# ALTAI RESOURCES INC.

## CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012

## (UNAUDITED)

## NOTICE OF NO AUDITOR REVIEW OF
## CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited condensed interim consolidated financial statements of Altai Resources Inc. for the nine months ended September 30, 2013 and 2012 have been prepared by the management of the Company and approved by the Company's Audit Committee and the Board of Directors. Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditors have not performed a review of these financial statements.

**ALTAI RESOURCES INC.**
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
**AS AT SEPTEMBER 30, 2013 AND DECEMBER 31, 2012**
**(UNAUDITED)**
**(EXPRESSED IN CANADIAN DOLLARS)**

| | Note | September 30, 2013 | December 31, 2012 |
|---|---|---|---|
| **ASSETS** | | | |
| Current | | | |
| Cash and cash equivalents | | $ 4,654,483 | $ 4,808,926 |
| Marketable securities | 4 | 1,538,060 | 1,503,775 |
| Accounts receivable | | 54,261 | 153,511 |
| Prepaid expenses | | 11,377 | 8,877 |
| | | 6,258,181 | 6,475,089 |
| Exploration and evaluation assets | 5 | 15,646,642 | 15,605,045 |
| Property and equipment | 6 | 779,118 | 829,028 |
| | | $22,683,941 | $22,909,162 |
| **LIABILITIES** | | | |
| Current | | | |
| Accounts payable and accrued liabilities | | $ 148,549 | $ 88,072 |
| Decommissioning liabilities | 7 | 66,885 | 65,631 |
| Deferred tax liabilities | 13 | 53,066 | 47,608 |
| | | 268,500 | 201,311 |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | 8a | 36,627,178 | 36,627,178 |
| Share purchase warrants | 8b | – | 339,701 |
| Contributed surplus | | 3,159,111 | 2,813,810 |
| Deficit | | (17,698,050) | (17,371,214) |
| Accumulated other comprehensive income | | 327,202 | 298,376 |
| | | 22,415,441 | 22,707,851 |
| | | $22,683,941 | $22,909,162 |
| Commitments | 12 | | |

**ALTAI RESOURCES INC.**
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012**
**(UNAUDITED)**
**(EXPRESSED IN CANADIAN DOLLARS)**

| | Note | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|---|
| | | 2013 | 2012 | 2013 | 2012 |
| **REVENUE** | | | | | |
| Oil sales | | $ 59,046 | $ – | $ 172,390 | $ – |
| Royalties | | (3,478) | – | (8,385) | – |
| Interest and dividend income | | 31,169 | 33,141 | 96,805 | 105,058 |
| | | 86,737 | 33,141 | 260,810 | 105,058 |
| **EXPENSES** | | | | | |
| Production | | 38,323 | – | 110,789 | – |
| Professional fees | | 13,500 | 12,000 | 39,000 | 60,514 |
| Office rent | | 23,334 | 23,046 | 70,322 | 69,985 |
| Legal and audit fees | | – | 5,206 | 23,778 | 48,631 |
| Proxy contest expenses | | – | – | 47,792 | – |
| Hostile takeover bid expenses | | 165,950 | – | 165,950 | – |
| Other administrative and general expenses | | 16,265 | 21,663 | 74,566 | 71,009 |
| Prospecting expenses | | – | 747 | 510 | 14,493 |
| Stock-based compensation cost | | 5,600 | – | 5,600 | 11,250 |
| Amortization | | 16,052 | 3,716 | 49,339 | 8,637 |
| | | 279,024 | 66,378 | 587,646 | 284,519 |
| **NET LOSS** | | (192,287) | (33,237) | (326,836) | (179,461) |
| **OTHER COMPREHENSIVE INCOME** | | | | | |
| (Decrease) increase in fair value of available-for-marketable securities, net of taxes | | 36,580 | 51,960 | 28,826 | 57,736 |
| **COMPREHENSIVE (LOSS) INCOME** | | $ (155,707) | $ 18,723 | $ (298,010) | $ (121,725) |
| **NET LOSS PER SHARE** | | | | | |
| **Basic and diluted loss per share** | **9** | **$ (0.01)** | **$ (0.00)** | **$ (0.01)** | **$ (0.00)** |
| Weighted Average Number of Common Shares Outstanding | | | | | |
| – basic | | 55,113,552 | 55,113,552 | 55,113,552 | 55,113,552 |
| – diluted | | 55,113,552 | 55,113,552 | 55,113,552 | 55,134,616 |

