ALTAI RESOURCES INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (FORM 51-102F1)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 **Dated November 2, 2012**

The following management's discussion and analysis of the financial position and results of operations (the "MD&A") dated November 2, 2012 has been prepared by management and are based on and derived from the condensed interim consolidated financial statements of Altai Resources Inc. (the "Company" or "Altai") for the nine months ended September 30, 2012 in comparison with those at September 30, 2011.

This discussion should be read in conjunction with the condensed interim consolidated financial statements and the related notes for the nine months ended September 30, 2012, as well as the Company's audited consolidated financial statements for the year ended December 31, 2011 and the related MD&A.

The condensed interim consolidated financial statements for the nine months ended September 30, 2012 were unaudited and prepared by management in accordance with the International Financial Reporting Standards (IFRS) including IAS 34. The financial statements were presented in Canadian dollars, which is both the functional and presentation currency of the Company. Figures referred to in this discussion are in Canadian dollars, unless otherwise stated.

Additional information relating to the Company is available on SEDAR at www.sedar.com and on Altai's website at www.altairesources.com.

FORWARD LOOKING STATEMENTS

This discussion includes forward-looking statements and assumptions respecting the Company's strategies, future operations, commodity prices and discusses certain issues, risks and uncertainties that can be expected to impact on any of such matters.

Forward-looking statements are frequently characterized by words such as "plan", "expect", "forecast", "project", "intend", "believe", "anticipate", "outlook" and other similar words, or statements that certain events or conditions "may" or "will" occur. Forward-looking statements are based on the opinions and estimates of management of the dates the statements are made, and are subject to a variety of risks and uncertainties and other factors whether described herein or not, which the Company may not be able to control, that can cause actual events or results to differ materially from those projected in the forward-looking statements.

The Company disclaims any intention or obligation to update forward-looking statements if circumstances or management's estimates or opinions should change. The reader is cautioned not to place undue reliance on forward-looking statements.

COMPANY OVERVIEW

Altai Resources Inc. is a junior natural resource exploration company incorporated under the laws of the province of Ontario, and is listed on the TSX Venture Exchange under the trading symbol ATI.

OVERVIEW OF PROPERTIES

The Company has properties in Canada and at the present time does not have a producing natural resource property.

Altai's properties in Canada, both in the Quebec Province, are as following:–

a) the 50% owned Malartic gold property (named "Blackcliff gold property" by property joint-venture partner and operator) in the Val d'Or area of Quebec, and
b) the 100% owned Sorel-Trois Rivieres natural gas property, St. Lawrence Lowlands, Quebec.

1) **Malartic gold property, Quebec**

The 50% owned Malartic gold property (named "Blackcliff gold property" by property joint-venture partner and operator) of 3 claims of 120 hectares (300 acres), in the Val d'Or area of Quebec, was maintained in good standing as at September 30, 2012 and to date.

In 2008, C2C Gold Corporation Inc. ("C2C" and name changed to Key Gold Holding Inc. in March 2010) whose option agreement on the Malartic gold property was terminated in 2009, drilled 4,055 meters at the near surface extension of the No. 2 gold vein zone of the property (where a historical non NI 43-101 compliant resource of 222,433 tonnes grading 7.06 g/t Au was reported in 1988) and reported that numerous shallow mineralized intersections of significant grade and/or thickness were encountered.

Overall this property has a drill indicated resource inventory (non NI 43-101 compliant) of 466,342 tonnes averaging 7.11 gr/tonne (513,909 tons, 0.21 oz/t) to a depth of 200 meters (600 feet).

2) **Sorel-Trois Rivieres natural gas property, St. Lawrence Lowlands, Quebec**

The Sorel-Trois Rivieres natural gas property is owned and operated by Altai, with the Company holding a 100% interest in lands covered by oil and gas and reservoir exploration permits issued by the Quebec provincial government.

The Quebec provincial legislature has enacted Bill 18 (2011, chapter 13) on June 13, 2011, limiting oil and gas activity within Quebec. Bill 18 has two parts. The first part revokes without compensation, any exploration permit situated between the two banks of the St. Lawrence River and between the westernmost tip of Anticosti Island and the Ontario border. The second aspect of Bill 18 exempts holders of exploration permits "from performing the work required under the Mining Act until the date determined by the Minister, which date may not be later than 13 June 2014". The duration of the permits is also extended by the same period of time as the exemption.

With respect to the first part of Bill 18, the Quebec Ministry of Natural Resources confirmed to the Company in September 2011 the exact area of Altai's 100% owned and operated permits being expropriated to be 45,861 hectares (113,323 acres) which equates to 40.11% of its pre-Bill 18 direct holding.

