ALTAI RESOURCES INC.

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Altai Resources Inc. (the "Company") were prepared by management in accordance with Canadian generally accepted accounting principles. Management acknowledges responsibility for the preparation and presentation of the consolidated financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances. The significant accounting policies of the Company are summarized
in Note 2 of the consolidated financial statements.

Management has established processes, which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the consolidated financial statements do not contain any untrue statement of 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 is made, as of the date of and for the periods presented by the consolidated financial statements and (ii) the consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

"Marc-Andre Lavoie"
Marc-Andre Lavoie
President and CEO

"Maria Au"
Maria Au
Secretary-Treasurer

Toronto, Canada
April 21, 2011

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Altai Resources Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Altai Resources Inc., which comprise the consolidated balance sheets as at 31 December 2010 and 2009, and the consolidated statements of operations, comprehensive income, deficit and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Altai Resources Inc. as at 31 December 2010 and 2009, and its financial performance and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

DNTW

April 21, 2011
Markham, Canada

Chartered Accountants, LLP
Licensed Public Accountants

8953 Woodbine Avenue • Markham, Ontario • L3R 0J9 • T: 905.474.5593 • F: 905.474.5591

ALTAI RESOURCES INC.
CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31, 2010 AND 2009

	2010	**2009**
ASSETS		
Current		
Cash and cash equivalents	$ 4,633,924	$ 3,822,375
Marketable securities (Note 3)	1,456,815	1,440,910
Accounts receivable	22,038	76,696
Prepaid expenses	2,847	2,847
	6,115,624	5,342,828
Note receivable (Note 4)	–	1
Investment in subsidiary (Note 4)	1	2
Interests in mining properties (Note 5)	857,651	860,114
Natural gas interests (Note 6)	31,836,228	31,862,869
Technology project	–	1
Property and equipment (Note 7)	14,753	14,505
	$38,824,257	$38,080,320
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 31,356	$ 32,207
Future tax liability (Note 13)	7,486,635	7,448,211
	7,517,991	7,480,418
SHAREHOLDERS' EQUITY		
Share capital (Note 8a)	35,585,982	35,678,910
Share purchase warrants (Note 8b)	462,000	1,407,000
Contributed surplus (Note 9)	2,300,600	863,210
Deficit	(7,239,822)	(7,459,098)
Accumulated other comprehensive income (Note 10)	197,506	109,880
	31,306,266	30,599,902
	$38,824,257	$38,080,320

Going concern (Note 1)

Commitments (Note 12)

Subsequent events (Note 17)

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

Approved on behalf of the board:

"Niyazi Kacira"
Director

"Marc-Andre Lavoie"
Director

ALTAI RESOURCES INC.
CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE INCOME AND DEFICIT
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
REVENUE		
Investment income	$ 109,741	$ 57,455
EXPENSES		
Administrative and general expenses	192,982	75,273
Abandonment and write off of natural gas interest (Note 6b)	21,002	–
Write off investment in subsidiaries	1	
Loss on sale of marketable securities	4,147	–
Stock-based compensation cost	400,390	17,900
Amortization	6,087	5,438
	624,609	98,611
LOSS BEFORE THE UNDERNOTED	(514,868)	(41,156)
Recovery of note receivable and accrued interest (Note 4)	734,144	–
NET EARNINGS (LOSS)	219,276	(41,156)
OTHER COMPREHENSIVE INCOME		
Increase in fair value of available for sale marketable securities, net of taxes	87,626	135,506
COMPREHENSIVE INCOME	$ 306,902	$ 94,350

NET EARNINGS (LOSS) PER SHARE		
Basic and diluted earnings (loss) per share	$ 0.00	$ 0.00
Weighted Average Number of Common Shares Outstanding - Basic	49,513,552	49,498,484
Weighted Average Number of Common Shares Outstanding - diluted	49,592,838	49,498,484

CONSOLIDATED DEFICIT		
Balance, beginning of year	$(7,459,098)	$(7,417,942)
Net earnings (loss)	219,276	(41,156)
Balance, end of year	$(7,239,822)	$(7,459,098)