**ALTAI RESOURCES INC.**
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012**
**(UNAUDITED)**
**(EXPRESSED IN CANADIAN DOLLARS)**

| | Share capital | | | | | | |
|---|---|---|---|---|---|---|---|
| | Number of shares | Amount $ | Share purchase warrants $ | Contributed surplus $ | Accumulated other comprehensive income (net of tax) $ | Deficit $ | Total equity $ |
| **Balance, December 31, 2011** | **55,113,552** | **36,627,178** | **339,701** | **2,802,560** | **232,045** | **(17,313,981)** | **22,687,503** |
| Net loss for the period | - | - | - | - | | (179,461) | (179,461) |
| Increase in fair value of available-for-sale marketable securities | - | - | - | - | 57,736 | - | 57,736 |
| Stock-based compensation | - | - | - | 11,250 | - | - | 11,250 |
| **Balance, September 30, 2012** | **55,113,552** | **36,627,178** | **339,701** | **2,813,810** | **289,781** | **(17,493,442)** | **22,577,028** |
| Net income for the period | - | - | - | - | - | 122,228 | 122,228 |
| Increase in fair value of available-for-sale marketable securities | - | - | - | - | 8,595 | - | 8,595 |
| **Balance, December 31, 2012** | **55,113,552** | **36,627,178** | **339,701** | **2,813,810** | **298,376** | **(17,371,214)** | **22,707,851** |
| Net loss for the period | - | - | - | - | | (326,836) | (326,836) |
| Increase in fair value of available-for-sale marketable securities | - | - | - | - | 28,826 | - | 28,826 |
| Stock-based compensation | - | - | - | 5,600 | - | - | 5,600 |
| Expired share purchase warrants | - | - | (339,701) | 339,701 | - | - | - |
| **Balance, September 30, 2013** | **55,113,552** | **36,627,178** | **–** | **3,159,111** | **327,202** | **(17,698,050)** | **22,415,441** |

**ALTAI RESOURCES INC.**
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012**
**(UNAUDITED)**
**(EXPRESSED IN CANADIAN DOLLARS)**

| | 2013 | 2012 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net loss for the period | $ (326,836) | $ (179,461) |
| Items not affecting cash | | |
| Stock-based compensation | 5,600 | 11,250 |
| Amortization | 49,339 | 8,637 |
| Loss on sale of marketable securities | – | 84 |
| Finance expense | 1,253 | – |
| | (270,644) | (159,490) |
| Changes in non-cash working capital balances: | | |
| Accounts receivable | 99,250 | 43,406 |
| Accounts payable and accrued liabilities | 60,477 | (24,714) |
| Increase in prepaid expenses | (2,500) | – |
| **Cash used in operating activities** | (113,417) | (140,798) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Deferred exploration expenditures | – | 3,473 |
| Natural gas interests expenditures, net of tax credits received | (41,597) | (95,436) |
| Proceeds on sale of marketable securities | – | 34,472 |
| Purchase of capital assets | – | (1,312) |
| Property and equipment | 571 | – |
| **Cash used in investing activities** | (41,026) | (58,803) |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | (154,443) | (199,601) |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD** | 4,808,926 | 5,606,797 |
| **CASH AND CASH EQUIVALENTS, END OF PERIOD** | $ 4,654,483 | $ 5,407,196 |

## 1. Nature of Operations

Altai Resources Inc. ("Altai" or the "Company"), incorporated under the laws of the province of Ontario, is a resource company with a portfolio of oil revenue producing property and other gas and gold properties which it is in the process of exploring and has not yet determined whether those properties contain reserves that are economically recoverable. All properties are in Canada.

Altai's common shares are listed on the TSX Venture Exchange under the symbol ATI.

These condensed interim consolidated financial statements are unaudited and have been prepared by management with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. Apart from an oil revenue producing property, the other properties are at an early stage of development. The Company has incurred losses in the past and currently has an accumulated deficit of $17,698,050.

## 2. Basis of Presentation

**Statement of compliance**

These condensed interim consolidated financial statements are unaudited and have been prepared by management in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). The accounting policies set out below have been applied to all periods presented in these consolidated financial statements.

These condensed interim consolidated financial statements were prepared under IFRS in accordance with IAS 34, *Interim Financial Reporting*. Certain information, in particular the accompanying notes, normally included in the consolidated annual financial statements prepared in accordance with IFRS, have been omitted or condensed. Accordingly, these condensed interim consolidated financial statements do not include all of the information required for full annual financial statements.

The condensed interim consolidated financial statements for the nine months ended September 30, 2013 and 2012 were approved by the Board of Directors on November 28, 2013.

