ALTAI RESOURCES INC.

CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

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For the years ended December 31, 2011 and 2010

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Altai Resources Inc. (the "Company") were prepared by management in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and approved by the Company's Audit Committee and the Board of Directors. 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 4 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 23, 2012

DNTW
Chartered Accountants, LLP

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 statements of financial position as at December 31, 2011, and December 31, 2010 and January 1, 2010, and the consolidated statements of comprehensive (loss) income, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and the related notes, which comprise 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 International Financial Reporting Standards, 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 auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits 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 in our audits 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 December 31, 2011 and December 31, 2010 and opening statement of financial position January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast doubt about Altai Resources Inc.'s ability to continue as a going concern.

Chartered Accountants, LLP
Licensed Public Accountants
April 23, 2012
Markham, Canada

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ALTAI RESOURCES INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 31, 2011, DECEMBER 31, 2010 AND JANUARY 1, 2010
(EXPRESSED IN CANADIAN DOLLARS)

	Note	December 31 2011	December 31, 2010	January 1, 2010
ASSETS				
Current				
Cash and cash equivalents		$ 5.606,797	$ 4,633,924	$ 3,822,375
Marketable securities	5	1,465,460	1,456,815	1,440,910
Accounts receivable		83,998	22,038	76,696
Prepaid expenses		8,877	2,847	2,847
		7,165,132	6,115,624	5,342,828
Note receivable		–	–	1
Investment in subsidiary	6	1	1	2
Exploration and evaluation assets	7	15,569,430	25,245,668	25,274,772
Technology project		–	–	1
Property and equipment	8	19,816	14,753	14,505
		$22,754,379	$31,376,046	$30,632,109
LIABILITIES				
Current				
Accounts payable and accrued liabilities		$ 25,808	$ 31,356	$ 32,207
Deferred tax liabilities	14	41,068	38,424	-
		66,876	69,780	32,207
SHAREHOLDERS' EQUITY				
Share capital	9a	36,627,178	35,585,982	35,678,910
Share purchase warrants	9b	339,701	462,000	1,407,000
Contributed surplus		2,802,560	2,300,600	863,210
Deficit		(17,313,981)	(7,239,822)	(7,459,098)
Accumulated other comprehensive income		232,045	197,506	109,880
		22,687,503	31,306,266	30,599,902
		$22,754,379	$31,376,046	$30,632,109
Going concern	1			
Commitments	13			

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

Approved on behalf of the board on April 23, 2012

"Niyazi Kacira"
Director

"K. Sethu Raman"
Director

ALTAI RESOURCES INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(EXPRESSED IN CANADIAN DOLLARS)

	Note	2011	2010
REVENUE			
Interest and dividend income		$ 147,286	$ 109,741
EXPENSES			
Professional fees		146,343	90,434
Office rent		81,739	24,502
Other administrative and general expenses		95,716	78,046
Write off investment in subsidiaries		–	1
(Gain) loss on sale of marketable securities		(287)	4,147
Stock-based compensation		39,960	400,390
Write down of exploration and evaluation assets		9,845,601	21,002
Amortization		12,373	6,087
		10,221,445	624,609
LOSS BEFORE THE UNDERNOTED		(10,074,159)	(514,868)
Recovery of note receivable and accrued interest		–	734,144
NET (LOSS) INCOME		$ (10,074,159)	$ 219,276
OTHER COMPREHENSIVE INCOME			
Increase in fair value of available-for-sale marketable securities, net of taxes		34,539	87,626
COMPREHENSIVE (LOSS) INCOME		$ (10,039,620)	$ 306,902
Basic and diluted income (loss) per share	10	$ (0.18)	$ 0.00
Weighted Average Number of Common Shares Outstanding			
– basic		54,960,127	49,513,552
– diluted		54,960,127	49,592,838

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

ALTAI RESOURCES INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(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, January 1, 2010	**49,513,552**	**35,678,910**	**1,407,000**	**863,210**	**109,880**	**(7,459,098)**	**30,599,902**
Net Income for the year	-	-	-	-	-	219,276	219,276
Increase in fair value of available-for-sale marketable securities	-	-	-	-	87,626	-	87,626
Stock-based compensation	-	-	-	400,390	-	-	400,390
Expired share purchase warrants	-	-	(1,037,000)	1,037,000	-	-	-
Extension of share purchase warrants	-	(92,000)	92,000		-	-	-
Share purchase warrants extension costs	-	(928)	-	-	-	-	(928)
Balance, December 31, 2010	**49,513,552**	**35,585,982**	**462,000**	**2,300,600**	**197,506**	**(7,239,822)**	**31,306,266**
Net loss for the year	-	-	-	-		(10,074,159)	(10,074,159)
Increase in fair value of available-for-sale marketable securities	-	-	-	-	34,539	-	34,539
Stock-based compensation	-	-	-	39,960	-	-	39,960
Proceeds of share issuance in private placement, net of issuance costs	5,600,000	1,400,000	-	-	-	-	1,400,000
Share purchase warrants issued for private placement	-	(344,400)	344,400	-	-	-	-
Share issuance cost	-	(14,404)	(4,699)	-	-	-	(19,103)
Expired share purchase warrants	-	-	(462,000)	462,000	-	-	-
Balance, December 31, 2011	**55,113,552**	**36,627,178**	**339,701**	**2,802,560**	**232,045**	**(17,313,981)**	**22,687,503**