– Prior to the enactment of Bill 18, the Company held 7 oil and gas and reservoir permits totalling 114,344 hectares (282,544 acres) of land in the St. Lawrence Lowlands, representing the largest contiguous block in the Utica fairway with a 100% interest held by the operator.

– Following Bill 18, 45,861 hectares (113,323 acres) of the Company's 100% operated exploration permits have been expropriated, leaving 68,483 hectares (169,221 acres) in 5 oil and gas and reservoir permits.

As a result of the expropriation, the Company has written down the carrying value of the property by 40.11%, that is pro-rata to the percentage of its direct land holding expropriated by the Quebec provincial government, for the year ended December 31, 2011.

Altai is currently reviewing the legislation with its advisors to determine its legal options.

Altai also retains a 15% gross royalty on an exploration permit operated by Talisman Energy Canada, which is contiguous with the Altai operated land. As a result of Bill 18, this permit has been reduced from 13,290 hectares (32,840 acres) to 12,334 hectares (30,477 acres).

Thus Altai's total land position in Southern Quebec prior to Bill 18 comprised 127,634 gross hectares (315,380 gross acres) or 116,338 net hectares (287,470 net acres). Following Bill 18 the total land position remaining is 80,817 gross hectares (199,699 gross acres) or 70,333 net hectares (173,793 net acres).

In early March 2011, the much publicised report on the Sustainable Development of Shale Gas in Quebec by the Bureau d'Audiences Publique pour l'Environment (BAPE) was released to the public. The report reviewed the various environmental costs and benefits of natural gas exploration and development in St. Lawrence Lowlands and recommended that additional scientific data be acquired and analysed, in order to fully evaluate the environmental impact of such activity. The BAPE recommended that the Ministère du Développement Durable, de l'Environnement et des Parcs (MDDEP) undertake a Strategic Environmental Assessment (SEA) coordinated by a steering committee including representatives from the Ministères des Affaires municipales, des Régions et de l'Occupation du territoire (MAMROT), the Ministère des Ressources Naturelles et Faune (MRNF), the Oil & Gas industry in addition to representatives from the general population and the education and research sectors. The SEA committee was given the mandate to manage the interim operational regulations pertaining to shale exploration and oversee limited exploration operations in the St. Lawrence Lowlands, in order to fully assess the environmental risks.

Presently, all hydrocarbon exploration activity in the St. Lawrence Lowlands and all hydraulic fracturing operations in Quebec are subject to review by the Strategic Environmental Assessment (SEA) committee. The SEA committee is comprised of various stakeholder groups, notably government agencies, municipal authorities, environmental groups, academia and the oil & gas industry. The SEA committee was formed during Q2 - Q3 2011, and prepared a scope of work for the study, which was released for comments in October 2011. In March 2012, SEA has completed the implementation plan. It is currently scheduled to submit its final report in November 2013.

The sedimentary geology of the St. Lawrence Lowlands comprises unconsolidated Quaternary sediments overlying Cambrian and Ordovician age sedimentary rocks that were deposited on the Precambrian basement or Canadian Shield. Within this sedimentary sequence several potential conventional and unconventional hydrocarbon play types have been targeted since exploration began in the late 1800's. The most recent and widely known of these is the shale gas play in the organic rich Ordovician Utica Shale. Although the Utica has been recognised as the major hydrocarbon source rock in the St. Lawrence Lowlands for some time, exploration work before 2005 (with two notable exceptions) had focused on conventional structural targets both in the hard rock and shallow unconsolidated sedimentary sequences with hydrocarbons having migrated out of the Utica over geological time. Prior to Forest Oil's 2008 announcement of a natural gas "discovery" in the Utica, there have been two conventional producing gas fields in the province, both of which have been converted to gas storage facilities.

Given the relative success reported in shale wells drilled by the various operators of exploration permits in the immediate vicinity of the Company's assets (Talisman, Canadian Forest Oil & Junex) since 2005, Altai recognises the need to fully evaluate its own extensive 100% owned and operated land position. However, given the current political climate, the Company has been unable to undertake its planned exploratory drilling and testing programs. Indeed, the MRNF has not issued any new drilling or completion (fracturing) permits to any of the operators in the St. Lawrence Lowlands during 2011, though several operators were permitted to modify existing wells in order to deal with surface casing vent flows (SCVF) widely reported in the provincial media. Furthermore, no seismic survey permits were issued for the region in the same time period. Although there is no *de jure* moratorium on exploration in the basin, the lack of permit issuance would tend to indicate that a *de facto* moratorium is in place.