**Basis of measurement**

The financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value. These condensed interim consolidated financial statements have been prepared using IFRS principles applicable to a going concern, which contemplate the realization of assets and settlement of liabilities in the normal course of business as they come due.

**Functional and presentational currency**

The consolidated financial statements are presented in Canadian dollars, which is the Company's presentation and functional currency.

**Accounting judgments and estimation uncertainty**

The preparation of the financial statements requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Estimates and underlying assumptions are reviewed annually and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In preparing these financial statements, the Company makes judgments regarding the application of its accounting policies.

The financial statement areas that require significant estimates and assumptions are included in the following notes:

***Asset impairments***

For impairment testing of property, plant and equipment and exploration and evaluation assets, the assessment of facts and circumstances is a subjective process that often involves a number of estimates and is subject to interpretation. One of the

more significant policies adopted by the Company has been deciding the level at which assets are to be aggregated for assessing impairment. These groupings are referred to as Cash Generating Units ("CGU"). CGU is defined as the lowest levels for which there are separately identifiable independent cash inflows. Based on numerous factors, including the independence of cash inflows and production infrastructure, management considers the Company to have three CGUs, namely Malartic Gold properties, the Quebec natural gas properties and Cessford oil properties. The testing of assets or CGU's for impairment, as well as the assessment of potential impairment reversals, requires estimates of an asset's or CGU's recoverable amount. The estimate of a recoverable amount requires a number of assumptions and estimates, including quantities of reserves, expected production volumes, future commodity prices, discount rates as well as future development and operating costs. These assumptions and estimates are subject to change as new information becomes available and changes in any of the assumptions, such as a downward revision in reserves, a decrease in commodity prices or an increase in costs, could result in an impairment of an asset's or CGU's carrying value.

At September 30, 2013, management assessed whether there were indicators that the CGUs may be impaired. Management determined no such indicators are present and therefore no impairment exists.

***Decommissioning liabilities***

Decommissioning liabilities consist of asset retirement obligations that are based, in part, on estimates of future costs to settle the obligation, in addition to estimates of the useful life of the underlying assets, the rate of inflation and the risk-free interest rate.

***Depletion, depreciation and amortization***

The Company's property, plant and equipment and exploration and evaluation assets are measured at cost less accumulated depletion, depreciation and amortization (DD&A) and accumulated impairment losses. The amount subject to DD&A is determined as the cost of the asset less its residual value and should be allocated on a systematic basis over the useful life of the assets. The estimate of useful life and residual value are determined annually by qualified independent oil properties specialists. If changed significantly, the changes will be accounted for in the consolidated statements of compressive loss prospectively as a change in an accounting estimate in accordance with International Accounting Standards ("IAS") 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

***Valuation allowance for deferred income taxes***

Each period, the Company evaluates the likelihood of whether some portion of each deferred tax asset will not be realized. This evaluation is based on historic and future expected levels of taxable income, the timing of reversals of taxable temporary timing differences that give rise to deferred tax liabilities, tax planning initiative, and deferred tax rates.

***Fair value measurements***

A number of the Company's accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The fair value of accounts receivables, accounts payable and accrued liabilities approximate their carrying value due to their short term to maturity.

The fair value of share-based compensation is estimated using the Black-Scholes Option Pricing valuation model. The inputs are based on factors including the share price on measurement date and the exercise price of the instrument, and based on assumptions for the risk-free interest rate (based on government bonds), the forfeiture rate and expected life of the instruments (based on historical experience and general option holder behavior), expected dividends, and the volatility of the share price (based on historic movements in the Company's share price.

## 3. Summary of Significant Accounting Policies

The significant accounting policies used in the presentation of these consolidated financial statements are described below:

**Basis of consolidation**

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary: Petro St-Pierre Inc. All inter-company accounts and transactions have been eliminated upon consolidation.

**Revenue recognition**

Revenues from the sale of crude oil are recognized when the title and the risks and rewards of ownership pass to the buyer.

Interest income is recorded on an accrual basis. Dividend income is recorded on the ex-dividend date and when the right to receive the dividend has been established.

**Cash and cash equivalents**
Cash and cash equivalents include short term deposits with terms to maturity of ninety days or less when acquired.

**Marketable securities**
Marketable securities are recorded at fair value and are classified as available-for-sale assets. Unrealized gains and losses are recorded in other comprehensive income until the shares are sold or impaired at which time the amounts would be recorded in the consolidated statement of comprehensive income (loss).