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, 2011 AND 2010
(EXPRESSED IN CANADIAN DOLLARS)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income for the year	$ (10,074,159)	$ 219,276
Items not affecting cash		
Stock-based compensation	39,960	400,390
Write off investment in subsidiaries and note receivable	–	2
Write down of exploration and evaluation assets	9,845,601	21,002
Amortization	12,373	6,087
(Gain) loss on sale of marketable securities	(287)	4,147
	(176,512)	650,904
Changes in non-cash working capital balances:		
Accounts receivable	(61,960)	54,659
Prepaid expenses	(6,030)	–
Accounts payable and accrued liabilities	(5,548)	(850)
Cash (used in) provided by operating activities	(250,050)	704,713
CASH FLOWS FROM INVESTING ACTIVITIES		
Mineral exploration expenditures, net of tax credits received	(9,712)	2,463
Natural gas interests expenditures, net of tax credits received	(159,651)	5,639
Proceeds on sale of marketable securities	28,825	105,998
Purchase of equipment	(17,436)	(6,335)
Cash (used in) provided by investing activities	(157,974)	107,765
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of common shares	1,400,000	–
Share issuance costs	(19,103)	(929)
Cash provided by (used in) financing activities	1,380,897	(929)
NET INCREASE IN CASH AND CASH EQUIVALENTS	972,873	811,549
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,633,924	3,822,375
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 5,606,797	$ 4,633,924

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

1. Nature of operations and going concern

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 and gas and gold properties in Canada, which it is in the process of exploring and has not yet determined whether these properties contain reserves that are economically recoverable.

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

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 $17,313,981.

The recoverability of expenditures on resource properties 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 $5,606,797 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.

The consolidated financial statements were approved by the Board of Directors on April 23, 2012.

2. Basis of preparation

Statement of compliance

These consolidated financial statements 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 financial statements.

These are the Company's first annual consolidated financial statements prepared under IFRS in accordance with IFRS 1, *First time Adoption of International Financial Reporting Standards.*

The Company's consolidated financial statements were previously prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") until December 31, 2010. Canadian GAAP differs from IFRS in some areas. IFRS 1 exemptions and the significant accounting policies applied in the preparation of these consolidated financial statements are set out in Notes 3 and 4. The effects of the transition to IFRS on equity, and income and comprehensive income are presented in Note 18.

Basis of presentation

The consolidated financial statements have been prepared on the historical cost basis except for some financial instruments, which are measured at fair value. All monetary reference expressed in these notes all refer to Canadian dollar amounts ("$").

3. First time adoption of International Financial Reporting Standards

The Company has adopted IFRS on January 1, 2011 with a transition date of January 1, 2010. IFRS 1 provides guidance for the initial adoption of IFRS. Under IFRS 1, the IFRS are applied retrospectively at the transition date of January 1, 2010, and allows certain exemptions on the transition to IFRS. The elections made and the IFRS that the Company considers significant to Altai are as follows:

1) Estimates

IFRS 1 prohibits the use of updated information to create or revise estimates. The estimates in accordance with IFRS at the date of transition to IFRS shall be consistent with estimates made for the same date in accordance with Canadian GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error.

2) IFRS 2 – Stock-Based Compensation Expenses

The Company issues share-based compensation in the form of stock options which are generally vested immediately upon grant and exercisable up to five years from the date of grant. The Company has elected per IFRS 1 not to retrospectively applied IFRS 2 to stock-based payment vested as at December 31, 2009.

a) Graded Vesting

Under Canadian GAAP, the Company used the straight-line method of calculating vested options. The fair value of stock-based awards with graded vesting was calculated as one grant options at the time of the grant, and the resulting fair value was recognized on a straight-line basis over the vesting period.

Upon the adoption of IFRS, the Company changed from straight-line method to the graded-vesting method. Under IFRS, each tranche of an award with graded vesting period is considered a separate grant for the calculation of fair value, and the resulting fair value is amortized over the vesting period of the respective tranches. At the end of each reporting period, the Company re-assesses its estimate of the number of awards that are expected to vest and recognizes the impact of the revisions within stock-based compensation expenses through profit or loss.

b) Forfeitures

Under Canadian GAAP, forfeitures of awards were recognized as they occur.

Under IFRS, an estimate is required of the number of awards expected to vest. The estimate will be factored into the calculation of period compensation expenses, and can be revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate. An adjustment is then expensed to reflect this difference. Since the total amount of compensation recognized under either Canadian GAAP or IFRS will ultimately reflect the number of options that vested, the difference is a timing difference only.

The differences in the application of these IFRS had no impact on the statements for all periods presented.

3) IFRS 3 – Business Combinations

The Company has elected under IFRS 1 not to apply IFRS 3 retrospectively to business combinations that occurred prior to January 1, 2010. Accordingly, the Company has continued with the same accounting treatment of the business combinations under Canadian GAAP.

4) IFRS 6 – Exploration and Evaluation of Mineral Resources

This standard applies to expenditures incurred on properties in the exploration and evaluation ("E & E") phase. The E & E phase begins when an entity obtains the legal rights to explore a specific area and ends when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. IFRS 6 requires entities to select and consistently apply an accounting policy specifying which E & E expenditures are capitalized and which are expensed. The Company's policy under Canadian GAAP had been to capitalize E & E and it continues to capitalize E & E under IFRS. Each year the Company analyses the projects under evaluation for impairment, and will expense those portions impaired on an annual basis. The Company has not changed its accounting policies for exploration and evaluation cost, as its previous accounting polices under Canadian GAAP comply with IFRS 6.

5) IAS 16 – Property, Plant and Equipment

The Company has elected under IFRS 1 to measure property, plant and equipment at the transition date by applying the historical cost convention. Therefore the carrying value of the Company's property, plant and equipment remains the same on its conversion to IFRS.