The Utica play is essentially divided into the deep (Tier 1) sector, where the base of the Utica is at 1,100 meters to 2,500 meters and the shallow (Tier 2) sector where the shale is less than 1,000 meters deep. Tiers 1 and 2 are separated by the Yamaska fault system which runs approximately north-east south-west, sub parallel to the St. Lawrence River. Approximately 30 wells have been successfully drilled and fracked in both Tier 1 and Tier 2 on the lands adjacent to Altai's with several operators producing gas to surface at quasi commercial rates from horizontal wells. The estimated Original Gas In Place ("OGIP") of the Utica in Quebec has been variously reported as being between 90 and 153 billion cubic feet (BCF) per section (640 acres) over an area of approximately 1.5 million acres. Altai estimates that 16,000 hectares (39,000 acres) of the Company's gross land is situated in Tier 1, 60,900 hectares (151,000 acres) situated onshore in Tier 2. Based on both proprietary and public domain seismic and well data, Altai estimates that the Tier 1 Utica thickness is 195 - 220 meters and the Tier 2 Utica thickness is 80 - 140 meters.

In addition to the Utica shale, potential for commercial hydrocarbon resources exists in several other geological formations underlying the St. Lawrence Lowlands. The geological structure of one of the above mentioned gas storage reservoirs, Pointe-du-Lac near Trois-Rivières, is adjacent to Altai's "Trois-Rivières" and "Lac-Saint-Pierre" exploration projects though a significant proportion of the exploration permits associated with the Lac-St-Pierre project has been revoked by Bill 18, as mentioned above. The Pointe-du-Lac reservoir is situated in shallow unconsolidated fluvio-glacial Quaternary sediments and several potential analogues have been identified by extensive 2D-Seismic surveys undertaken on Altai's Permits. These are currently being evaluated with respect to their natural gas production and storage potential, specifically the structures identified on the southern shore of the St. Lawrence River.

In 2006, Talisman Energy drilled an earning well on an Altai Permit near St-François-du-lac south of Lac-Saint-Pierre. That well targeted a conventional collapsed graben structure in the Trenton / Black River (TBR) carbonates that are present on Altai's Permits for some 34 km, sub parallel to the St. Lawrence River. This type of reservoir has produced large quantities of gas and oil in Ohio, Michigan, New York State and West Virginia with a significant number of producing Hydrothermal Dolomite (HTD) gas wells having been drilled by Talisman Energy's US subsidiary in upstate New York. Since HTD and collapsed grabens are localised structures, it is likely that the current widely spaced regional seismic coverage has 'missed' a few potential targets. In the development of every shale gas play across the continent, the use of extensive 3-D seismic in identifying optimum well locations, sweet spots and horizontal well paths has so far proven invaluable. In the case of Quebec, such data would not only improve our knowledge of the shale morphology, it would have the knock on effect of imaging previously un-imaged sections of the TBR immediately below and increase the possibility of identifying hydrocarbon reservoir structures within the TBR group.

3) **Altai Philippines Mining Corporation ("Altai Philippines")**

The Company has a 40% equity interest in Altai Philippines Mining Corporation ("Altai Philippines"). In addition the Company had loan and interest

receivable from Altai Philippines in the amount of $1,640,709. In 2008 the Company performed a valuation of the investment and loan and determined that it was impaired. Accordingly the investment and loan were each written down to $1.

In September 2010, Altai Philippines closed the sale of its Sibuyan Island lateritic nickel-cobalt property to a consortium headed by Sunshine Gold Pty Ltd., a subsidiary of Pelican Resources Ltd. of Australia, for net proceeds of C$1,226,316. Pursuant to the agreement of Altai Philippines' shareholders and the sale option agreement, 60% of the net proceeds was remitted to Altai and the Company cancelled its net smelter return royalty interest in the property. The $734,114 received has been recorded as recovery of note receivable and accrued interest. The remaining $906,565 in accrued interest on the note remains outstanding, but the Company continues to provide an allowance for that amount.

HIGHLIGHTS OF 2012

1) Effective May 23, 2012, Marc-Andre Lavoie has resigned as President and Chief Executive Officer and Geraint Lloyd has resigned as Chief Operating Officer and VP Exploration, of the Company. Dr. Kacira, Chairman and a director of the Company, became also the President of the Company.

2) At the 2011 Annual Meeting of the Shareholders of the Company held on June 22, 2012 in Toronto, the following directors were re-elected/elected: Dr. Niyazi Kacira, Dr. K. Sethu Raman, Dr. Didier Pomerleau, Dr. Mehmet F. Taner and Mr. Nick Tintor. Dr. Kacira remains the Chairman of Altai. Dr. Taner is a consulting geologist and mineralogist with 30 years' experience in the mining industry, and Mr. Tintor is a geologist with 25 years' experience involving various aspects of junior mining company management and financing. The two new directors with their experience and expertise in the mining industry are certainly valuable additions to the board. The Board appointed Niyazi Kacira as President of the Company and Maria Au as Secretary-Treasurer.