**Exploration and evaluation assets**
The exploration and evaluation expenditures include the costs of acquiring licences and claims, exploratory drilling, geological and geophysical activities, acquisition of mineral and surface rights, directly attributable expenses and technical studies. Exploration and evaluation expenditures are capitalized as exploration and evaluation assets when the technical feasibility and commercial viability of extracting mineral and natural gas reserves have yet to be determined. Costs not directly attributable to exploration and evaluation activities, including general and administrative overhead costs, are expensed in the period in which they occur.

Exploration and evaluation assets are measured at cost and are not depleted or depreciated. Exploration and evaluation assets, net of any impairment loss, are transferred to property and equipment when proved and/or probable reserves are determined to exist.

When a project is deemed to no longer have commercial viable prospects to the Company, exploration and evaluation expenditures in respect of that project are deemed to be impaired. As a result, those exploration and evaluation expenditure costs, in excess of estimated recoveries, are written off to profit or loss. The Company assesses exploration and evaluation assets for impairment when facts or circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

**Property, plant and equipment**
Property, plant and equipment include oil properties, computer equipment, furniture and fixtures and leasehold improvements.

The cost of oil properties include all costs directly associated with the acquisition of crude oil wells and adherent land. These expenditures include its purchase price, legal fees related to the acquisition, the initial estimate of decommissioning liabilities and other miscellaneous expenditures. The oil properties include four wells and three pieces of adherent land. Since all four wells located within a single geographic unit and have same useful lives and depreciation methods, the four well components have been grouped together as one component. The Company depletes the oil property over an estimated useful life using the straight line method.

Property, plant and equipment are stated at cost less accumulated amortization and accumulated impairment. Amortization has been provided in the accounts on the straight line basis at the following rates:

Computer equipment – over 3 years
Furniture and fixtures – over 5 years
Leasehold improvement – over lease term of 5 years
Oil properties – over 15 years

**Impairment**
The Company assesses assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If any such indication of impairment exists, the Company makes an estimate of its recoverable amount. The recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset or asset group is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset or the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money. An assessment is made at each

reporting date as to whether there is any indication that previously recognized impairment may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. Any previously recognized loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reverse is recognized in the consolidated statement of operations. After such reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

When an exploration and evaluation asset is determined to be technically feasible and commercially viable, the accumulated costs are transferred to property, plant and equipment. Exploration and evaluation asset and property, plant and equipment are accumulated on an area-by-area basis then grouped into CGU's on the basis of geographical area having regard to the operational infrastructure (such as facilities and sales points) of the area, and are the lowest level at which there are identifiable cash inflows that are largely independent of the cash flows of other groups of assets.

**Provisions**

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation estimated at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably.

**Decommissioning liabilities**

The Company provides for the costs of decommissioning associated with oil properties, including the abandonment of crude oil wells, related facilities, compressors, removal of equipment from leased acreage and returning such land in a condition as it is contractually obligated. The expected value of each asset's decommissioning liabilities is recorded in the period a well or related asset is drilled and evaluated, constructed or acquired. The decommissioning liabilities are measured in the statement of financial position at the expected value of the expenditures expected to be required to settle the obligation and discounted using a risk free rate. A corresponding amount is capitalized in the relevant asset category. Any further adjustment arising from a reassessment of estimated cost of the decommissioning liabilities or a change in the discount rate also has a corresponding amount capitalized, whilst the charge arising from the accretion of the discount applied to the decommissioning liabilities is treated as a component of finance costs in the consolidated statement of comprehensive income (loss).

**Fair value of stock options**

The Company uses the Black-Scholes Option Pricing Model for valuation of share-based payments. Option pricing models require the input of subjective assumptions including expected share price volatility, interest rate and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's profit and loss and contributed surplus.

**Stock-based compensation cost**

The Company records compensation cost based on the fair value method of accounting for stock-based compensation. The fair value of stock options is determined using the Black-Scholes Option Pricing model. The fair value of the options is recognized over the vesting period as compensation expense and contributed surplus. When options are exercised, the proceeds received, together with any related amount in contributed surplus, will be credited to capital stock.

**Loss per common share**

Basic loss per common share is determined by dividing net loss attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted loss per common share is calculated in accordance with the treasury stock method and based on the weighted average number of common shares and dilutive common share equivalents outstanding.

**Leases**

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date. It requires consideration as to whether the fulfilment of the arrangement is dependent on the use of a specific tangible asset or the arrangement conveys a right to use the tangible asset.

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. Operating lease payments are recognized as an expense in the consolidated statement of comprehensive income (loss) on a straight-line basis over the lease term.

