10, 2004	0.10
993,000	–	993,000	August 18, 2007	0.10
60,000	–	60,000	October 31, 2007	0.10
10,000	–	10,000	March 18, 2008	0.10
–	450,000	450,000	April 10, 2005	0.10
–	100,000	100,000	June 17, 2008	0.10
30,000	–	30,000	August 10, 2008	0.10
1,233,000	550,000	1,783,000		\$ 0.10

* granted under the 1987 and 1996 Stock Option Plans.

- b) The 1,235,000 share purchase warrants, each allowing the warrant holder to purchase one common share of the Company at \$0.15 per share, expired on October 9, 2003 without being exercised. There was no warrant outstanding at December 31, 2003.
- c) At December 31, 2003, there were 219,667 escrowed common shares outstanding.

12. 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 4) and accordingly has been unable to meet its interest obligations to the Company.

The note plus total interest is capped at three times of the note principal, and that has been reached in March 2003.

13. Related party transactions

Consulting services were provided by officers. Fees for such services amounted to \$39,000 (2002 – \$72,000). These fees have been allocated to administrative expenses (\$15,000) and resource properties (\$24,000).

14. 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:

	2003	2002
Statutory rate	19.49%	19.49%
Loss before income taxes	\$ (80,574)	\$ (116,574)
Amortization per statements	108	835
Write down of share investment	–	250
Write down of investment in technology projects		1,029
Share of loss of equity investment	14,718	83,638
Non-taxed capital gain	(2,802)	–
Non-deductible (gain)/losses of subsidiaries	–	(5,939)
Loss for tax purposes	\$ (68,550)	\$ (36,761)

The Company has income tax losses in the amount of \$579,000 (2002 - \$905,000) and tax pools in the amount of \$1,117,000 (2002 - \$1,072,000) 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:

2004	\$	212,000
2005		94,000
2006		27,000
2007		73,000
2008		67,000
2009		37,000
2010		69,000
	\$	579,000

15. Subsequent Event

In April 2004 the Company and Petro St-Pierre Inc. ("PSP"), its joint venture partner in the Lac St. Pierre natural gas property ("Lac St. Pierre Property"), Quebec, have signed an agreement with Bolcar Énergie Inc. ("Bolcar"), a Montreal based capital pool company listed on the TSX Venture Exchange ("TSX Venture"), to sell the Lac St. Pierre Property to Bolcar for approximately C\$7.9 million in Bolcar common shares at \$0.25 per share. The transaction is subject to the approvals of all applicable regulators and TSX Venture for Altai and Bolcar, Bolcar being listed on TSX Venture as a Tier 2 issuer on or before the transaction closing which has to occur no later than six months from the signature date of the agreement, and Bolcar having obtained minimum additional equity financing of \$1.2 million.

AUDITORS' REPORT

To the Shareholders of Altai Resources Inc.

We have audited the consolidated balance sheets of Altai Resources Inc. as at December 31, 2003 and 2002 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, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Bolton & Bolton

Chartered Accountants

Unionville, Ontario

February 18, 2004 except as to note 15 which is as of April 8, 2004

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 18, 2004 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.

Bolton & Bolton

Chartered Accountants

Unionville, Ontario

February 18, 2004 except as to note 15 which is as of April 8, 2004

CORPORATE INFORMATION

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Symbol: ATI

U.S.A.: SEC RULE 12g3-2(b) EXEMPTION NO.:
82-2950