On June 22, 2012, each of the five directors and an officer was granted 200,000 share options at $0.10 per share expiring on June 21, 2017 and vested immediately,

OVERALL PERFORMANCE AND RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012

1) For the nine months ended September 30, 2012, the Company had a net loss of $179,461 (2011 – net loss of $157,601), with investment revenue of $105,058 (2011 – $114,785 including $3,875 gain in the sale of marketable securities) offset by expenses of $284,519 (2011 – $272,386).

2) **Expenses**

Expenses for the nine months ended September 30, 2012 and 2011 are as following:

	2012 $	2011 $
Professional fees	60,514	86,475
Office rent	69,985	57,386
Travel	720	4,263
Other administrative and general expenses	42,472	36,184
Prospecting	14,493	7,548
Shareholders meeting and investor relations	10,807	12,026
Transfer agency fees	6,242	6,351
Stock exchange and filing fees	10,768	10,918
Audit fees	5,375	11,500
Legal fees	43,256	393
Stock-based compensation cost	11,250	29,970
Amortization	8,637	9,372
	284,519	272,386

(1) Professional fees – With the Chairman looking after resource exploration after the resignation of Marc-Andre Lavoie and Geraint Lloyd as officers of the Company on May 23, 2012, the professional fees for the nine months of 2012 decreased from $86,475 for the same period in 2011 to $60,514.

(2) Office rent – Office rent for the nine months ended September 30, 2012 is higher than the 2011's by $12,599, reflecting the Montreal office rent (gross rent of approximately $5,000 per month) for the full nine months in 2012 versus only operating cost and property tax payment for February - April 2011 (free base rent for that period) plus 5 months' gross rent from May to September 2011.

(3) Prospecting – In the nine months of 2012, the Company incurred $14,493 prospecting expenses (of which $12,000 was incurred in Q1) versus $7,548 for the same period in 2011.

(4) Shareholders meeting and investor relations – The investor relations expenses for 2012 were $1,180 versus $5,103 for 2011.

(5) Audit fees – 2011's figure of $11,500 made up of $6,500 under-accrued fees for 2010 year end audit and $5,000 fee for the auditors' review of the 2011 Q1 condensed interim consolidated financial statements re IFRS policies, applications and compliance.

(6) Amortization – Slightly lower depreciation expense for the nine months of 2012 was due to the website development cost fully depreciated by year end of 2011. In Q3 of 2012 $1,231 undepreciated value of furniture in the closed Montreal office was written off

(7) Legal fees – Legal fees of $43,256 for the nine months ended September 30, 2012 were incurred due to the resignation of M-A Lavoie and G. Lloyd as officers of the Company on May 23, 2012 and for the annual general meeting of the shareholders held on June 22, 2012.

(8) Stock-based compensation cost

a) With the resignation of M-A Lavoie and G. Lloyd as officers of the Company on May 23, 2012, their respective 1,000,000 and 200,000 non-vested special options were cancelled immediately. The total stock-based compensation cost of $59,940 recorded for the period from October 1, 2010 to March 31, 2012 have been reversed in Q2 of 2012.

b) On June 22, 2012, the Company granted a total of 1,200,000 share options, being 200,000 share options to each of the five directors and an officer of the Company at $0.10 per share with an expiry date of June 21, 2017, and vested immediately:

The fair values of the options granted during the nine months ended September 30, 2012 were estimated at the date of the grants using the Black-Scholes option pricing model with the following assumptions: expected volatility of 58%; expected dividend yield 0.0%; risk free interest rate 1.63%, expected life – five years. The total fair value of stock options granted was $61,200.

c) The net stock-based compensation cost for the nine months ended September 30, 2012 is $11,250.

SUMMARY OF QUARTERLY RESULTS

The following table presents the quarterly results for each of the last eight quarters:

					Nine Months Ended			
	September 30, 2012 $	**June 30, 2012 $**	**March 31, 2012 $**	**December 31, 2011 $**	**September 30, 2011 $**	**June 30, 2011 $**	**March 31, 2011 $**	**December 31, 2010 $**
Revenue	33,141	36,104	35,896	32,501	38,322	40,628	35,835	33,357
Expenses	66,378	120,369	97,857	9,949,059	80,127	90,887	101,372	269,277
Recovery of note receivable and accrued interest written down	–	–	–	–	–	–	–	–
Net loss	(33,237)	(84,265)	(61,961)	(9,916,558)	(41,805)	(50,259)	(65,537)	(235,920)
Net loss per share (Basic and Diluted*)	(0.00) *	(0.00) *	(0.00) *	(0.18) *	(0.00) *	(0.00) *	(0.00) *	(0.01) *

* For each of the quarters with net loss, the diluted weighted average number of shares used to calculate the diluted net loss per share in the period is the same as the basic weighted average number of shares as the inclusion of dilutive shares would be anti-dilutive.