**Financial instruments**

Financial assets and liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument. Upon initial recognition, financial assets and liabilities are measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability, except for those financial assets and liabilities classified as fair value through profit or loss, which are initially measured at fair value.

**New accounting polices**

The following new accounting policies are effective and implemented as of January 1, 2013:

IAS 27, Separate Financial Statements, replaced the existing IAS 27 "Consolidated and Separate Financial Statements". IAS 27 contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. IAS 27 requires an entity preparing separate financial statements to account for those investments at cost or in accordance with IFRS 9 Financial Instruments. The implementation of IAS 27 does not have an impact on the Company's financial statements.

IAS 28, Investments in Associates and Joint Ventures, was amended in 2011 and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The implementation of IAS 28 amendments does not have an impact on the Company's financial statements.

IFRS 10, Consolidated Financial Statements, establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 supersedes IAS 27, Consolidated and Separate Financial Statements, and SIC-12, Consolidation – Special Purpose Entities. The implementation of IFRS 10 does not have an impact on the Company's financial statements.

IFRS 11, Joint Arrangements establishes the principles for financial reporting by entitles when they have an interest in arrangements that are jointly controlled. The implementation of IFRS 11 does not have an impact on the Company's financial statements.

IFRS 12, Disclosure of Interests in Other Entities, applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. The implementation of IFRS 12 does not have an impact on the Company's financial statements.

IFRS 13, Fair Value Measurements, defines fair value, sets out in a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. The IFRS 13 applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances. The implementation of IFRS 13 does not have an impact on the Company's financial statements.

Fair Value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy establishes the significance of the inputs used in making fair value measurements.

*Classification of financial instruments*

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices); and

Level 3 – inputs for the assets or liability that are not based on observable market data (unobservable inputs).

The classification of a financial instrument in the fair value hierarchy is based upon the lowest level of input that is significant to the measurement of fair value.

The Company's cash and cash equivalents and marketable securities are designated as Level 1.

The fair value of cash and cash equivalents, accounts receivable, accounts payables, accrued liabilities and other current liabilities approximate their carrying values due to their short term nature.

The Company's financial instruments consist of the following:

| Instrument | Classification | Measurement basis |
|---|---|---|
| Cash and cash equivalents | Fair value through profit or loss | Fair value |
| Marketable securities | Available-for-sale | Fair value |
| Accounts receivables | Loans and receivables | Amortized cost |
| Note receivable | Loans and receivables | Amortized cost |
| Accounts payable and accrued liabilities | Financial liabilities measured at amortized cost | Amortized cost |

**Future changes in accounting policies**

IFRS 9, Financial Instruments (replaced IAS 39) for classification and measurement of financial assets, is effective for annual periods beginning on or after January 1, 2015. The Company is assessing the effect of IFRS 9 on its financial results and financial position.

IAS 32 (Amendment), Financial Instruments: Presentation, amended to clarify requirements for offsetting financial assets and financial liabilities, is effective for annual periods beginning on or after January 1, 2014. The Company is assessing the effect of the amendment to IAS 32 on its financial results and financial position.

## 4. Marketable Securities

The available-for-sale marketable securities consist of dividend/interest paying Canadian financial and utilities shares and shares of junior resource companies the Company received pursuant to option agreements. They are reported in their fair market values at the end of the reporting periods. The unrealized gain (the total fair market values less the total costs) is included in other comprehensive income.

Total fair market values and costs of the available-for-sale marketable securities at September 30, 2013 and 2012 are as follows:

| | **2013** | **2012** |
|---|---|---|
| **Total fair market values** | $1,538,060 | $1,493,895 |
| **Total costs** | $1,137,563 | $1,137,563 |

## 5. Exploration and Evaluation Assets

Exploration and evaluation assets consist of the interest in mining properties and natural gas interests.

| | **Interests in mining properties** | **Natural gas interests** | **Total** |
|---|---|---|---|
| **Balance at December 31, 2011** | $867,363 | $14,702,067 | $15,569,430 |
| Expenditure, net of tax credit, for the period | (3,473) | 95,436 | 91,963 |
| **Balance at September 30, 2012** | 863,890 | 14,797,503 | 15,661,393 |
| Expenditures for the period, net of tax credits | – | (56,348) | (56,348) |

| Balance at December 31, 2012 | 863,890 | 14,741,155 | 15,605,045 |
|---|---|---|---|
| Expenditure for the period | – | 41,597 | 41,597 |
| **Balance at September 30, 2013** | 863,890 | 14,782,752 | 15,646,642 |