6) IAS 27 – Consolidated and Separate Financial Statements

Under IFRS, the approach to consolidation is single step (control model) and principles-based whereby consolidation is required for all entities which are controlled. IFRS utilizes the concepts of risks and rewards where the existence of control is not apparent, although not in the same rules-based manner as under Canada GAAP (which was two step model first requiring consideration as to whether an entity is a variable interest entity). The adoption of IAS 27 has no impact on the consolidation accounting for the Company.

7) IAS 36 – Impairment of Non-Financial Assets

a) Indications of Impairment

Under Canadian GAAP, a long-lived asset should be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Canadian GAAP doesn't specifically require looking for indications of impairment.

Under IFRS, assets should be tested for indications of impairment at the end of each reporting period with specific criteria provided. If there are indications of impairment, then an impairment test is performed.

b) Recoverable Amount and Impairment

Under Canadian GAAP, there is a two step process in computing the impairment loss. First the recoverable amount is calculated by calculating the total cash flows to be generated from both using the asset and then disposing of it without discounting. If the recoverable amount is below the carrying amount, the carrying value would be written down to fair value, not the recoverable amount.

Under IFRS, the recoverable amount is defined as the higher of the assets fair value less costs to sell and its value-in-use. The value-in-use is based upon the present value of the cash flows that will be generated from the continued use of the asset and the ultimate disposal of asset, after deducting disposal costs. The discount rate used to calculate the present value should be pre-tax rate that reflects current assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted. If the recoverable amount is below the carrying value, the carrying value would be written down to the recoverable amount. In the grouping of assets, recoverable amount is calculated for a cash generating unit ("CGU"). The CGU would be the smallest identifiable group of assets that generates independent cash inflows.

This change in measurement methodology from the Canadian GAAP has not resulted in additional impairments for the Company as the carrying amount of non financial assets (interest in mining properties, natural gas interests, property and equipment) was not in excess of their fair value less cost to sell or value-in-use.

c) Reversal of Impairment

Under Canadian GAAP, reversal of impairment losses is not permitted.

Under IFRS, the original indicators of impairment are re-assessed at each reporting date to determine whether a previously recognized impairment still exists. If based upon new estimates the recoverable amount has changed, an impairment loss can be reversed.

The Company has not identified impairments recognized where the changes of recoverable amount would result in a reversal.

8) IAS 12 – Income taxes

a) Intercompany Transactions

Under Canadian GAAP, recognition of a deferred tax asset or liability for a temporary difference arising from intercompany transactions is prohibited. Such temporary differences may arise when the tax base of the asset in the buyer's jurisdiction differs from the carrying amount of the asset in the consolidated financial statements. Further, cash tax paid or recovered as a result of a transfer of an asset is recorded as a deferred tax asset or liability in the financial statements and recognized through tax expense when the asset leaves the Company or is otherwise utilized.

Under IFRS, deferred tax is recognized for temporary differences arising on intercompany transactions measured at the tax rate of the buyer, and cash tax paid or recovered on intercompany transactions is recognized in the period incurred. The Company did not identify any tax deferrals on intercompany transactions.

b) Deferred Tax Assets of an Acquired Company Not Previously Recognized

Under Canadian GAAP, previously unrecognized deferred tax assets of an acquired company are recognized as part of the cost of the acquisition when such assets are more likely than not to be realized as a result of a business combination. If an unrecognized deferred tax asset becomes realizable subsequent to the acquisition date, such benefit is also recognized through goodwill. The acquirer recognizes deferred tax assets that become realizable as a result of the acquisition as part of the cost of the acquisition.

Under IFRS, previously unrecognized deferred tax assets of an acquired company are recognized as part of the cost of the acquisition if realization is more likely than not as a result of the business combination. If an unrecognized deferred tax asset becomes realizable subsequent to the acquisition date, the tax benefit is recognized in the income statement and a corresponding amount of goodwill is recognized as an operating expense. The acquirer recognizes deferred tax assets that become realizable as a result of the acquisition through earnings. The Company did not identify any deferred tax assets of an acquired company not previously recognized.

c) Accounting for Uncertainty in Income Tax Positions

Under IFRS, the provision for uncertain tax positions is a best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors, including the status of the tax authority examination. Uncertain tax positions were not evaluated solely on the technical merits of the position. The Company has no differences in liability for uncertain tax positions under IFRS.

d) Initial Recognition of an Asset

Temporary differences arising on initial recognition of an asset or liability (other than in a business combination), IAS 12 *income taxes*, does not permit the recognition of a deferred tax liability on taxable temporary differences that may arise on initial recognition of assets or liabilities (except if the transaction is a business combination or if the transaction affects accounting or taxable profit (loss)).

Under Canadian GAAP, in accordance with Section 3465 *Future income taxes*, when an assets is acquired other than in a business combination and the tax basis of that asset is less than its cost, the deferred income tax liabilities recognized at the time of acquisition is added to the cost of the asset. The effect of this difference is described in detail in note 20.

4. Summary of significant accounting policies

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

1) 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. 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 income (losses) of the subsidiary.

2) Cash and cash equivalents

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

3) 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 (loss) income.

4) 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 oil 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.

5) 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

6) Impairment of non-financial assets

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.

Exploration and evaluation assets are allocated to cash generate units ("CGU") for the purpose of assessing such assets for impairment. CGU is defined as the lowest levels for which there are separately identifiable independent cash inflows. Each CGU to which an exploration and evaluation asset is allocated shall not be larger than an operating segment.

7) 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.

8) Revenue recognition

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.

9) Use of estimates

The preparation of consolidated financial statements in conformity with IFRS 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 non-financial 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

10) Income taxes

(1) Current income tax:

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of the reporting period. Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to set off the amounts, and the intention is to settle on a net basis, or to realize the asset and settle the liability simultaneously. Current income tax relating to items recognized directly in equity is recognized in equity and not through profit or loss.

