

ALTAI RESOURCES INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2005

**ALTAI RESOURCES INC.
CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31, 2005**

| | 2005 | 2004 |
|--|------------------|------------------|
| | \$ | \$ |
| ASSETS | | |
| <hr/> | | |
| Current | | |
| Cash | 79,258 | 51,173 |
| Marketable securities (Note 3) | 16,463 | 32,018 |
| Accounts receivable | 1,167 | 379 |
| Prepaid expenses | 1,500 | – |
| | <hr/> | <hr/> |
| | 98,388 | 83,570 |
| Note receivable (Note 4) | 546,903 | 546,903 |
| Investment in subsidiaries (Note 5) | 597,086 | 615,740 |
| Interests in mining properties (Note 6) | 1,009,946 | 1,011,499 |
| Natural gas interests (Note 7) | 1,484,529 | 1,434,505 |
| Investment in technology project (Note 8) | 1 | 1 |
| Capital assets (Note 9) | 1,280 | – |
| | <hr/> | <hr/> |
| Total Assets | 3,738,133 | 3,692,218 |
| <hr/> | | |
| LIABILITIES | | |
| <hr/> | | |
| Current | | |
| Accounts payable | 6,018 | 12,698 |
| Loan from officer (Note 12) | – | 35,000 |
| Current portion of consulting charge payable (Note 12) | 35,100 | 35,100 |
| | <hr/> | <hr/> |
| | 41,118 | 82,798 |
| Consulting charge payable (Note 12) | 105,300 | 140,400 |
| | <hr/> | <hr/> |
| | 146,418 | 223,198 |
| <hr/> | | |
| SHAREHOLDERS' EQUITY | | |
| Share capital (Note 10) | 9,348,336 | 9,279,232 |
| Contributed surplus (Note 10) | 95,950 | 69,950 |
| Deficit | (5,852,571) | (5,880,162) |
| | <hr/> | <hr/> |
| | 3,591,715 | 3,469,020 |
| | <hr/> | <hr/> |
| Total liabilities and shareholders' equity | 3,738,133 | 3,692,218 |

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

Approved on behalf of the board:

"Niyazi Kacira"
President and CEO, Director

"K. Sethu Raman"
Director

ALTAI RESOURCES INC.
CONSOLIDATED STATEMENTS OF OPERATIONS, DEFICIT AND CONTRIBUTED SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 2005

| | 2005 \$ | 2004 \$ |
|--|-------------|-------------|
| CONSOLIDATED OPERATIONS | | |
| Revenue | | |
| Investment and miscellaneous income | 4,340 | 4,647 |
| Gain on sale of marketable securities | 56,416 | – |
| | 60,756 | 4,647 |
| Expenses | | |
| Administrative expenses | 46,859 | 233,253 |
| Stock-based compensation cost (Note 10) | 32,000 | 14,400 |
| Abandonment and write off | – | 710 |
| Prospecting and general | 534 | 396 |
| Amortization | 427 | – |
| | 79,820 | 248,759 |
| Net loss before share of net earnings of equity investment | (19,064) | (244,112) |
| Share of net earnings of equity investment | 17,759 | 25,661 |
| Net loss before income taxes | (1,305) | (244,112) |
| Future income tax recoverable (Note 14) | 28,896 | 25,661 |
| Net income (loss) | 27,591 | (218,451) |
| Net income (loss) per share – basic and fully diluted (Note 11) | 0.001 | (0.009) |
| CONSOLIDATED DEFICIT | | |
| Balance, beginning of year | (5,880,162) | (5,594,161) |
| Restatement of stock-based compensation cost (Note 10) | – | (67,550) |
| Restated balance, beginning of year | (5,880,162) | (5,661,711) |
| Net income (loss) | 27,591 | (218,451) |
| Balance, end of year | (5,852,571) | (5,880,162) |
| CONSOLIDATED CONTRIBUTED SURPLUS | | |
| Balance, beginning of year | 69,950 | – |
| Restatement of stock-based compensation cost (Note 10) | – | 67,550 |
| Restated balance, beginning of year | 69,950 | 67,550 |
| Stock-based compensation cost (Note 9) | 32,000 | 14,400 |
| Stock-based compensation value of options exercised (Note 10) | (6,000) | (12,000) |
| Balance, end of year | 95,950 | 69,950 |