(1) The comparative data for all periods were prepared in accordance with IFRS.

(2) The high expenses of the quarter ended December 31, 2010 was due to the high stock-based compensation cost with the grant of options ($148,590).

The stock-based compensation cost accounted for approximately half of the expenses for the quarter ended December 31, 2010. That quarter also included the reclassification to the administrative expenses of a full year's consulting fees of an officer previously allocated to resource expenditures, and the additional consulting fees and expenses of then newly appointed President & CEO (M-A Lavoie) and COO & VP, Exploration (G. Lloyd) since October 1, 2010.

(3) The higher administrative and general expenses in all four quarters of 2011 and the two quarters of 2012 reflected the effect of the expenses of the Montreal office (set up on February 1, 2011) and the two officers (President & CEO and COO & VP Exploration) accommodated there.

Though the Montreal office has been closed since May 24, 2012, the Company has to continue paying the expenses of the Montreal office rent and copier leases both of which expire in February 2014 and the basic utilities for that office.

(4) The expenses in Q4 of 2011 included the following:

a) $9,845,601 write down of the carrying value of the Sorel-Trois Rivieres gas property due to the expropriation of 40.11% of Altai's direct land holding in the St. Lawrence Lowlands by the Quebec provincial government with the enactment of Bill 18 on June 13, 2011.

b) An accrual of $20,000 expense for the audit of financial statements for the year ended December 31, 2011.

EXPENDITURES FOR MINING PROPERTY AND OIL AND GAS INTERESTS

Expenditures for the resource properties for the nine months ended September 30, 2012 and 2011 are:

	2012 $	**2011 $**
Malartic gold property, Quebec	–	9,924
Sorel-Trois Rivieres gas property, Quebec	177,735	169,916
Expenditures	177,735	179,840

OUTLOOK FOR 2012 AND BEYOND

1) In the Quebec Utica Shale play, most of the recent focus continues to be on regulatory and social acceptability issues. No exploration work has taken place in the St Lawrence Lowlands during 2011 and to our knowledge, very little, if any, work is scheduled to take place in 2012.

The Strategic Environmental Assessment (SEA) has started its work late in 2011 with a mandate by the Quebec government to examine the feasibility and desirability of developing the Province's shale gas resources. The work of the SEA will provide a focus for public debate during 2012 and is expected to produce the final report in November 2013. Although there are indications that some exploration work may be allowed during the SEA, it is our perception that most industry players have chosen not to allocate any further capital to Quebec shale gas for the moment.

Combined with recent historical lows for dry natural gas in North America and the highly uncertain regulatory environment in Quebec, Altai has also delayed its planned exploration spending in the St Lawrence Lowlands until more favourable conditions are present.

Also contributing to the current negative investor perception was the enactment of Bill 18 by the Quebec National Assembly in June 2011.This Bill has

revoked without compensation all the exploration permits located in the St Lawrence River, West of Anticosti. This measure effectively expropriated 113,677 net acres of the total 287,470 net acres of the pre-Bill 18 exploration permits held by Altai in the Province of Quebec. Bill 18 also provides for work exemptions and time extension of permits which will benefit Altai's remaining 173,793 net acres in Quebec. The Company is still reviewing the new legislation with its advisers.

2) Faced with the reality of a stalled project in Quebec, where most of Altai's resource assets are concentrated, the Company has been actively evaluating other resource properties in Canada and other countries in order to better leverage its capital. In view of the continual gloomy outlook on the global economy, continual jitters in the stock market, and the current overall difficulties in equity financing in the resource industry, the Company adopts a stringent approach and process in both the selection of and due diligence on resource properties it may wish to acquire or joint venture.

3) In July 2012, the Company has entered into an arm's length agreement with an Alberta private company to acquire a gross 50% (net 45%) working interest in 240 acres of Alberta Crown leases in the Cessford area of central Alberta ("Cessford property") for a cash consideration of $800,000. There are four long-life oil wells producing from the Glauconitic "C" Pool with 12.5 barrels of light oil per day (11 barrels net) due to Altai, and future infill locations for two additional wells. The wells are operated by a major oil company. Production for May 2012 has risen to 40 bopd gross (18 bopd net to Altai). The effective date of the transaction would be April 1, 2012. The transaction is expected to be finalized no later than December 31, 2012. This is the Company's first venture into conventional oil exploration and production in Alberta as Altai diversifies its portfolio of investments.