(2) Deferred tax:

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits, and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary difference and the carry forward of unused tax credits and unused tax losses can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the consolidated statement of financial position date. Deferred tax relating to items recognized directly in equity is also recognized in equity and not in the consolidated statement of comprehensive income (loss).

The carrying amount of deferred tax assets is reviewed at each consolidated statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each consolidated statement of financial position date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The Company creates a valuation allowance to the extent that it considers deductible temporary differences, the carry-forward of unused tax credits, and unused tax losses cannot be utilized.

11) Stock-based compensation plan

The Company has a stock option plan which is described in Note 9(c). Employees (including officers), directors, and consultants of the Company receive remuneration in the form of stock options granted under the plan for rendering services to the Company. Any consideration received on the exercise of stock options is credited to share capital. The cost of options is recognized, together with a corresponding increase in contributed surplus, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant optionee becomes fully entitled to the award ("the vesting date"). The cumulative expense recognized for option grants at each reporting date until the vesting date reflects the portion of the vesting period that passed and the Company's best estimate of the number of options that will ultimately vest on the vesting date. The Company records compensation expense and credits contributed surplus for all stock options granted which represents the movement in cumulative expense recognized as at the beginning and end of that period.

Stock options granted during the period are accounted for in accordance with the fair value method of accounting for stock-based compensation. The fair value for these options is estimated at the date of grant using the Black-Scholes option pricing model. The Company is also required to estimate the expected future forfeiture rate of options in its calculation of stock-based compensation expense.

Where the terms of a stock option award are modified, the Company recognizes, as a minimum, the services received at the grant date fair value of the stock option granted, unless those stock options do not vested. An additional expense is recognized for any modification which increases the total fair value of the option or is otherwise beneficial to the optionee, as measured at the date of modification.

12) Earnings (loss) per common share

Basic earnings (loss) per common share is determined by dividing net profit (loss) attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings (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.

13) 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 fulfillment 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.

14) 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.

(1) Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

a) Fair value through profit or loss ("FVTPL") – This category comprises financial assets held for trading and assets designated upon initial recognition as FVTPL. Financial assets held for trading are acquired or incurred principally for the purpose of selling or repurchasing in the near term. On initial recognition it is part of a portfolio of identifiable financial instruments managed together for which there is evidence of a recent pattern of short-term profit taking, or a derivative (excluding a derivative used for hedging). FVTPL are carried in the statement of financial position at fair value with changes in fair value recognized in the statement income (loss) for the period.

b) Loans and receivables – Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's accounts receivables are of short term nature and approximate their carrying values and are included in current assets. Loan and receivables are recognized initially at the amount expected to be received, less, when material, a discount to reduce loans and receivables to fair value. Subsequently, loans and receivable are measured at amortized cost using the effective interest method less a provision for impairment.

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest income or expense over the relevant period.

c) Held-to-maturity investments – Non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized costs using the effective interest method. If there is objective evidence that the investment is impaired, the amount of the impairment loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the entity's original effective interest rate. The impairment losses are recognized in the statement of income (loss).

d) Available-for-sale – Non-derivative financial assets designated as available-for-sale and financial assets that are not classified as loans and receivables, held to maturity investments or FVPTL. Available-for-sale are carried at fair value with changes in fair value recognized in other comprehensive income. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment other than temporary, the amount of the loss is removed from the other comprehensive income and recognized in the statement of income (loss).

All financial assets except for those recorded at fair value through profit or loss and as available-for-sale are subject to review for impairment. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired.

(2) Financial liabilities

The Company classifies its financial liabilities into one of two categories depending on the purpose for which the liability was assumed. The Company's accounting policy for each category is as follows:

a) Fair value through profit or loss – This category comprises financial liabilities held for trading and liabilities designated upon

initial recognition as FVTPL. FVTPL are carried in the statement of financial position at fair value with changes in fair value recognized in the statement income (loss) for the period.

b) Financial liabilities measured at amortized cost – Financial liabilities measured at amortized cost comprise accounts payable and accrued liabilities. Accounts payable and accrued liabilities are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables are measured at amortized cost using the effective interest method.

The Company's accounts payables and accrued liabilities and other current liabilities, due to their short term nature and approximation to their carrying values, are classified as current liabilities.

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

(3) Classification of financial instruments

IFRS 7 establishes a fair value hierarchy that reflects the significance of inputs in measuring fair value as following:

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.

(4) Offsetting of financial instruments:

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

15) Significant accounting judgments

The critical judgments that the Company's management has made in the process of applying the Company's accounting policies, apart from those involving estimates, that have the most significant effect on the amounts recognized in the Company's consolidated financial statements are related to the economic recoverability of the resource properties and the assumption that the Company will continue as a going concern.

16) Future changes in accounting polices

The following are new IFRS and IFRS changes that have been issued by the International Accounting Standards Board, which may affect the Company, but are not yet effective:

IAS 1, Presentation of Items of Other Comprehensive Income was amended to introduce changes to the presentation of items of other comprehensive income that may be reclassified to profit or loss in the future and will be presented separately from items that will not be reclassified. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012. Early adoption

is permitted. The Company is assessing the effect of the changes to IAS 1 on its financial results and financial position.

IAS 12, Income taxes, was amended in December 2010 to remove subjectivity in determining on which basis an entity measures the deferred tax relating to an asset. The amendment introduces a presumption that an entity will assess whether the carrying value of an asset will be recovered through the sale of the asset. The amendment to IAS 12 is effective for reporting periods beginning on or after January 1, 2012. The Company is assessing the effect of the changes to IAS 12 on its financial results and financial position.

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. IAS 27 is effective for annual periods beginning or after January 1, 2013. Early adoption is permitted. The Company is assessing the effect of the changes to IAS 27 on its financial results and financial position.