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, 2005

| | 2005 | 2004 |
|--|---------------|---------------|
| | \$ | \$ |
| Operating activities | | |
| Net loss | 27,591 | (218,451) |
| Items not affecting cash | | |
| Share of net earnings of equity investment | (17,759) | (25,661) |
| Stock-based compensation cost | 32,000 | 14,400 |
| Abandonment and write off | – | 710 |
| Amortization | 427 | – |
| Gain on sale of marketable securities | (56,416) | – |
| Decrease (increase) in accounts receivable | (788) | 1,238 |
| Increase in prepaid expenses | (1,500) | – |
| Increase (decrease) in loan from officer | (35,000) | 35,000 |
| Decrease in accounts payable | (6,679) | (26,276) |
| Increase (decrease) in consulting charge payable | (35,100) | 175,500 |
| Cash used in operating activities | (93,224) | (43,540) |
| Investing activities | | |
| Deferred exploration expenditures | 1,553 | (4,999) |
| Proceeds on sale of marketable securities | 71,971 | – |
| Natural gas interests | (50,024) | 9,740 |
| Investment in subsidiaries | 36,412 | 39,059 |
| Purchase of capital assets | (1,707) | – |
| Cash provided by investing activities | 58,205 | 43,800 |
| Financing activities | | |
| Issue of shares | 92,000 | 24,000 |
| Tax benefits renounced – flow-through shares | (28,896) | – |
| Cash provided by financing activities | 63,104 | 24,000 |
| Change in cash | 28,085 | 24,260 |
| Cash, beginning of year | 51,173 | 26,913 |
| Cash, end of year | 79,258 | 51,173 |

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

ALTAI RESOURCES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005

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) Credit risk

The Company does not believe it is subject to any significant concentration of credit risk. Cash and short-term investments are in place with major financial institutions and corporations.

(d) 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.

(e) Natural gas interests

Natural gas interests are stated at cost and include expenditures for carrying and retaining undeveloped properties.

(f) Flow-through Shares

In March 2004, the Emerging Issues Committee ("EIC") of the CICA issued EIC-416 "Flow-through Shares" which is effective for all flow-through share issues subsequent to March 19, 2004. The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. The future income tax liability must be recognized, and the shareholder's equity reduced, on the date that the Company renounces the tax credits associated with the expenditures.

(g) Impairment of long-lived assets

CICA Handbook Section 3063 "Impairment of Long-Lived Assets" requires the Company to assess the impairment of long-lived assets, which consist primarily of resource properties, plant and equipment, whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used are measured by a comparison of the carrying value of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the amount of the impairment is measured by the amount by which the carrying amount of the asset exceeds its fair value.

For the Company, the adoption of CICA Handbook Section 3063 has no impact on results of operations previously and currently presented.

(h) Asset retirement obligations

CICA Handbook Section 3110 “Asset Retirement Obligations” requires that the fair value of a liability or an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The estimate excludes the residual value of the related assets. The associated retirement costs are capitalized as part of the carrying amount of the long lived assets and amortized over the life of the asset. The amount of liability is subject to re-measurement at each reporting period. This differs from prior practice which involved accruing for the estimated retirement obligation through annual changes to earnings over the estimated life of the property. At the present time, the Company has concluded that there are no asset retirement obligations associated with any of its properties.

(i) 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:

Computer equipment – over 3 years

(j) 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.

(k) 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.

(l) 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.

(m) 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.

(n) 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.

(o) Stock-based compensation cost

CICA Handbook Section 3870 “Stock-based compensation and other stock-based payments” requires that the fair value based method be applied to awards granted to employees. The Company recognizes

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.

(p) Consolidation of variables interest entities

The CICA issued AcG-15 "Consolidation of Variables Interest Entities" provides guidance for applying the principles of Section 1590 "Subsidiaries" to certain special purpose entities. This pronouncement did not have any impact on the Company's consolidated financial statements.

3. Marketable securities

The marketable securities on hand at December 31, 2005 had a market value of \$101,825 (2004-\$161,028).

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. The note plus total interest is capped at three times of the note principal, and that was reached in 2003. 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 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" 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, 2005 and to date, Crew has not yet put the property into production.

In November 2004, Altai Philippines entered into an option agreement with a consortium headed by Sunshine Gold Pty Ltd ("Sunshine") of Australia on Altai Philippines' nickel laterite property on Sibuyan Island ("Sibuyan property"). Under the option agreement, Sunshine, after satisfactory due diligence on the property, would have ninety days from the date of Altai Philippines obtaining approval of the Mineral Production Sharing Agreement (MPSA) application for the property to exercise the option to purchase the Sibuyan property. Sunshine was to fund the expenses for the MPSA application. As at December 31, 2005 and to date, the MPSA application has not yet been approved.