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

ALTAI RESOURCES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
OPERATING ACTIVITIES		
Net earnings (loss)	$ 219,276	$ (41,156)
Items not affecting cash		
Stock-based compensation	400,390	17,900
Abandonment and write off of natural gas interest	21,002	–
Write off investment in subsidiaries and note receivable	2	
Loss on sale of marketable securities	4,147	–
Amortization	6,087	5,438
	650,904	(17,818)
Changes in non-cash working capital balances:		
Accounts receivable	54,659	(67,552)
Prepared expenses	–	2,848
Accounts payable and accrued liabilities	(850)	(25,711)
Consulting payable	–	(35,100)
	704,713	(143,333)
INVESTING ACTIVITIES		
Deferred exploration expenditures, net of tax credits received	2,463	(8,399)
Natural gas interests expenditures, net of tax credits received	5,639	(510,693)
Purchase of marketable securities	–	(1,164,338)
Proceeds on sale of marketable securities	105,998	–
Purchase of equipment	(6,335)	(216)
	107,765	(1,683,646)
FINANCING ACTIVITIES		
Issuance of common shares	–	15,000
Shares issuance costs	(929)	(929)
	(929)	14,071
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	811,549	(1,812,908)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,822,375	5,635,283
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 4,633,924	$ 3,822,375

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

ALTAI RESOURCES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

1. Nature of operations and going concern

Altai Resources Inc. (the “Company”) has interests in resource properties which it is in the process of exploring and has not yet determined whether these properties contain reserves that are economically recoverable.

These consolidated financial statements have been prepared with the assumption that the company will be able to realize its assets and discharge its liabilities in the normal course of business. However the Company is at an early stage of development and therefore certain conditions lend doubt as to the appropriateness of the going concern assumption. The Company has incurred losses in the past and currently has an accumulated deficit of $7,239,822.

The recoverability of expenditures on resource properties, including deferred exploration expenditures, is dependent upon the existence of economically recoverable resource reserves, the ability of the Company to obtain necessary financing to complete the exploration and the development of the resource properties, and upon future profitable production or proceeds from the disposition thereof.

The Company has cash and cash equivalents of $4,633,924 and completed a private placement for $1,400,000 subsequent to year end and believes this amount is sufficient to meet its planned exploration expenditures on its properties and to meet its corporate administrative expenses for the next 12 months. Long term, the Company may pursue opportunities to raise additional funds and while the Company has been successful in raising funds in the past, there can be no assurance that adequate funding will be available in the future.

These consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

2. Summary of significant accounting policies

Management has prepared the accompanying consolidated financial statements in Canadian dollars and in accordance with Canadian generally accepted accounting principles. The significant accounting policies used in the presentation of the consolidated financial statements are as follows:

(a) Basis of Presentation

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. The Company has a 40% equity interest in Altai Philippines Mining Corporation (“Altai Philippines”). The Company records this investment on the equity basis and reflects in its earnings its proportionate share of the earnings (losses) of the subsidiary.

(b) Cash and cash equivalents

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

(c) 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 net earnings.

(d) Interests in mining properties

Interests in mineral properties and deferred exploration expenditures are carried at cost until they are brought into production, at which time they are depleted on a unit-of production method based on

proven and probable reserves. If a property is subsequently determined not to be economic, the property and related deferred costs are written down to net realizable value. Other general exploration expenses are charged to operations as incurred. The cost of exploration properties abandoned or sold and their related deferred exploration costs are charged to operations in the current year.

The Company reviews capitalized costs on its property interests on a periodic basis but at least annually and recognizes an impairment in value based upon a review of exploration results, whether the Company has significant exploration plans in the immediate future and upon management's assessment of the future probability of profitable revenues from the property or from the sale of the property. The recoverability of costs incurred on the mineral properties is dependent upon numerous factors including exploration results, environmental risks, commodity risks, political risks, and the Company's ability to attain profitable production. Management's assessment of the property's estimated current fair market value may also be based upon a review of other property transactions that have occurred in the same geographic area as that of the property under review.

Costs include the cash consideration and the fair market value of the shares issued for the acquisition of exploration properties. The carrying value is reduced by option proceeds received until such time as the property cost and deferred expenditures are reduced to nominal amounts. Properties acquired under option agreements or by joint ventures, whereby payments are made at the sole discretion of the Company, are recorded in the accounts at the time of payment.