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. IAS 28 is effective for annual periods beginning on or after January 1, 2013. Early adoption is permitted. The Company is assessing the effect of the changes to IAS 28 on its financial results and financial position.

IFRS 7, Financial Instruments - Disclosures was amended in October 2010 and provides guidance on identifying transfers of financial assets and continuing involvment in transferred assets for disclosure purposes. The amendments introduce new disclosure requirements for transfers of financial assets including disclosures for financial assets that are not derecognized in their entirety, and for financial assets that are derecognized in their entirety but for which continuing involvment is retained. The amendments to IFRS 7 are effective for annual periods beginning on or after July 1, 2011. The Company is assessing the effect of the changes to IFRS 7 on its financial statement disclosures.

IFRS 9, Financial Instruments, was issued in November 2009 and is the first step to replace current IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2013. The Company is assessing the effect of IFRS 9 on its financial results and financial position.

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, and is effective for annual periods beginning on or after January 1, 2013. The Company is assessing the effect of IFRS 10 on its financial results and financial position.

IFRS 11, Joint Arrangements establishes the principles for financial reporting by entitles when they have an interest in arrangements that are jointly controlled. IFRS 11 is effective for annual periods beginning on or after January 1, 2013. The Company is assessing the effect of IFRS 11 on its financial results and financial position.

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. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. The Company is assessing the effect of IFRS 12 on it financial statement disclosures.

IFRS 10, 11 and 12 are one suite of standards forming a new consolidation model. Early adoption for the 3 standards is permitted, but they all need to be early adopted at the same time.

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. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted. The Company is assessing the effect of IFRS 13 on its financial results and financial position.

5. 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 December 31, 2011 and 2010 and January 1, 2010 are as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Total fair market values	$1,465,460	$1,456,815	$1,440,910
Total costs	$1,172,119	$1,200,657	$1,310,810

6. Investment in subsidiary

The Company has a 40% equity interest in Altai Philippines Mining Corporation ("Altai Philippines"). In addition the Company had a loan and interest receivable from Altai Philippines in the amount of $1,640,709. In 2008 the Company performed a valuation of the investment and loan and determined that it was impaired. Accordingly the investment and loan were each written down to $1.

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

7. 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 January 1, 2010	$860,114	$24,414,658	$25,274,772
Expenditure, net of tax credit, for the year	(2,463)	8,975	6,512
Abandonment of gas permit	–	(35,616)	(35,616)
Balance at December 31, 2010	$857,651	$24,388,017	$25,245,668
Expenditure, net of tax credit, for the year	9,712	159,651	169,363
Write down of exploration and evaluation assets		(9,845,601)	(9,845,601)
Balance at December 31, 2011	$867,363	$14,702,067	$15,569,430

1) Interests in mining properties

Malartic Township gold property, Quebec	Acquisition cost	Expenditure	Total
Balance at January 1, 2010	$123,711	$736,403	$860,114
Expenditure, net of tax credit, for the year	–	(2,463)	(2,463)
Balance at December 31, 2010	$123,711	$733,940	$857,651
Expenditure, net of tax credit, for the year	–	9,712	9,712
Balance at December 31, 2011	$123,711	$743,652	$867,363

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	Sept-Iles property, Quebec	Total
Balance at January 1, 2010	$24,379,042	$ 35,616	$24,414,658
Expenditure, net of tax credit, for the year	8,975	–	8,975
Abandonment of gas permit	–	(35,616)	(35,616)
Balance at December 31, 2010	$24,388,017	$ –	$24,388,017
Expenditure, net of tax credit, for the year	159,651	–	159,651
Write down of exploration and evaluation assets	(9,845,601)	–	(9,845,601)
Balance at December 31, 2011	$14,702,067	$ –	$14,702,067

Sorel-Trois Rivieres natural gas property, Quebec

As at June 12, 2011 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).

Bill 18 (2011, chapter 13) of the Quebec Parliament (an Act to limit oil and gas activities) came into effect on June 13, 2011 (the "Bill"). It unilaterally revokes without compensation the part of the oil and gas exploration permits situated in the St. Lawrence River, West of Anticosti Island, including the islands situated in that part of the river.

In September 2011 the Quebec Ministry of Natural Resources confirmed the exact area of Altai's direct holding in the region being expropriated by the Bill to be 45,861 hectares (113,323 acres), effectively expropriating 40.11% of its oil and gas exploration rights. Two permits were entirely expropriated, with the area of a third one reduced.

As a result of the expropriation, effective June 13, 2011, Altai holds 100% interest in the remaining 5 oil and gas and reservoir permits in the Sorel-Trois Rivieres area, St. Lawrence Lowlands covering 68,483 hectares (169,221 acres).

The Bill also contains provisions to exempt holders of exploration permits "from performing the work required under the Mining Act until the date determined by the Minister, which date may not be later than 13 June 2014". The duration of the permits is also extended by the same period of time as the exemption. This provision affects the 68,483 hectares (169,211 acres) of the oil and gas and reservoir exploration permits that the Company continues to directly hold in the St. Lawrence Lowlands.

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. That permit has been reduced to 12,334 hectares (30,477 acres) due to Bill 18.

Management concluded that the natural gas interests were impaired by $9,845,601 for the year ended December 31, 2011 (2010 – Nil) due to the expropriation.

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.