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 earnings (losses) since inception.

| | 2005 | 2004 |
|---|-----------|-----------|
| | \$ | \$ |
| 40% equity shares and investment expenses | 887,640 | 924,053 |
| Share of net earnings (losses) to date | (290,555) | (308,314) |
| | 597,085 | 615,739 |

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 | Grant | Balance, End of Year |
|----------------------------------|----------------------------------|-------------|----------------------|----------------------------|
| | \$ | \$ | \$ | \$ |
| Malartic Township, Quebec | | | | |
| Property | 283,711 | – | – | 283,711 |
| Expenditure | 727,788 | – | 1,553 ⁽¹⁾ | 726,235 |
| | 1,011,499 | – | 1,553 ⁽¹⁾ | 1,009,946 |

⁽¹⁾ A grant from the Quebec Government.

Mining properties description:

Malartic Township gold property, Quebec

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

7. Natural gas interests

| | Balance, Beginning of Year | Expenditure | Grant And Option | Balance, End of Year |
|--|----------------------------------|-------------|------------------------|----------------------------|
| | \$ | \$ | \$ | \$ |
| Sorel-Trois Rivieres property, Quebec (formerly known as Lac St. Pierre and Sorel properties) | 1,434,505 | 111,741 | 61,717 ⁽¹⁾ | 1,484,529 |

⁽¹⁾ The amount includes a grant from the Quebec Government of \$8,217.

a) Natural gas properties description:

Sorel-Trois Rivieres natural gas property, Quebec

In 2005, the Company grouped the Lac St. Pierre and Sorel properties together as the Sorel-Trois Rivieres property.

At the beginning of 2005 the Company owned a 53.5% working interest in the seven oil and gas permits covering 123,155 hectares (304,316 acres) in the Sorel area of Quebec.

As at December 31, 2005 this working interest was 54.12%. The project partner, Petro St-Pierre Inc. ("PSP"), had 45.88% working interest at December 31, 2005. 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 of the permit existing at October 27, 1990 after payback from that permit. Mengold's participation is limited to the recovery of its investment carrying value of \$259,010.

- b) In July 2005 the Company and PSP have signed an agreement with Talisman Energy Canada ("Talisman") for a portion of their oil and gas permits in the Sorel-Trois Rivieres property. The agreement involves four permits and a fraction of a fifth one aggregating to approximately 74,250 hectares (183,500 acres) ("Farmout Lands").

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. The option extends to April 2010. The Company and PSP will retain an aggregate 15% (fifteen percent) gross royalty of which Altai has 53.5%, on all net receipts from the earned Farmout Lands. As at December 31, 2005 and to date, Talisman has not yet earned equity interest in any of the Farmout permits.

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

| | | | 2005 | 2004 |
|--------------------|-------|--------------------------|-------|------|
| | Cost | Accumulated Amortization | Net | Net |
| | \$ | \$ | \$ | \$ |
| Computer equipment | 1,707 | 427 | 1,280 | — |

10. 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 | | |
| — private placement flow-through shares | 800,000 | 80,000 |
| — exercise of stock options | 120,000 | 12,000 |
| Tax benefits renounced – flow-through | — | (28,896) |
| Stock-based compensation value of options exercised in 2005 | — | 6,000 |
| Issued at December 31, 2005 | 25,053,554 | 9,348,336 |

At December 31, 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 December 31, 2005, there were 850,000 option shares available for future grants.

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

| | Options outstanding | |
|------------------------------|---------------------|------------------------------------|
| | Number of shares | Weighted average exercise price \$ |
| Balance at December 31, 2004 | 1,343,000 | 0.107 |
| Granted | 200,000 | 0.150 |
| Exercised | (120,000) | 0.100 |
| Cancelled | (550,000) | 0.103 |
| Balance at December 31, 2005 | 873,000 | 0.121 |

The following table summarizes outstanding share options at December 31, 2005:

| Number of share options outstanding | | | Expiry date | Weighted average exercise price \$ |
|-------------------------------------|---------------|---------|-----------------|------------------------------------|
| Exercisable | Unexercisable | Total | | |
| 463,000 | – | 463,000 | August 18, 2007 | 0.100 |
| 10,000 | – | 10,000 | March 18, 2008 | 0.100 |
| 200,000 | – | 200,000 | June 17, 2009 | 0.140 |
| 200,000 | – | 200,000 | August 17, 2010 | 0.150 |
| 873,000 | – | 873,000 | | 0.121 |

b) Accounting for stock-based compensation cost

Since 2004, the Company has adopted retroactively without restating prior periods, the recommendations of the CICA Handbook Section 3870 "Stock-based compensation and other stock-based payments" which requires that the fair value based method be applied to awards granted to employees. The Company recognizes 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.