(e) Natural gas interests

The Company follows the full cost method of accounting whereby all expenditures associated with the acquisition of gas properties and expenditures for carrying and retaining and for exploration of undeveloped properties are capitalized.

If economically profitable gas reserves are developed in a property, the capitalized costs of the property are amortized using units of production for the year, based on probable and proven gas reserves. If it is determined that capitalized acquisition, exploration and development costs are not recoverable over the estimated useful life of the property, or if the project is abandoned, the project is written down to its net realizable value. The recovery of amounts recorded as gas properties depends on the discovery of economically recoverable reserves, the Company's ability to obtain the necessary financing to complete development and future profitable production or the proceeds from disposal of such properties. Amounts recorded under gas properties do not necessarily represent the present or future value.

(f) Flow-through financings

The Company may issue securities referred to as flow-through shares, whereby the investor may claim the tax deductions arising from the expenditure of the proceeds. When resource expenditures are renounced to the investors and the Company has reasonable assurance that the expenditures will be completed, future income tax liabilities are recognized (renounced expenditures multiplied by the effective corporate tax rate) and share capital is reduced. Previously unrecognized tax assets may then offset or eliminate the liability recorded.

(g) Impairment of long-lived assets

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

(h) Asset retirement obligations

CICA Section 3110 "Asset retirement obligations" requires that the fair value of a liability or an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The estimate excludes the residual value of the related assets. The associated retirement costs are capitalized as part of the carrying amount of the long lived assets and amortized

over the life of the asset. The amount of liability is subject to re-measurement at each reporting period. This differs from prior practice which involved accruing for the estimated retirement obligation through annual charges to earnings over the estimated life of the property. At the present time, the Company has concluded that there are no asset retirement obligations associated with any of its properties.

(i) Property and equipment

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

1) Computer equipment – over 3 years
2) Website development – over 3 years
3) Furniture and fixtures – over 5 years
4) Leasehold improvement – over lease term of 5 years

(j) Use of estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. These 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.

The Company has identified the following areas where significant estimates have been made:

Impairment of the carrying values for long-lived assets
The recoverability of mineral interests and natural gas interests
Useful lives of equipment
Allowance for doubtful accounts
Assumptions used in determining the fair value of stock options and warrants
Valuation allowance for future income taxes

(k) Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates and laws expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled.

(l) 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.

(m) Earnings (loss) per common share

Basic earnings (loss) per share is calculated using the weighted average number of shares outstanding. Diluted earnings per share is calculated using the treasury stock method. In order to determine diluted earnings per share, the treasury stock method assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted earnings per share calculation to the extent that it is dilutive.

(n) Financial instruments

Financial assets and liabilities, including derivative instruments, are initially recognized and subsequently measured based on their classification as "held-for-trading", "available-for-sale" financial assets, "held-to-maturity", "loans and receivables", or "other" financial liabilities. Held-for-trading financial instruments are measured at their fair value with changes in fair value recognized in net income/loss for the period. Available-for-sale financial assets are measured at their fair value and

changes in fair value are included in other comprehensive income/loss until the asset is removed from the balance sheet or until impairment is assessed as other than temporary. Held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method. Derivative instruments, including embedded derivatives, are measured at their fair value with changes in fair value recognized in net income/loss for the period, unless the instrument is a cash flow hedge and hedge accounting applies, in which case changes in fair value are recognized in other comprehensive income/loss.

Sections 3862, Financial Instruments – Disclosures requires that all financial instruments measured at fair value be presented into one of the three hierarchy levels set forth below for disclosure purposes. Each level is based on the transparency of the inputs used to measure the fair value of assets and liabilities.

(i) Level 1: Inputs are unadjusted quoted prices of identical instruments in active markets.
(ii) Level 2: Valuation models which utilize predominately observable market inputs.
(iii) Level 3: Valuation models which utilize predominately non-observable market inputs.

The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value. Section 3862 also requires additional disclosure relating to the liquidity risk associated with financial instruments (see Note 14).

(o) Future accounting changes

International Financial Reporting Standards ("IFRS")
In February 2008, the CICA Accounting Standard Board confirmed the changeover from Canadian GAAP to IFRS to be applied to publicly accountable enterprises effective for interim and annual financial statements for fiscal years beginning on or after January 1, 2011.