8. Property and equipment

	December 31, 2011	December 31, 2010	January 1, 2010

	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
Computer equipment	$22,598	$ 9,275	$13,323	$ 7,815	$ 2,053	$ 5,762	$ 1,780	$ 861	$ 919
Website development	6,750	6,750	0	6,750	4,687	2,063	6,750	2,437	4,313
Furniture and fixtures	4,303	1,350	2,953	1,650	623	1,027	1,350	338	1,012
Leasehold improvement	11,802	8,262	3,540	11,802	5,901	5,901	11,802	3,541	8,261
	$45,453	$25,637	$19,816	$28,017	$13,264	$14,753	$21,682	$7,177	$14,505

9. 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 January 1, 2010	49,513,552	$35,678,910
Share purchase warrants		(92,000)
Share issuance costs relating to warrant term extension		(928)
Balance at December 31, 2010	49,513,552	$35,585,982
Issued for cash - common shares issued for private placement (1(a))	5,600,000	1,400,000
Share purchase warrants valuation - 2,800,000 warrants issued for private placement (1(b))		(344,400)
Share issuance costs relating to private placement		(14,404)
Balance at December 31, 2011	55,113,552	36,627,178

1(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 were subject to a hold period which expired on May 11, 2011.

1(b) The fair value of the share purchase warrants was estimated at the date of issuance using the Black-Scholes option pricing model with the following assumptions: expected volatility of 113%; expected dividend yield 0.0%; risk free interest rate 1.25%; expected life – 2 years. The fair value of the warrants was $344,400.

b) Share purchase warrants

Warrants	No. of warrants	Warrant value	Weighted average exercise price
Outstanding at January 1, 2010	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
Issued for common share units private placement (1(b))	2,800,000	344,400	$0.45
Issuance costs	–	(4,699)	–
Expired without being exercised	(1,000,000)	(462,000)	$1.25
Outstanding at December 31, 2011	2,800,000	$ 339,701	$0.45

The following table summarizes the warrants outstanding as at December 31, 2011:

Number of warrants	Exercise price	Expiry date	Warrant value
2,800,000	$0.45	January 10, 2013	$339,701

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 were 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. The 1,000,000 warrants extension expired on May 4, 2011.

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, 2011, there were 1,930,000 option shares available for future grants.

During the year ended December 31, 2011, the Company had not granted any stock options.

During the year ended December 31, 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: expected volatility of 116%; expected dividend yield 0.0%; risk free interest rate 1.88% to 1.98%; expected life – three to five years. The total fair value of stock options granted in the year ended December 31, 2010 is $630,160.

A summary of the status of the Company's stock options as at December 31, 2011 and 2010, and changes during the years then ended is presented below:

	2011		2010	
Stock options	**No. of options**	**Weighted average exercise price**	**No. of options**	**Weighted average exercise price**
Outstanding at beginning of year	3,020,000	$0.480	720,000	$1.227
Granted	–	–	2,500,000	0.342
Cancelled	–	–	(200,000)	1.440
Outstanding at end of year	3,020,000	$0.480	3,020,000	$0.480
Exercisable at end of year	1,820,000	$0.599	1,820,000	$0.599

The following table summarizes information on outstanding and exercisable stock options as at December 31, 2011:

Number of options outstanding	Number of options exercisable	Exercise price	Remaining contractual life (years)	Expiry date
300,000	300,000	$0.700	1.25	April 2, 2013
100,000	100,000	1.480	1.29	April 14, 2013
100,000	100,000	2.420	1.48	June 23, 2013
20,000	20,000	0.930	1.68	September 4, 2013

100,000	100,000	0.225	2.18	March 4, 2014
400,000	400,000	0.460	3.15	February 21, 2015
200,000	200,000	0.420	3.49	June 28, 2015
600,000	600,000	0.300	3.75	September 30, 2015
1,200,000	–	0.300	1.75	September 30, 2013
3,020,000	1,820,000	$0.480	2.39	

The 1,000,000 and 200,000 special options to Marc-Andre Lavoie, President and CEO, and Geraint Lloyd, COO and VP Exploration, granted on October 1, 2010 at $0.30 per share, remained non-vested at December 31, 2011. The vesting conditions for 50% of these special stock options are performance conditions and therefore the recognition of the compensation expense will not be recorded until such time as the conditions have been met. The remaining 50% will be recorded over the assumed service period of three years, consistent with the vesting period.

At the end of each reporting period, the Company re-assesses its estimate of the number of awards that are expected to vest and recognizes the impact of the revisions within stock-based compensation expenses through the consolidated statement of operations.

The Company has recorded stock-based compensation expense of $39,960 for the year ended December 31, 2011 (2010 – $400,390).

10. Income (loss) per share

Basic net income (loss) per share is calculated by dividing the net income (loss) by the weighted average number of shares outstanding during the year. Diluted net income (loss) per share is calculated by dividing the net income (loss) by the sum of the weighted average number of shares outstanding and all additional shares that would have been outstanding if potentially dilutive securities had been issued during the year.

The following table sets forth the computation of basic and diluted loss per share for the years ended December 31, 2011 and 2010:

	2011		**2010**
Net income (loss) for the year	$(10,074,159)		$219,276
Weighted average number of shares – basic	54,960,127		49,513,552
Effect of dilutive shares			
Stock options	–		79,286
Share purchase warrants	–		–
Weighted average number of shares – diluted	54,960,127		49,592,838
Basic and diluted net income (loss) per share	$(0.18)	(1)	$0.00

(1) Due to the loss in the year of 2011, 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.