The Company will pay approximately $64,000 per flowing barrel of oil per day and $22.80 per barrel of proven reserves in the ground. Reserve life is estimated at 13-15 years and there are undrilled lands to be explored. The acquisition will enhance Altai's net cash flow. In addition to the cash flow, there are future drilling opportunities. Typically vertical wells in the Glauconitic "C" pool come on at 30 bopd (13 bopd net to Altai) and short horizontal wells perform better.

Calgary's Valley View Energy Ltd. and 692012 Alberta Ltd. provided technical support to Altai during the acquisition process and for that service will be paid a fee in kind of ten percent of the purchase price. After the acquisition, Altai will hold a net 45% working interest in the Cessford property, while Valley View Energy Ltd. and 692012 Alberta Ltd. will each hold a 2.5% working interest.

LIQUIDITY AND CAPITAL RESOURCES

1) The Company's treasury funds comprise of cash and cash equivalents and available-for-sale marketable securities. As at September 30, 2012, the Company's working capital was $6.90 million comprising $5.41 million cash and cash equivalents and $1.49 million available-for-sale marketable securities.

Preservation of the capital remains a priority of the Company, especially with the continual jitters and uncertainty in the prospects of economic recovery and growth in US and the debt crisis in the Eurozone. Yield on low risk short term and long term papers remains low due to the persistent low interest rates in Canada versus the much higher yield for the much more risky papers. Despite that, the Company continues to prefer to invest the greater part of its cash in secured short term papers with maturity from 30 days to one year, such as guaranteed investment certificates (GIC) which offer very low yields.

Since July 2009 the Company invested and continues to hold part of its cash in shares of Canadian major banks and relatively stable companies which are denominated in Canadian currency and are liquid and regularly pay dividends or interests. A small portion of the marketable securities are shares received by the Company pursuant to previous option agreements and they are publicly traded in Canada. As such, the Company's marketable securities investment remains liquid and reasonably safe, though as we have expected, the prices of the shares in our portfolio continue to fluctuate in the first nine months of 2012 in view of the current swings in investment moods and economic and debt issues in the Western hemisphere. The income from this investment was higher than that of the secured short term papers. The total fair market values at September 30, 2012 were $1,493,895 (2011 - $1,474,485) compared to total costs of $1,137,563 (2011 - $1,195,157).

2) Since Altai does not have any debt nor committed capital expenditures and has liquid investment, the Company will have no liquidity issues in the next twelve months.

In the long term, the Company may pursue to raise additional funds through equity financing (if and when the equity financing market for the resource industry improves) for the exploration of the Company's resource properties.

3) The Company includes the following in its capital as at September 30, 2012 and 2011:

	2012	2011
Shareholders' equity comprised of		
Share capital	$36,627,178	$36,622,479
Share purchase warrants	339,701	344,400
Contributed surplus	2,813,810	2,792,570
Deficit	(17,493,442)	(7,397,423)
Accumulated other comprehensive income	289,781	219,994
	$22,577,028	$32,582,020

The Company's objectives when managing capital are:

a) to ensure that the Company maintains the level of capital necessary to meet the requirements of its exploration programs and current operating expenditures;

b) to allow the Company to respond to changes in economic and/or marketplace conditions;

c) to give shareholders sustained growth in shareholder value by increasing shareholders' equity; and

d) to maintain a flexible capital structure which optimizes the cost of capital at acceptable levels of risk.

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its underlying assets. The Company maintains or adjusts its capital level to enable it to meet its objectives by:

a) realizing proceeds from the disposition of its investments; and

b) raising capital through equity financings.

The Company is not subject to any capital requirements imposed by a regulator.

The payment of cash dividends does not form part of Altai's current capital management program and, to date, the Company has not declared any cash dividends on its shares.

SIGNIFICANT ACCOUNTING POLICIES

The preparation of the Company's consolidated financial statements requires management to use accounting policies relevant for its industry and operations. The significant accounting policies used are presented in Note 4 to the condensed interim consolidated financial statements for the nine months ended September 30, 2012.

In the process of applying the Company's accounting policies, management has to make

1) estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. The estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Actual results could differ from those estimates; and

2) critical judgments related to the economic recoverability of the Company's resources properties and the assumption that the Company will continue as a going concern.

SHARE DATA

1) The number of shares outstanding as at September 30, 2012 was 55,113,552.

2) On May 3, 2010 the 2002 Stock Option Plan was discontinued, terminated, and replaced by the 2010 Stock Option Plan which authorizes the Board to grant up to 4,950,000 option shares to directors, officers, employees and consultants of the Company or of its subsidiaries. The 1,020,000 stock options granted under the 2002 Stock Option Plan remain in full force until they are exercised, expired or cancelled.