3. Marketable securities

The available-for-sale marketable securities consist of dividend paying Canadian financial and utilities shares and shares of junior resource companies the Company received pursuant to option agreements. Their total fair market values as at December 31, 2010 of $1,456,815 (2009 - $1,440,910) is higher than their total costs of $1,200,657 (2009 – $1,310,810). The unrealized gain is included in other comprehensive income.

4. Investment in subsidiary

The Company has 40% equity interest in 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 loans and determined that it was impaired. Accordingly the investment and loans were written down to $2.

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 a 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 the entire amount.

5. Interests in mining properties

	Balance, Beginning of year	Expenditure, Net of tax credit	Balance, End of year
Malartic Township, Quebec			
Property	$123,711	$ –	$123,711
Expenditure	736,403	(2,463)	733,940
	$860,114	$(2,463)	$857,651

Malartic Township gold property, Quebec

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, Globex Mining Enterprises Inc. (“Globex”), which names the project “Blackcliff gold property”.

6. Natural gas interests

	Balance, Beginning of year	Expenditure, Net of tax credit	Balance, End of year
a) Sorel-Trois Rivieres property, St. Lawrence Lowlands, Quebec	$31,827,253	$ 8,975	$31,836,228
b) Sept-Iles property, Quebec North	35,616	(35,616)	0
Total	$31,862,869	$(26,641)	$31,836,228

a) **Sorel-Trois Rivieres natural gas property, Quebec**

At December 31, 2010 the Company had 100% interest in seven oil and gas and reservoir permits in the Sorel-Trois Rivieres area, St. Lawrence Lowlands region of Quebec, covering 114,344 hectares (282,544 acres).

The Company also has 15% gross royalty on all net receipts from an adjacent permit (and its successor permit) of 13,290 hectares (32,840 acres) that Talisman Energy Canada has 100% working interest.

b) **Sept-Iles gas property, Sept-Iles, Quebec North**

In June 2010, the Company abandoned the gas permit of 24,042 hectares (59,408 acres) in the Sept-Iles area, Quebec North Region, which is about 750 km north east of the Sorel-Trois Rivieres oil and gas property. The project expenditure has been written off at the end of June, 2010.

7. Property and equipment

	2010			2009		
	Cost	**Accumulated amortization**	**Net**	**Cost**	**Accumulated amortization**	**Net**
Computer equipment	$ 7,815	$ 2,053	$ 5,762	$ 1,780	$ 861	$ 919
Website development	6,750	4,687	2,063	6,750	2,437	4,313
Furniture and fixtures	1,650	623	1,027	1,350	338	1,012
Leasehold improvement	11,802	5,901	5,901	11,802	3,541	8,261
	$28,017	$13,264	$14,753	$21,682	$7,177	$14,505

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, 2008	49,413,552	$35,768,839

Issued pursuant to exercise of stock option	100,000	31,000
Share purchase warrants		(120,000)
Share issuance costs relating to warrant term extension		(929)
Balance at December 31, 2009	49,513,552	35,678,910
Share purchase warrants (1)		(92,000)
Share issuance costs relating to warrant term extension		(928)
Balance at December 31, 2010	49,513,552	$35,585,982

(1) In April 2010, the Company extended the warrant term of 1,000,000 common share purchase warrants by one year to May 4, 2011 which were issued under a private placement of 2 million units at $0.95 per unit on May 5, 2008. These warrants are exercisable at $1.25 per common share purchase warrant with original one year warrant expiry date of May 5, 2009 which was subsequently extended to May 4, 2010. The fair value of the warrants was estimated at the date of the extension being granted using the Black-Scholes option pricing model with the following assumptions: expected volatility of 116%; expected dividend yield 0.0%; risk free interest rate 1.98%; expected life – 1 year. The fair value of the warrants was $92,000.

b) Warrants

Warrants	No. of warrants	Warrant value	Weighted average exercise price
Outstanding at December 31, 2008 and 2009	5,100,000	$1,407,000	$0.76
Expired without being exercised	(4,100,000)	(1,037,000)	$0.65
Extension of warrant		92,000	0.092
Outstanding at December 31, 2010	1,000,000	$ 462,000	$1.25

The following table summarizes the warrants outstanding as at December 31, 2010:

Number of warrants	Exercise Price	Expiry date	Warrant Value
1,000,000	$1.25	May 4, 2011	$462,000

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 1,020,000 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 December 31, 2010, there were 1,930,000 option shares available for future grants.