In 2005, the Company recognized stock-based compensation cost of \$32,000 related to 200,000 vested option shares granted to a director and an officer with a fair value of \$0.16 estimated by using the Black Scholes option pricing model and the following assumptions: expected life of 5 years, a risk-free interest rate of 4.25%, a volatility of 263.64% and a dividend yield of 0%.

11. 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:

| | 2005 \$ | 2004 \$ |
|--|------------|------------------------|
| Numerator | | |
| Net income (loss) for the year – basic and diluted | 27,591 | (218,451) |
| Denominator | | |
| Weighted average number of shares – basic | 24,850,047 | 24,065,275 |
| Effect of dilutive shares | | |
| Stock options | 873,000 | – |
| Weighted average number of shares – diluted | 25,723,047 | 24,065,275 |
| Basic and diluted net income (loss) per share | 0.001 | (0.009) ⁽¹⁾ |

⁽¹⁾ Due to the loss in 2004, no diluted net loss per share is provided as the inclusion of outstanding stock options would be anti-dilutive.

12. Related party transactions

- a) The non-interest bearing loan of \$35,000 made in 2004 by an officer of the Company and repayable on demand by the officer had been repaid in 2005.
- b) Consulting services were provided by two officers. Fees for such services amounted to \$23,613 (2004 – \$184,005). These fees have been allocated to administrative expenses (\$2,909) and resource properties (\$20,704).
- c) The first instalment (\$35,100) of the \$175,500 consulting charge payable in equal instalments over 5 years to an ex-officer of the Company (who had been reappointed an officer of the Company on June 16, 2005) per agreement signed in 2004, had been paid in 2005.
- d) The contingent liability of the Company to an officer 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 had been cancelled with the officer's renunciation of the said claim in 2005.

13. Office rental lease

The Company has a 3 year office gross rental lease from September 2004 to August 2007.

The expected future lease payments by year are:-

| | \$ |
|------|--------|
| 2006 | 18,000 |
| 2007 | 12,000 |
| | 30,000 |

14. Income taxes

Future income taxes reflect the net effects on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for tax purposes.

There is 1 future income tax liability and 2 future income tax assets as follows:

| | 2005 | 2004 |
|--|-------------|-------------|
| | \$ | \$ |
| Future income tax liability | | |
| Renounced expenditures on flow-through shares | 28,900 | – |
| Future income tax assets | | |
| Non-capital losses carried forward | 186,750 | 215,275 |
| Canadian development, exploration and oil and gas expenditures | 394,225 | 404,900 |
| | 580,975 | 620,175 |
| Valuation allowance for future income tax assets | 552,075 | 620,175 |
| Future income tax assets | 28,900 | – |
| Net future income tax liability and assets | – | – |

The Company provided a valuation allowance equal to the future tax assets (except for the amount of the non-capital losses equal to offset the future income tax liability in accordance with CICA Handbook EIC-146) because it is not presently more likely than not that they will be realized. The Company's actual loss for income tax purposes for each of the years ended is made up as follows:

| | 2005 | 2004 |
|---|-------------|-------------|
| | \$ | \$ |
| Statutory rate | 36.12% | 36.12% |
| Loss before income taxes | (1,305) | (218,451) |
| Abandonment and write off | – | 710 |
| Stock-based compensation cost | 32,000 | 14,400 |
| Amortization per statements | 427 | – |
| Share of income of subsidiary | (17,759) | (25,661) |
| Non-taxed capital gain | (28,208) | – |
| Renounced expenditures on flow-through shares | 80,000 | – |
| Utilization of non-capital losses | (80,000) | – |
| Loss for tax purposes | (14,845) | (229,002) |

The Company has non-capital loss carry forwards of approximately \$517,000 (2004 - \$596,000) and tax pools of approximately \$1,091,000 (2004 - \$1,121,000) available to reduce future years' income for tax purposes. Only the benefit up to the amount of renounced expenditures on flow-through shares has been recorded in these financial statements.

Income tax losses by year of expiry:

| | \$ |
|------|---------------------|
| 2006 | 27,000 |
| 2007 | 73,000 |
| 2008 | 67,000 |
| 2009 | 37,000 |
| 2010 | 69,000 |
| 2014 | 229,000 |
| 2015 | 15,000 |
| | <hr/> 517,000 <hr/> |

Bolton & Bolton
Chartered Accountants
25 Oakcrest 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, 2005 and 2004 and the consolidated statements of operations, deficit and contributed surplus 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, 2005 and 2004 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
March 8, 2006

"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 March 8, 2006 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
March 8, 2006

"Bolton & Bolton"
Chartered Accountants