During the nine months ended September 30, the Company granted a total of 1,200,000 share options, being 200,000 share options to each of the five directors and an officer of the Company at $0.10 per share with an expiry date of June 21, 2017 and vested immediately:

The fair values of the options granted during the nine months ended September 2012 were estimated at the date of the grants using the Black-Scholes option pricing model with the following assumptions: expected volatility of 58%; expected dividend yield 0.0%; risk free interest rate 1.63%, expected life – five years. The total fair value of stock options granted was $61,200.

A total of 2,000,000 option shares were cancelled in the nine months to September 30, 2012. The 1,000,000 and 200,000 special options to Marc-Andre Lavoie and Geraint Lloyd granted on October 1, 2010 at $0.30 per share, and non-vested as at the date of their resignation as officers of the Company, were cancelled. The stock-based compensation expenses for the said cancelled non-vested option booked for the period from October 1, 2010 to March 31, 2012, totalling $59,940, were reversed in Q2, 2012. Another 400,000 vested share options granted to them as officers were also cancelled per the terms of the 2010 Stock Option Plan before the end of June 2012. 400,000 vested share options to ex-directors were cancelled in July 2012.

The Company has recorded net stock-based compensation expense of $11,250 for the nine months ended September 30, 2012 (2011 - $29,970).

At September 30, 2012, there were 2,220,000 share options outstanding.

3) At September 30, 2012, there were 2,800,000 share purchase warrants outstanding with exercise price of $0.45 per share expiring January 10, 2013.

4) The Company's share capital at September 30, 2011, December 31, 2011, September 30, 2012 and October 31, 2012 are as following:

	September 30, 2011		December 31, 2011		September 30, 2012		October 31, 2012	
	Basic	Weighted average	Basic	Weighted average	Basic	Weighted average	Basic	Weighted average
Issued and outstanding common shares	55,113,552	54,908,424	55,113,552	54,960,127	55,113,552	55,113,552	55,113,552	55,113,552
Stock options	3,020,000	3,020,000	3,020,000	3,020,000	2,220,000	1,462,336	2,220,000	1,539,345
Share purchase warrants	2,800,000	2,697,436	2,800,000	2,723,288	2,800,000	2,800,000	2,800,000	2,800,000
Common shares fully diluted	60,933,552	60,625,860	60,933,552	60,703,415	60,135,552	59,375,888	60,133,552	59,452,897

COMMITMENTS

a) The Company's Toronto office has a five year office lease expiring July 2013. The basic rent is $1,218 per month.

b) In October 2010 the Company signed agreements to pay $50,000 and $16,000 as termination fees to Maria Au, an officer of the Company, and a staff of Altai, respectively, when their service to the Company terminates in the future.

c) The Company's Montreal office has a three year lease expiring February 2014. The basic rent is $2,592 per month.

d) The Company's Montreal office has a three year copier lease contract expiring February 2014. The lease payment is $786 per quarter.

The minimum annual payments for the premises rental and equipment lease are approximately as follows:

	Office rent	Equipment lease	Total
2012	$45,720	$3,144	$48,864
2013	38,412	3,144	41,556
2014	2,592	524	3,116
	$86,724	$6,812	$93,536

RELATED PARTY TRANSACTIONS

Consulting services were provided by management personnel who are officers of the Company and companies owned by officers of the Company. The directors of the Company did not receive any cash compensation in their capacity as directors during the nine months ended September 30, 2012 and 2011. The remuneration of directors and officers of the Company for the nine months ended September 30, 2012 and 2011 are as follows:

	2012			2011		
	Cash compensation	**Fair value of stock-based compensation**	**Total compensation**	**Cash compensation**	**Fair value of stock based compensation**	**Total compensation**
Directors	$ 0	$51,000	$ 51,000	$ 0	$ 0	$ 0
Officers						
Niyazi Kacira – Chairman and President (effective May 23, 2012)	27,000	0	27,000	27,000	0	27,000
Marc-Andre Lavoie – President & CEO (to May 23, 2012)	37,027 (1)	0 (3)	37,027	73,950	24,975 (3)	98,925
Maria Au – Secretary-Treasurer	36,000	10,200	46,200	36,000	0	36,000
Geraint Lloyd – COO and VP Exploration (to May 23, 2012)	40,427 (1)	0 (3)	40,427	76,500	4,995 (3)	81,495
	$140,454 (2)	$10,200	$150,654	$213,450	$29,970	$243,420
Total – Directors and Officers	$140,454	$61,200	$201,654	$213,450	$29,970	$243,420

(1) The consulting fees to M-A Lavoie and G. Lloyd were paid up to and including May 23, 2012, the date of their resignation as officers of the Company.