In year 2010, the Company granted the following options:

(1) 500,000 options to certain directors of the Company at $0.46 per share with an expiry date of February 21, 2015, vested immediately;

(2) 200,000 options to a new director at $0.42 per share expiring June 28, 2015, vested immediately;

(3) (i) 600,000 options to certain officers of the Company at $0.30 per share expiring September 30, 2015, vested immediately;

(ii) 1,000,000 options to Marc-Andre Lavoie, President & CEO appointed on October 1, 2010, at $0.30 per share that vest when certain milestones are met expiring September 30, 2013. As at

December 31, 2010, none of these options had vested.

(iii) 200,000 options to Geraint Lloyd, Chief Operating Officer and VP Exploration appointed on October 1, 2010, at $0.30 per share that vest when certain milestones are met expiring September 30, 2013. As at December 31, 2010, none of the options had vested.

The fair values of the options granted during the year 2010 were estimated at the dates of the grants using the Black-Scholes option pricing model with the following assumptions:

Stock options granted	2,500,000
Black-Scholes assumptions used	
Expected volatility	116%
Expected dividend yield	0.0%
Risk-free interest rate	1.88% to 1.98%
Expected option life in years	3 to 5
Fair value per stock option granted	$0.1998 to 0.3740
Fair value of stock options granted	$630,160

The Company has recorded stock-based compensation expense of $400,390 for the year ended December 31, 2010 (2009 - $17,900).

A summary of the status of the Company's stock options as at December 31, 2010, and changes during the years then ended is presented below:

	2010		2009	
Stock options	**No. of options**	**Weighted average exercise price**	**No. of options**	**Weighted average exercise price**
Outstanding at beginning of year	720,000	$1.227	820,000	$1.181
Granted	2,500,000	0.342	100,000	0.225
Exercised	–	–	(100,000)	0.15
Cancelled	(200,000)	1.440	(100,000)	0.93
Outstanding at end of year	3,020,000	$0.480	720,000	$1.227
Exercisable at end of year	1,820,000	$0.599	720,000	$1.227

The following table summarizes information on outstanding and exercisable stock options as at December 31, 2010:

Number of options outstanding	Number of options exercisable	Exercise price	Remaining contractual life (years)	Expiry date
300,000	300,000	$0.700	2.25	April 2, 2013
100,000	100,000	1.480	2.30	April 14, 2013
100,000	100,000	2.420	2.48	June 23, 2013
20,000	20,000	0.930	2.68	September 4, 2013
100,000	100,000	0.225	3.18	March 4, 2014
400,000	400,000	0.460	4.15	February 21, 2015
200,000	200,000	0.420	4.49	June 28, 2015
600,000	600,000	0.300	4.75	September 30, 2015
1,200,000	–	0.300	2.75	September 30, 2013
3,020,000	1,820,000	$0.480	3.53	

9. Contributed surplus

Contributed surplus transactions for the years ended December 31, are as follows:

	2010	2009
Balance, beginning of year	$ 863,210	$861,310
Stock-based compensation (Note 8c)	400,390	17,900
Exercise of stock options	–	(16,000)
Expired warrants (Note 8b)	1,037,000	–
Balance, end of year	$2,300,600	$863,210

10. Accumulated other comprehensive income

	2010	2009
Balance, beginning of year	$109,880	$(52,402)
Unrealized gain of marketable securities	87,626	162,282
Balance, end of year	$197,506	$109,880

11. Related party transactions

Related party transactions arose in the normal course of business and have been accounted for at the exchange amount being the amount agreed to by the related parties, which approximates the arms length equivalent value.

Consulting services were provided by officers of the Company and companies owned by officers of the Company, and their fees for such services for the years ended December 31 are as follows:

	2010	2009
Niyazi Kacira – President & CEO to September 30, 2010 Chairman from October 1, 2010	$ 47,000	$39,000
Marc-Andre Lavoie – President & CEO from October 1, 2010	25,500	–
Maria Au – Secretary-Treasurer	47,000	39,000
Geraint Lloyd – COO and VP Exploration from October 1, 2010	25,500	–
	$145,000	$78,000

In 2010, these fees have been allocated to administrative expenses in the amount of $61,975 (2009 - $3,245) and resource properties in the amount of $83,025 (2009 - $74,755).

