

ALTAI RESOURCES INC.
CONSOLIDATED BALANCE SHEETS AS AT JUNE 30, 2006
(PREPARED BY MANAGEMENT)

	June 30, 2006 (UNAUDITED)	December 31, 2005 (AUDITED)
	\$	\$
ASSETS		
Current		
Cash	17,098	79,258
Marketable securities (Note 2)	16,463	16,463
Accounts receivable	2,078	1,167
Prepaid expenses	1,500	1,500
	37,139	98,388
Note receivable (Note 3)	546,903	546,903
Investment in subsidiaries (Note 3)	561,880	597,086
Interests in mining properties (Note 4)	1,009,946	1,009,946
Natural gas interests (Note 5)	1,514,264	1,484,529
Investment in technology project	1	1
Capital assets	996	1,280
Total Assets	3,671,129	3,738,133
LIABILITIES		
Current		
Accounts payable	4,541	6,018
Current portion of consulting charge payable	35,100	35,100
	39,641	41,118
Consulting charge payable	70,200	105,300
	109,841	146,418
SHAREHOLDERS' EQUITY		
Share capital (Note 6)	9,348,936	9,348,336
Contributed surplus (Note 6)	95,770	95,950
Deficit	(5,883,418)	(5,852,571)
	3,561,288	3,591,715
Total liabilities and shareholders' equity	3,671,129	3,738,133

**CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT
FOR THE SIX MONTHS ENDED JUNE 30, 2006 (UNAUDITED)**

	Three months ended June 30		Six months ended June 30	
	2006	2005	2006	2005
	\$	\$	\$	\$
Revenue				
Investment and miscellaneous income	1,156	938	2,333	2,248
Gain on sale of marketable securities	–	–	–	56,416
	1,156	938	2,333	58,664
Expenses				
Administrative expenses	19,376	16,314	31,974	25,954
Prospecting and general	288	66	341	292
Amortization	142	142	285	142
	19,806	16,522	32,600	26,388
Net income (loss) before share of net loss of equity investment	(18,650)	(15,584)	(30,267)	32,276
Share of net loss of equity investment	(280)	(300)	(580)	(580)
Net earnings (loss)	(18,930)	(15,884)	(30,847)	31,696
Net earnings (loss) per share – basic and fully diluted (Note 7)	(0.001)	(0.001)	(0.001)	0.001
CONSOLIDATED DEFICIT				
Balance, beginning of period	(5,864,488)	(5,832,582)	(5,852,571)	(5,880,162)
Net earnings (loss)	(18,930)	(15,884)	(30,847)	31,696
Balance, end of period	(5,883,418)	(5,848,466)	(5,883,418)	(5,848,466)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2006 (UNAUDITED)

	Three months ended June 30		Six months ended June 30	
	2006	2005	2006	2005
	\$	\$	\$	\$
Operating activities				
Net income (loss)	(18,930)	(15,884)	(30,847)	31,696
Items not affecting cash				
Share of net loss of equity investment	280	300	580	580
Amortization	142	142	285	142
Gain on sale of marketable securities	—	—	—	(56,416)
Decrease (increase) accounts receivable	(383)	126	(911)	(6,480)
Decrease in due to director	—	—	—	(35,000)
Increase (decrease) in accounts payable	(7,525)	4,971	(1,477)	26,965
Increase (decrease) in consulting charge payable	—	—	(35,100)	(35,100)
Cash used in operating activities	(26,416)	(10,345)	(67,470)	(73,613)
Investing activities				
Proceeds on sale of marketable securities	—	—	—	71,971
Natural gas interest	(15,085)	(32,035)	(29,735)	(84,465)
Purchase of capital assets	—	(1,707)	—	(1,707)
Investment in subsidiaries	(84)	(70)	34,625	36,490
Cash provided by (used in) investing activities	(15,169)	(33,812)	4,890	22,289
Financing activities				
Issue of shares	600	—	600	80,000
Contributed surplus	(180)	—	(180)	—
Cash provided by financing activities	420	—	420	80,000
Change in cash	(41,165)	(44,157)	62,160	28,676
Cash, beginning of period	58,263	124,006	79,258	51,173
Cash, end of period	17,098	79,849	17,098	79,849

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006

1. Basis of presentation

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

2. Marketable securities

The marketable securities on hand at June 30, 2006 had a market value of \$100,670 (December 31, 2005-\$101,825).

3. Investment in subsidiaries

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

The Company has a 40% equity interest in Altai Philippines and has a direct 10% Net Smelter Return (NSR) royalty interest in all properties in which Altai Philippines has an interest. Alternatively, the Company may elect to give up its 10% NSR interest in return for building and owning 80% of the ore processing facilities; in such event, the Company will buy the ore from Altai Philippines by paying a royalty equal to 10% of the direct mining costs of the ore delivered to the processing facilities. Altai Philippines will subsequently have 20% ownership of the processing plant.

