

ALTAI RESOURCES INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2003

**ALTAI RESOURCES INC.
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"
Niyazi Kacira
President and CEO

"K. Sethu Raman"
K. Sethu Raman
Director

**ALTAI RESOURCES INC.
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 |
| 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.

**ALTAI RESOURCES INC.
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.

ALTAI RESOURCES INC.
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 | 960,000 | 21,000 |
| | | | 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:

| | Number of shares | Options outstanding | |
|------------------------------|------------------|---------------------|---------------------------------|
| | | | 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 Energie 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.

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, 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.

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

"Bolton & Bolton"
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 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.

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

"Bolton & Bolton"
Chartered Accountants