12. Commitments

a) The Company's Toronto office has a 5 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) Subsequent to December 31, 2010, the Company signed a 3 year lease for its Montreal office expiring February 2014. The basic rent is $2,592 per month.

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

2011	$ 35,352
2012	45,720
2013	38,412
2014	2,592
	$122,076

13. Income taxes

(a) The provision for income taxes attributable to income before income taxes differs from the amounts computed by applying the combined federal and provincial tax rate of 30.0% (2009 – 33.0%) of pre-tax income (loss) as a result of the following:

	2010	2009
Earnings (loss) before income taxes	$ 219,276	$ (41,156)
Computed expected income tax provision (recovery)	65,783	(13,581)
Recovery of note receivable written down	(164,071)	–
Stock-based compensation	120,117	5,907
Abandonment and write off of natural gas interest	6,301	
Share issuance costs claimed	(4,535)	
Capital loss	1,244	
Temporary differences not recognized in the year	1,826	7,674
Recognition of previously unrecognized future income tax assets	(26,665)	
Provision for income taxes	$ –	$ –

(b) The tax effects of temporary differences that give rise to significant portions of the future income tax assets and future income tax liabilities are presented below:

	2010	2009
Future income tax assets		
Non-capital losses	$ 58,201	$ 100,980
Capital losses	60,155	–
Tax basis of Canadian development, exploration and oil and gas expenditures in excess of carrying value	368,477	540,399
Tax basis of Foreign exploration and development expenditures in excess of carrying value	577,205	–
Share issue costs	7,698	–
Tax basis of equipment in excess of carrying value	9,756	–
Total future income tax assets	1,081,491	641,379
Less: Valuation allowance	1,081,491	641,379
Net future income tax assets	$ –	$ –

Future income tax liabilities		
Carrying value of natural gas interests in excess of tax basis	$7,448,211	$7,448,211
Marketable securities –unrealized gains	38,424	
Net future income tax liabilities	$7,486,635	$7,448,211

The Company has non-capital loss carry forwards of approximately $233,000 (2009 – $306,000) and tax pools of approximately $3,800,000 (2009 – $3,750,000) available to reduce future years' income for tax purposes.

Income tax losses by year of expiry:

2014	$137,000
2015	15,000
2026	47,000
2027	34,000
	$233,000

14. Financial instruments hierarchy

The following table presents the Company's financial instruments, measured at fair value on the consolidated balance sheet as at December 31, 2010, categorized into levels of the fair value hierarchy in accordance with Section 3862 of the CICA Handbook and as described in note 2(n):

	Level 1 Quoted market price	**Level 2 valuation technique - observable market inputs**	**Level 3 Valuation technique -non-observable market inputs**	**Total**
Financial assets				
Available for sale				
Marketable securities	$1,456,815	–	–	$1,456,815

There were no significant transfers from Level 1 to 2 or Level 2 to 1 during the year ended December 31, 2010.

15. Management of capital

The Company includes the following in its capital as at December 31:

	2010	**2009**
Shareholders' equity comprised of		
Share capital	$35,585,982	$35,678,910
Warrants	462,000	1,407,000
Conributed surplus	2,300,600	863,210
Deficit	(7,239,822)	(7,459,098)
Accumulated other comprehensive income	197,506	109,880
	$31,306,266	$30,599,902

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;
(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, 2010.

16. Financial instruments

The Company has designated its cash and cash equivalents as 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 other financial liabilities and are also 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 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.

(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, 2010 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 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.

(i) 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.

(ii) 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.

(iii) 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 events

(a) On January 11, 2011, the Company closed a non-brokered private placement of 5,600,000 common share units at a price of $0.25 per unit for gross proceeds of $1.4 million. Each unit consists of one common share of the Company and one-half share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company at a price of $0.45 per share within a period of 24 months from the closing date. The shares and the underlying warrants issued for the private placement are subject to a hold period expiring on May 11, 2011.

(b) Subsequent to December 31, 2010, the Company signed a 3 year lease for its Montreal office expiring February 2014. The basic rent is $2,592 per month.