**1) Interests in mining properties**

| Malartic Township gold property, Quebec | Acquisition cost | Expenditure | Total |
|---|---|---|---|
| **Balance at December 31, 2011 and September 30, 2012** | $123,711 | $743,652 | $867,363 |
| Expenditure for the period, net of tax credits | – | (3,473) | (3,473) |
| **Balance at September 30, 2012, December 31, 2012 and September 30, 2013** | $123,711 | $740,179 | $863,890 |

The Company owns 50% working interest in the Malartic Township gold property of three mining claims totalling 120 hectares (300 acres) in Quebec. The other 50% working interest is owned by the property joint-venture partner and operator, Globex Mining Enterprises Inc. ("Globex"), which names the project "Blackcliff gold property".

**2) Natural gas interests**

| | Sorel-Trois Rivieres property, Quebec |
|---|---|
| **Balance at December 31, 2011** | $14,702,067 |
| Expenditure, net of tax credit, for the period | 95,436 |
| **Balance at September 30, 2012** | 14,797,503 |
| Expenditures for the period, net of tax credits | (56,348) |
| **Balance at December 31, 2012** | $14,741,155 |
| Expenditure, net of tax credit, for the period | 41,597 |
| **Balance at September 30, 2013** | $14,782,752 |

## 6. Property and Equipment

| | September 30, 2013 | | | September 30, 2012 | | |
|---|---|---|---|---|---|---|
| | Cost | Accumulated amortization | Net | Cost | Accumulated amortization | Net |
| Computer equipment | $ 23,284 | $ 19,632 | $ 3,652 | $21,559 | $11,909 | $ 9,560 |
| Furniture and fixtures | 4,303 | 3,667 | 636 | 4,303 | 3,142 | 1,161 |
| Leasehold improvement | 11,802 | 11,802 | – | 11,802 | 10,032 | 1,770 |
| Oil properties (1) | 840,224 | 65,394 | 774,830 | – | – | – |
| | $879,613 | $100,495 | $779,118 | $37,664 | $25,173 | $12,491 |

(1) On July 24, 2012, the Company conditionally closed a transaction with Arkoma PUC ("Arkoma") (final closing was done in late December 2012) for the Company to acquire a gross 50% (net 45%) working interest in 240 acres of Alberta Crown leases in the Cessford area of central Alberta and production of light oil in four long-life oil producing wells. The cost of oil properties include all costs directly associated with the acquisition of crude oil and adherent land. These expenditures include its purchase price, legal fee related to acquisition, the initial estimate of decommissioning liabilities and miscellaneous expenses. 692012 Alberta Ltd. and another Calgary party provided technical support to Altai during the acquisition process and was paid a fee in kind by Altai, that is, each of the two parties held a 2.5% working interest in the property on the transaction closing. ConocoPhillips Canada Energy Partnership of ConocoPhillips Canada Resources Corp., a fully owned subsidiary of ConocoPhillips, US, is the 50% partner and operator of the property.

The four wells are subject to various royalty payments, some of which are 1.25-3% of gross revenue on a certain well and another which is based on barrels of oil produced. Reserve life of the four wells is estimated at 15 years. There are future infill locations for two additional wells and there are undrilled lands to be explored in the future. None of the cost of the acquisition was allocated to the unproven exploration property.

## 7. Decommissioning Liabilities

| | |
|---|---|
| **Balance at January 1, 2012 and September 30, 2012** | $ – |
| Obligation incurred on acquisitions | 64,935 |
| Unwinding of discount | 696 |
| **Balance at December 31, 2012** | $65,631 |
| Unwinding of discount | 1,254 |
| **Balance at September 30, 2013** | $66,885 |

The decommissioning liability was estimated based on the Company's net ownership interest in all wells and facilities, the estimated cost to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods.

The Company makes a provision for the future cost of decommissioning oil properties on a discounted basis. These costs are expected to be settled over a period of up to 15 years into the future. The provision has been estimated using existing technology at current prices. The economic life and the timing of the decommissioning liability are dependent on Government legislation, commodity prices and the future oil production profiles. In addition, the estimated cash outflows are subject to inflationary and/or deflationary pressures in the cost of third party services. The Company has estimated the net present value of the decommissioning liability to be $66,885 at September 30, 2013 (2012 - Nil) based on an undiscounted future liability of $90,000 (2012 – Nil). The discount factor used to present value the decommissioning liability is the risk free rate of 2.2%.