11. 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 years ended December 31, 2011 and 2010. The remuneration of directors and officers of the Company for the years ended December 31, 2011 and 2010 are as follows:

	2011			2010		
	Cash compensation	**Fair value of stock-based compensation**	**Total compensation**	**Cash compensation**	**Fair value of stock based compensation**	**Total compensation**
Directors	$ 0	$ 0	$ 0	$ 0	$251,800	$251,800
Officers						
Niyazi Kacira – President & CEO to September 30, 2010; Chairman from October 1, 2010	36,000	0	36,000	47,000	23,100	70,100
Marc-Andre Lavoie – President & CEO from October 1, 2010	96,900	33,300 (1)	130,200	25,500	54,525	80,025
Maria Au – Secretary-Treasurer	48,000	0	48,000	47,000	23,100	70,100
Geraint Lloyd – COO and VP Exploration from October 1, 2010	102,000	6,660 (1)	108,660	25,500	47,865	73,365
	$282,900 (2)	$39,960	$322,860	$145,000 (2)	$148,590	$293,590
Total – Directors and Officers	$282,900	$39,960	$322,860	$145,000	$400,390	$545,390

(1) For the year ended December 31, 2011, the Company recorded stock-based compensation expense of $39,960 for the 1,000,000 and 200,000 special options to Marc-Andre Lavoie and Geraint Lloyd respectively granted on October 1, 2010 vesting conditional to the fulfilment of certain business and financial milestones, which remained non-vested at December 31, 2011.
(2) These fees have been allocated to administrative expenses in the amount of $114,450 (2010 - $61,975) and resource properties in the amount of $168,450 (2010 - $83,025).

The Company did not pay any other benefits, apart from the compensation reported above, to the directors and officers during the years ended December 31, 2011 and 2010.

12. Key management personnel compensation

The following are the expenses that the Company recognized for its key management personnel for the years ended December 31, 2011 and 2010:

	2011	2010
Professional fees	$282,900	$145,000
Stock-based compensation	39,960	148,590
	$322,860	$293,590

13. Commitments

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

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

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

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

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

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

14. 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 28.0% (2010 – 30.0%) of pre-tax income (loss) as a result of the following:

	2011	**2010**
Income (loss) before income taxes	$ (10,074,159)	$ 219,276
Computed expected income tax provision (recovery)	(2,820,765)	65,783
Recovery of note receivable written down	–	(164,071)
Stock-based compensation	11,189	120,117
Prospecting and general	2,792	–
Abandonment and write down of natural gas interests	2,756,768	6,301
Share issuance costs claimed	(5,303)	(4,535)
Capital loss	–	1,244
Capital gain	(81)	–
Temporary differences not recognized in the year	3,464	1,826
Recognition of previously unrecognized future income tax assets	–	(26,665)
Valuation allowance	51,936	–
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:

	December 31, 2011	**December 31, 2010**	**January 1, 2010**
Future income tax assets			
Non-capital losses	$ 104,571	$ 58,201	100,980
Capital losses	225,572	60,155	–
Tax basis of Canadian development, exploration and oil and gas expendit	413,160	368,477	540,399
Tax basis of Foreign exploration and development expenditures in excess of carrying value	577,205	577,205	–
Share issue costs	7,739	7,698	–
Tax basis of equipment in excess of carrying value	14,115	9,756	–
Total future income tax assets	1,342,362	1,081,491	641,379
Less: Valuation allowance	1,342,362	1,081,491	641,379
Net future income tax assets	$ –	$ –	–

Future income tax liabilities			
Marketable securities –unrealized gains	41,068	38,424	–

At December 31, 2011, the Company has non-capital loss carry forwards of approximately $418,000 (December 31, 2010 – $233,000, January 1, 2010 - $306,000) and tax pools of approximately $3,960,000 (December 31, 2010 – $3,800,000, January 1, 2010 - $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
2029	34,000
2031	185,000
	$418,000

15. 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 December 31, 2011 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				
Cash and cash equivalents	$5,606,797	–	–	$5,606,797
Available-for-sale				
Marketable securities	1,465,460	–	–	1,465,460
Total	$7,072,257			$7,072,257

There were no significant transfers from Level 1 to 2 or Level 2 to 1 during the year ended December 31, 2011.

16. Management of capital

The Company includes the following in its capital as at December 31, 2011 and 2010 and as at January 1, 2010:

	December 31, 2011	**December 31, 2010**	**January 1, 2010**
Shareholders' equity comprised of			
Share capital	$36,627,178	$35,585,982	$35,678,910
Share purchase warrants	339,701	462,000	1,407,000
Contributed surplus	2,802,560	2,300,600	863,210
Deficit	(17,313,981)	(7,239,822)	(7,459,098)
Accumulated other comprehensive income	232,045	197,506	109,880
	$22,687,503	$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; 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, 2011.

17. 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.

18. Transition to IFRS and Reconciliation of Canadian GAAP financial statements to IFRS

As stated in Note 2, these consolidated financial statements are prepared in accordance with IFRS. The accounting policies set out in Note 4 have been applied consistently in preparing the consolidated financial statements for the year ended December 31, 2011, the comparative information presented for the year ended December 31, 2010 and in the preparation of the opening IFRS statement of financial position as at January 1, 2010 (the Company's date of transition to IFRS) and as at December 31, 2010 and 2011.

In preparing these consolidated financial statements in accordance with IFRS 1, the Company has applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of IFRS. The elections made and the IFRS that management considers significant to the Company are disclosed in Note 3. The exemptions and policies that are of significance to the Company are as follows:

Exemptions and exceptions applied

(1) Deemed cost exemption

Under Canadian GAAP, the Company has historically accounted for exploration expenditures in a single Canada wide full cost accounting pool. Under IFRS, exploration expenditures are reclassified as exploration and evaluation assets. IFRS 1 contains an exemption that allowed the Company to measure mineral and oil and natural gas assets at the date of transition as follows:

a. Exploration and evaluation assets are reclassified from the full cost pool to exploration and evaluation assets at the amount that was recorded under Canadian GAAP; and
b. The remaining full cost pool is allocated to the development and production assets and components prorated using reserve values or reserve volumes.