(2) These fees have been allocated to administrative expenses in the amount of $60,513 (2011 - $86,475) and resource properties in the amount of $79,941 (2011 - $126,975).

(3) The total stock based compensation expenses of $59,940 for the 1,000,000 and 200,000 non-vested special options to M-A Lavoie and G. Lloyd respectively recorded for the period from October 1, 2010 to March 31, 2012 were reversed after the 2 officers' resignation on May 23, 2012 and those share options were cancelled.

The Company did not pay any other benefits, apart from the compensation reported above, to the directors and officers during the nine months ended September 30, 2012 and 2011.

OFF-BALANCE SHEET TRANSACTIONS

At September 30, 2012 and to date, the Company does not have any off-balance sheet arrangements.

PROPOSED TRANSACTIONS

In July 2012, the Company has entered into an arm's length agreement with an Alberta private company to acquire a gross 50% (net 45%) working interest in 240 acres of Alberta Crown leases in the Cessford area of central Alberta ("Cessford property") for a cash consideration of $800,000. There are four long-life oil wells producing from the Glauconitic "C" Pool with 12.5 barrels of light oil per day (11 barrels net) due to Altai, and future infill locations for two additional wells. The wells are operated by a major oil company. Production for May 2012 has risen to 40 bopd gross (18 bopd net to Altai). The effective date of the transaction would be April 1, 2012. The transaction is expected to be finalized no later than December 31, 2012. This is the Company's first venture into conventional oil exploration and production in Alberta as Altai diversifies its portfolio of investments.

The Company will pay approximately $64,000 per flowing barrel of oil per day and $22.80 per barrel of proven reserves in the ground. Reserve life is estimated at 13-15 years and there are undrilled lands to be explored. The acquisition will enhance Altai's net cash flow. In addition to the cash flow, there are future drilling opportunities. Typically vertical wells in the Glauconitic "C" pool come on at 30 bopd (13 bopd net to Altai) and short horizontal wells perform better.

Calgary's Valley View Energy Ltd. and 692012 Alberta Ltd. provided technical support to Altai during the acquisition process and for that service will be paid a fee in kind of ten percent of the purchase price. After the acquisition, Altai will hold a net 45% working interest in the Cessford property, while Valley View Energy Ltd. and 692012 Alberta Ltd. will each hold a 2.5% working interest.

FINANCIAL INSTRUMENTS

The Company has designated its cash and cash equivalents as fair value through profit or loss (held-for-trading) and marketable securities are available-for-sale, which are measured at fair value. Accounts receivable is classified as loans and receivable, which is measured at amortized cost. Accounts payable and accrued liabilities is classified as financial liabilities measured at amortized cost.

The Company is exposed in varying degrees to a number of risks arising from financial instruments. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. Management's close involvment in the operations allows for the identification of risks and variances from expectations. The Board approves and monitors the risk management process.

The types of risk exposure and the way in which such exposures are managed as follows:

1) Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its payment obligations. The Company's exposure to credit risk includes cash and cash equivalents and marketable securities. The risk exposure is limited to their carrying amounts at the balance sheet date.

Cash and cash equivalents are maintained with a financial institution. The risk is mitigated because the financial institution is a major institution with high credit ratings. The marketable securities are mainly very liquid securities that are reflected at market value.

2) Liquidity risk
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages its liquidity risk by actively forecasting, planning, reviewing and monitoring expenditures and commitments and anticipated financial requirements.

3) Market risk
Market risk is the risk that changes in market prices, such as natural gas prices, foreign exchange rates and interest rates will affect the Company's income. The object of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

a) Commodity risk
The ability of the Company to develop its properties and the future profitability of the Company is directly related to the market price of certain minerals and oil and gas prices. The Company does not use derivative financial instruments to reduce its exposure to commodity price risk.

b) Currency risk
The Company is not exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates mainly in Canada and all of its expenses are incurred in Canadian dollars.

c) Interest rate risk
The Company is not exposed to significant interest rate risks since all of its financial instruments can be quickly turned into cash, thus avoiding additional risks.

PRESENTATION OF INTERIM FINANCIAL REPORT AND INTERIM MD&A

Management, including the President and the Secretary-Treasurer, have reviewed the interim financial report and interim MD&A (the "interim filings") for the nine months ended September 30, 2012.

Based on the knowledge of the President and the Secretary-Treasurer, having exercised reasonable diligence, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings.

Based on the knowledge of the President and the Secretary-Treasurer, having exercised reasonable diligence, the interim financial report together with other financial information included in the interim filings fairly present in all material respects the financial condition, financial performance and cash flows of the Company as of the date of and for the periods presented in the interim filings.

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