## 8. Share Capital

### a) Share capital

**Authorized**
An unlimited number of common shares of no par value.

| Issued and outstanding common shares | No. of shares | Amount |
|---|---|---|
| **Balance at December 31, 2011, September 30, 2012, December 31, 2012 and September 30, 2013** | 55,113,552 | $36,627,178 |

### b) Share purchase warrants

| Warrants | No. of warrants | Warrant value | Weighted average exercise price |
|---|---|---|---|
| **Outstanding at December 31, 2011, September 30, 2012 and December 31, 2012** | 2,800,000 | $ 339,701 | $0.45 |
| Expired without being exercised | (2,800,000) | (339,701) | $0.45 |
| **Outstanding at September 30, 2013** | – | – | – |

### c) Stock options

The 2002 Stock Option Plan was discontinued and terminated on May 3, 2010 and replaced by the 2010 Stock Option Plan to grant up to 4,950,000 option shares to directors, officers and employees of the Company or of its subsidiaries. The outstanding 300,000 stock options granted under the 2002 Stock Option Plan remain in full force until they are exercised, expired or cancelled. 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 closing fair market value of each common share on the days prior to the options being granted.

At September 30, 2013, there were 3,250,000 option shares available for future grants.

During the nine months ended September 30, 2013, the Company granted a total of 400,000 share options, being 200,000 share options to each of the two new directors who joined the board in 2013, at $0.10 per share with an expiry date of July 9, 2018 and vested immediately.

The fair values of the options granted during the nine months ended September 30, 2013 were estimated at the date of the grants using the Black-Scholes option pricing model with the following assumptions: expected volatility of 41%; expected dividend yield 0.0%; risk free interest rate 1.63%, expected life – five years. The total fair value of the stock options granted was $5,600.

A summary of the status of the Company's stock options as at September 30, 2013 and 2012 and changes during the periods then ended is presented below:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| **Stock options** | **No. of options** | **Weighted average exercise price** | **No. of options** | **Weighted average exercise price** |
| **Outstanding at beginning of period** | 2,220,000 | $0.365 | 3,020,000 | $0.480 |
| Granted | 400,000 | 0.100 | 1,200,000 | 0.100 |
| Cancelled | (920,000) | 0.605 | 2,000,000 | 0.300 |
| **Outstanding and exercisable at end of period** | 1,700,000 | $0.173 | 2,220,000 | $0.365 |

The following table summarizes information on outstanding and exercisable stock options as at September 30, 2013:

| Number of options outstanding and exercisable | Exercise price | Remaining contractual life (years) | Expiry date |
|---|---|---|---|
| 100,000 | $0.225 | 0.43 | March 4, 2014 |
| 200,000 | $0.460 | 1.40 | February 21, 2015 |
| 200,000 | $0.300 | 2.00 | September 30, 2015 |
| 800,000 | $0.100 | 3.73 | June 21, 2017 |
| 400,000 | $0.100 | 4.77 | July 9, 2018 |
| 1,700,000 | | 3.30 | |

## 9. Loss Per Share

The following table sets forth the computation of basic and diluted loss per share for the periods ended September 30, 2013 and 2012:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| Net loss for the period | $(326,836) | | $(179,461) | |
| Weighted average number of shares – basic | 55,113,552 | | 55,113,552 | |
| Effect of dilutive shares | | | | |
| Stock options | – | | 21,064 | |
| Share purchase warrants | – | | – | |
| Weighted average number of shares – diluted | 55,113,552 | | 55,134,616 | |
| Basic and diluted net loss per share | $(0.01) | (1) | $(0.00) | (1) |

(1) Due to the loss in the periods of 2013 and 2012, the diluted weighted average number of shares used to calculate the diluted net loss per share is the same as the basic weighted average number of shares as the inclusion of dilutive shares would be anti-dilutive.

## 10. 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, 2013 and 2012. The remuneration of directors and officers of the Company

for the nine months ended September 30, 2013 and 2012 are as follows:

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | **Cash compensation** | **Fair value of stock-based compensation** | **Total compensation** | **Cash compensation** | **Fair value of stock based compensation** | **Total compensation** |
| **Directors** | $ 0 | $5,600 | $ 5,600 | $ 0 | $ 51,000 | $ 51,000 |
| **Officers** | | | | | | |
| Niyazi Kacira – Chairman and President (effective May 23, 2012) | 33,000 | 0 | 33,000 | 27,000 | 0 | 27,000 |
| Marc-Andre Lavoie – President & CEO (to May 23, 2012) | 0 | 0 | 0 | 37,027 | (41,625) | (4,598) |
| Maria Au – Secretary-Treasurer | 39,000 | 0 | 39,000 | 36,000 | 10,200 | 46,200 |
| Geraint Lloyd – COO and VP Exploration (to May 23, 2012) | 0 | 0 | 0 | 40,427 | (8,325) | 32,102 |
| | $72,000 (1) | $ 0 | $72,000 | $140,454 (1) | $(39,750) | $100,704 |
| **Total – Directors and Officers** | $72,000 | $5,600 | $77,600 | $140,454 | $ 11,250 | $151,704 |