The reclassification of exploration and evaluation assets resulted in no change in exploration and evaluation assets or in property and equipment at January 1, 2010 and December 31, 2010. The Company is also required to assess the exploration and evaluation assets for impairment on transaction to IFRS. Under IFRS, the impairment of exploration and evaluation assets is assessed at CGU level based on the greater of fair value less costs to sell or the value in use. There was no impairment of exploration and evaluation assets on transition to IFRS.

(2) Business combination exemption

IFRS 1 allows the Company to adopt IFRS3, *Business combinations*, on a prospective basis rather than retrospectively restating all prior business combinations. The Company elected not to retrospectively apply IFRS 3 to business combinations that occurred prior to January 1, 2010 and such business combinations have not been restated.

Deferred tax liabilities

Temporary differences arising on initial recognition of an asset or liability (other than in a business combination), IAS 12 *income taxes*, does not permit the recognition of a deferred tax liability on taxable temporary differences that may arise on initial recognition of assets or liabilities (except if the transaction is a business combination or if the transaction affects accounting or taxable profit (loss)).

Under Canadian GAAP, in accordance with Section 3465 *Future income taxes*, when an asset is acquired other than in a business combination and the tax basis of that asset is less than its cost, the deferred income tax liabilities recognized at the time of acquisition is added to the cost of the asset. In accounting for the acquisition of the remaining interest of the Sorel-Trois Rivieres natural gas property not yet owned by the Company in late 2008, the acquisition cost of $29,450,288 was assigned to the acquired assets and liabilities, including an estimated deferred tax liability of $7,448,211 attributable to taxable temporary differences on acquired natural gas interests.

Under IFRS, the Company has reversed these deferred tax liabilities at January 1, 2010 and December 31, 2010 by reducing acquired natural gas interests by the corresponding amount of $7,448,211.

The Canadian GAAP statement of financial position at January 1, 2010 has been reconciled to IFRS as follows:

As at January 1, 2010

	Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS			
Current			
Cash and cash equivalents	$ 3,822,375	–	$ 3,822,375
Marketable securities	1,440,910	–	1,440,910
Accounts receivable	76,696	–	76,696
Prepaid expenses	2,847	–	2,847
	5,342,828	–	5,342,828
Note receivable	1	–	1
Investment in subsidiary	2	–	2
Exploration and evaluation assets	32,722,983	(7,448,211)	25,274,772
Technology project	1	–	1
Property and equipment	14,505	–	14,505
	$38,080,320	(7,448,211)	$30,632,109
LIABILITIES			
Current			
Accounts payable and accrued liabilities	$ 32,207	–	$ 32,207
Deferred tax liabilities	7,448,211	(7,448,211)	–
	7,480,418	(7,448,211)	32,207
SHAREHOLDERS' EQUITY			
Share capital	35,678,910	–	35,678,910
Share purchase warrants	1,407,000	–	1,407,000
Contributed surplus	863,210	–	863,210
Deficit	(7,459,098)	–	(7,459,098)
Accumulated other comprehensive income	109,880	–	109,880
	30,599,902	–	30,599,902
	$38,080,320	(7,448,211)	$30,632,109

The Canadian GAAP statement of financial position at December 31, 2010 has been reconciled to IFRS as follows:

	As at December 31, 2010		
	Canadian GAAP	**Effect of transition to IFRS**	**IFRS**
ASSETS			
Current			
Cash and cash equivalents	$ 4,633,924	–	$ 4,633,924
Marketable securities	1,456,815	–	1,456,815
Accounts receivable	22,038	–	22,038
Prepaid expenses	2,847	–	2,847
	6,115,624	–	6,115,624
Investment in subsidiary	1	–	1
Exploration and evaluation assets	32,693,879	(7,448,211)	25,245,668
Property and equipment	14,753	–	14,753
	$38,824,257	(7,448,211)	$31,376,046
LIABILITIES			
Current			
Accounts payable and accrued liabilities	$ 31,356	–	$ 31,356
Deferred tax liabilities	7,486,635	(7,448,211)	38,424
	7,517,991	(7,448,211)	69,780
SHAREHOLDERS' EQUITY			
Share capital	35,585,982	–	35,585,982
Share purchase warrants	462,000	–	462,000
Contributed surplus	2,300,600	–	2,300,600
Deficit	(7,239,822)	–	(7,239,822)
Accumulated other comprehensive income	197,506	–	197,506
	31,306,266	–	31,306,266
	$38,824,257	(7,448,211)	$31,376,046

The Canadian GAAP statement of income and comprehensive income for the year ended December 31, 2010 has been reconciled to IFRS as follows:

	Year ended December 31, 2010		
	Canadian GAAP	**Effect of transition to IFRS**	**IFRS**
REVENUE			
Investment income	$ 109,741	–	$ 109,741
EXPENSES			
Professional fees	61,975		61,975
Office rent	24,502		24,502
Other administrative and general expenses	106,505	–	106,505
Abandonment and write off of natural gas interest	21,002	–	21,002
Write off investment in subsidiaries	1	–	1
Loss on sale of market securities	4,147	–	4,147
Stock-based compensation cost	400,390	–	400,390
Amortization	6,087	–	192,982
	624,609	–	624,609
LOSS BEFORE THE UNDERNOTED	(514,868)	–	(514,868)
Recovery of note receivable and accrued interest	734,144	–	734,144
NET INCOME	219,276	–	219,276
OTHER COMPREHENSIVE INCOME			
Increase in fair value of available-for-sale marketable securities, net of taxes	87,626	–	87,626
COMPREHENSIVE INCOME	$ 306,902	–	$ 306,902

Statement of Cash flows

The transition to IFRS did not have an impact on cash and cash equivalents, accordingly a reconciliation has not been presented.