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

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

Since September 1998 Crew Gold Corporation ("Crew"), through its subsidiary, Crew Minerals Philippines Inc., has an option agreement to put the Negros Island sulfur property into production for 75% net profit interest (NPI) of the property while Altai Philippines will be carried at 25% NPI. As at June 30, 2006 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 June 30, 2006 and to date, the MPSA application has not yet been approved.

4. Interest in mining properties

	Balance, Beginning of Year \$	Expenditure \$	Balance, End of Period \$
Malartic Township, Quebec			
Property	283,711	-	283,711
Expenditure	726,235	-	726,235
	1,009,946	-	1,009,946

The Company has 50% working interest in the Malartic Township Gold property of 3 claims of 120 hectares (300 acres).

5. Natural gas interests

	Balance, Beginning of Year \$	Expenditure \$	Balance, End of Period \$
Sorel-Trois Rivieres property, Quebec (formerly known as Lac St. Pierre and Sorel properties)			
Expenditure	1,484,529	29,735	1,514,264

The Company has 54.12% working interest (as at December 31, 2005) in the Sorel-Trois Rivieres natural gas property of seven oil and gas permits of 123,155 hectares (304,316 acres).

The July 2005 Agreement between Talisman Energy Canada ("Talisman") of Calgary, Alberta and the Company and its joint venture partner in its Sorel-Trois Rivieres property, Petro St-Pierre Inc. ("PSP"), involves four oil and gas permits aggregating to approximately 74,250 hectares (183,500 acres) ("Farmout Lands") of the Sorel-Trois Rivieres property.

Talisman may earn a 100% equity (working) interest in any Farmout permit by drilling one well in that permit. Talisman has committed to drilling one well by May 2006, while the other wells are optional. Altai and PSP will retain an aggregate 15% (fifteen percent) gross royalty of which Altai has 53.5%, on all net receipts from the Farmout Lands. As at June 30, 2006, Talisman has not yet earned equity interest in any of the Farmout permits.

6. Share capital and options

Share Capital

Authorized

An unlimited number of common shares of no par value.

Issued	No. of shares	Amount \$
Issued at December 31, 2005	25,053,554	9,348,336
Issued for cash in 2006		
– exercise of stock options	3,000	420
Stock-based compensation value of options exercised in 2006	–	180
Issued at June 30, 2006	25,056,554	9,348,936

At June 30, 2006, there were 219,667 escrowed common shares outstanding.

Options

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

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

At June 30, 2006, there were 850,000 option shares available for future grants.

The following table summarizes share option activities since December 31, 2005:

	Number of shares	Options outstanding
		Weighted average exercise price \$
Balance at December 31, 2005	873,000	0.121
Exercised	(3,000)	0.140
Balance at June 30, 2006	870,000	0.121

The following table summarizes outstanding share options at June 30, 2006:

Exercisable	Number of share options outstanding		Expiry date	Weighted average exercise price
	Unexercisable	Total		\$
463,000	–	463,000	August 18, 2007	0.100
10,000	–	10,000	March 18, 2008	0.100
197,000	–	197,000	June 17, 2009	0.140
200,000	–	200,000	August 17, 2010	0.150
870,000	–	870,000		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. For the six months ended June 30, 2006, no stock-based compensation cost had been incurred, and the contributed surplus had been reduced by \$180 re stock-based compensation value of options exercised in 2006.

7. 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 net earnings (loss) per share:

	June 30, 2006	June 30, 2005
	\$	\$
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Numerator		
Net earnings (loss) for the period – basic and diluted	(30,267)	31,696
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Denominator		
Weighted average number of shares – basic	25,055,798	24,802,047
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Effect of dilutive shares		
Stock options	870,000	793,000
Weighted average number of shares – diluted	25,925,798	25,595,047
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Basic and diluted net earnings (loss) per share	(0.001)	0.001

Due to the loss in the six months ended June 30, 2006, no diluted net loss per share is provided as the inclusion of outstanding stock options would be anti-dilutive.

8. Related party transactions

- a) Consulting services were provided by two officers. Fees for such services amounted to \$18,000. These fees have been allocated to administrative expenses (\$720) and resource properties (\$17,280).
- b) The second instalment (\$35,100) of the consulting charge payable in 5 equal instalments over 5 years to an officer of the Company per agreement signed in 2004, had been paid in the first quarter of 2006.

9. Subsequent events

Sorel-Trois Rivieres natural gas property, Quebec:

- a) Drilling by Talisman Energy Canada ("Talisman") on the Company's oil and gas Permit No. 2002PG625 (one of the four Sorel-Trois Rivieres oil and gas permits optioned by Talisman), which started at the end of June 2006, has been completed in mid July 2006. Results are pending on the completion of the drill data analysis in about one to two months' time.
- b) The Company and its joint venture partner in the property, Petro St-Pierre Inc., have added to the property, by staking, a new oil and gas permit of about 6,500 hectares (16,000 acres) in the Sorel-Trois Rivieres area.