(1) These fees have been allocated to administrative expenses in the amount of $39,000 (2012 - $60,513) and resource properties in the amount of $33,000 (2012 - $79,941).

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, 2013 and 2012.

## 11. Key management personnel compensation

The following are the expenses that the Company recognized for its key management personnel for the nine months ended September 30, 2013 and 2012:

| | **2013** | **2012** |
|---|---|---|
| Professional fees | $72,000 | $140,454 |
| Stock-based compensation | 0 | (39,750) |
| | $72,000 | $100,704 |

## 12. Commitments

a) The Company has exercised the lease option to extend the Toronto office lease by one year expiring July 2014. 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 any manner 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 |
|---|---|---|---|
| 2013 | $ 45,720 | $ 3,144 | $ 48,864 |
| 2014 | 9,900 | 524 | 10,424 |
| | $ 55,620 | $ 3,668 | $ 59,288 |

## 13. Income taxes

Future income tax liabilities as at September 30, 2013 and 2012 are:-

| | 2013 | 2012 |
|---|---|---|
| Marketable securities –unrealized gains | $53,066 | $46,323 |

## 14. Financial instruments hierarchy

The following table presents the Company's financial instruments, measured at fair value on the consolidated statements of financial position as at September 30, 2013 categorized into levels of the fair value hierarchy in accordance with IFRS 7:

| | Level 1 Quoted market price | Level 2 Valuation technique - observable market inputs | Level 3 Valuation technique -non-observable market inputs | Total |
|---|---|---|---|---|
| **Financial assets** | | | | |
| **Fair value through profit or loss** | $4,654,483 | – | – | $4,654,483 |
| Cash and cash equivalents | | | | |
| **Available-for-sale** | | | | |
| Marketable securities | 1,538,060 | – | – | 1,538,060 |
| Total | $6,192,543 | – | – | $6,192,543 |

There were no significant transfers from Level 1 to 2 or Level 2 to 1 during the nine months ended September 30, 2013 and 2012.

## 15. Management of capital

The Company includes the following in its capital as at September 30, 2013 and 2012:

| | 2013 | 2012 |
|---|---|---|
| **Shareholders' equity comprised of** | | |
| Share capital | $36,627,178 | $36,627,178 |
| Share purchase warrants | – | 339,701 |
| Contributed surplus | 3,159,111 | 2,813,810 |
| Deficit | (17,698,050) | (17,493,442) |
| Accumulated other comprehensive income | 327,202 | 289,781 |
| | $22,415,441 | $22,557,028 |

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. The Company's management is responsible for the management of capital. The Company expects that its current capital resources will be sufficient to discharge its liabilities as at December 31, 2013.

## 16. Financial instruments

The Company has designated its cash and cash equivalents as fair value through profit or loss and marketable securities as available-for-sale, both of 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 are 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:

(a) Credit risk

Credit risk is the risk of financial loss to the Company if 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 date of the financial position statement.

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.

(b) 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.

Cash and cash equivalents on hand at December 31, 2011 are sufficient to fund the Company's ongoing operational needs for the next 12 months.

(c) Market risk

Market risk is the risk that changes in market prices, such as natural gas and mineral 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.

1) 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.

2) 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.

3) 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.

## 17. Subsequent event

At the special meeting of shareholders of the Company held on November 12, 2013, the shareholders approved a resolution ratifying and adopting the shareholder rights plan of the Company adopted by the Board of Directors on August 28, 2103 pursuant to a shareholder rights plan agreement dated and effected August 28, 2103 between Altai and Computershare investor Services Inc., as Rights Agent, and a special resolution reducing the stated capital attributable to the common shares of the Company and associated special distributions, permitting the board of directors of Altai to make one or more distributions to shareholders in the form of a return of capital at such future dates and amounts as the board may deem advisable, up to a maximum accumulative total of $4,000,000.

The percentage of votes cast in favour of the resolution re the shareholder rights plan was 73.89%, and that for the special resolution re stated capital reduction was 73.94%.