ALTAI RESOURCES INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

(UNAUDITED)

NOTICE OF NO AUDITOR REVIEW OF
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited condensed interim consolidated financial statements of Altai Resources Inc. for the nine months ended September 30, 2012 and 2011 have been prepared by the management of the Company and approved by the Company's Audit Committee and the Board of Directors. Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

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

ALTAI RESOURCES INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT SEPTEMBER 30, 2012 AND DECEMBER 31, 2011
(UNAUDITED)
(EXPRESSED IN CANADIAN DOLLARS)

	Note	September 30, 2012	December 31, 2011
ASSETS			
Current			
Cash and cash equivalents		$ 5,407.196	$ 5.606,797
Marketable securities	5	1,493,895	1,465,460
Accounts receivable		40,592	83,998
Prepaid expenses		8,877	8,877
		6,950,560	7,165,132
Investment in subsidiary	6	1	1
Exploration and evaluation assets	7	15,661,393	15,569,430
Property and equipment	8	12,491	19,816
		$22,624,445	$22,754,379
LIABILITIES			
Current			
Accounts payable and accrued liabilities		$ 1,094	$ 25,808
Deferred tax liabilities	14	46,323	41,068
		47,417	66,876
SHAREHOLDERS' EQUITY			
Share capital	9a	36,627,178	36,627,178
Share purchase warrants	9b	339,701	339,701
Contributed surplus		2,813,810	2,802,560
Deficit		(17,493,442)	(17,313,981)
Accumulated other comprehensive income		289,781	232,045
		22,577,028	22,687,503
		$22,624,445	$22,754,379
Commitments	13		

ALTAI RESOURCES INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011
(UNAUDITED)
(EXPRESSED IN CANADIAN DOLLARS)

	Note	Three months ended September 30 2012	2011	Nine months ended September 30 2012	2011
REVENUE					
Interest and dividend income		$ 33,141	$ 38,322	$ 105,058	$ 110,910
Gain on sale of marketable securities		–	–	–	3,875
		33,141	38,322	105,058	114,785
EXPENSES					
Professional fees		12,000	27,975	60,514	86,475
Shareholders meeting and investor relations		4,278	1,360	10,807	12,026
Office rent		23,046	23,283	69,985	57,386
Other general and administrative expenses		22,591	14,052	108,833	69,609
Prospecting expenses		747	217	14,493	7,548
Stock-based compensation cost		–	9,990	11,250	29,970
Amortization		3,716	3,250	8,637	9,372
		66,378	80,127	284,519	272,386
NET LOSS		(33,237)	(41,805)	(179,461)	(157,601)
OTHER COMPREHENSIVE INCOME					
Increase (decrease) in fair value of available-for-sale marketable securities, net of taxes		51,960	(55,774)	57,736	22,488
COMPREHENSIVE INCOME (LOSS)		$ 18,723	$ (97,579)	$ (121,725)	$ (135,113)

NET LOSS PER SHARE					
Basic and diluted loss per share	**10**	**$ (0.00)**	**$ (0.00)**	**$ (0.00)**	**$ (0.00)**
Weighted Average Number of Common Shares Outstanding					
– basic		55,113,552	54,908,424	55,113,552	54,908,424
– diluted		55,113,552	54,908,424	55,134,616	54,908,424

ALTAI RESOURCES INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011
(UNAUDITED)
(EXPRESSED IN CANADIAN DOLLARS)

	Share capital						
	Number of shares	**Amount $**	**Share purchase warrants $**	**Contributed surplus $**	**Accumulated other comprehensive income (net of tax) $**	**Deficit $**	**Total equity $**
Balance, December 31, 2010	**49,513,552**	**35,585,982**	**462,000**	**2,300,600**	**197,506**	**(7,239,822)**	**31,306,266**
Net loss for the period	-	-	-	-	-	(157,601)	(157,601)
Increase in fair value of available-for-sale marketable securities	-	-	-	-	22,488	-	22,488
Stock-based compensation	-	-	-	29,970	-	-	29,970
Proceeds of share issuance in private placement	5,600,000	1,400,000	-	-	-	-	1,400,000
Share purchase warrants issued for private placement	-	(344,400)	344,400	-	-	-	-
Expired share purchase warrants	-	-	(462,000)	462,000	-	-	-
Share issuance cost	-	(19,103)	–	-	-	-	(19,103)
Balance, September 30, 2011	**55,113,552**	**36,622,479**	**344,400**	**2,792,570**	**219,994**	**(7,397,423)**	**32,582,020**
Net loss for the period	-	-	-	-		(9,916,558)	(9,916,558)
Decrease in fair value of available-for-sale marketable securities	-	-	-	-	12,051	-	12,051
Share issuance cost	-	4,699	(4,699)	-	-	-	-
Stock-based compensation	-	-	-	9,990	-	-	9,990
Balance, December 31, 2011	**55,113,552**	**36,627,178**	**339,701**	**2,802,560**	**232,045**	**(17,313,981)**	**22,687,503**
Net loss for the period	-	-	-	-		(179,461)	(179,461)
Increase in fair value of available-for-sale marketable securities	-	-	-	-	57,736	-	57,736
Stock-based compensation	-	-	-	11,250	-	-	11,250
Balance, September 30, 2012	**55,113,552**	**36,627,178**	**339,701**	**2,813,810**	**289,781**	**(17,493,442)**	**22,577,028**

ALTAI RESOURCES INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011
(UNAUDITED)
(EXPRESSED IN CANADIAN DOLLARS)

	Nine months ended September 30	
	2012	**2011**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period	$ (179,461)	$ (157,601)
Items not affecting cash		
Stock-based compensation	11,250	29,970
Amortization	8,637	9,372
(Gain) loss on sale of marketable securities	84	(3,875)
	(159,490)	(122,134)
Changes in non-cash working capital balances:		
Accounts receivable	43,406	(54,963)
Prepaid expenses	–	(6,030)
Accounts payable and accrued liabilities	(24,714)	(29,929)
Cash used in operating activities	(140,798)	(213,056)
CASH FLOWS FROM INVESTING ACTIVITIES		
Deferred exploration expenditures	3,473	(9,924)
Natural gas interests expenditures	(95,436)	(169,916)
Proceeds on sale of marketable securities	34,472	9,375
Purchase of capital assets	(1,312)	(17,435)
Cash used in investing activities	(58,803)	(187,900)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of common shares	–	1,400,000
Shares issuance costs	–	(19,103)
Cash provided by financing activities	–	1,380,897
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(199,601)	979,941
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	5,606,797	4,633,924
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 5,407,196	$ 5,613,865

1. Nature of operations

Altai Resources Inc. ("Altai" or the "Company"), incorporated under the laws of the province of Ontario, is a resource company with a portfolio of oil 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.

2. Basis of preparation

Statement of compliance

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

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

The condensed interim consolidated financial statements for the nine months ended September 30, 2012 and 2011 were approved by the Board of Directors on November 2, 2012.

Basis of presentation

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

3. International Financial Reporting Standards

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.

3) 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. The Company capitalizes E & E. Each year the Company analyses the projects under evaluation for impairment, and will expense those portions impaired on an annual basis.

4) IAS 16 – Property, Plant and Equipment

The Company measures property, plant and equipment by the historical cost convention.

5) IAS 36 – Impairment of Non-Financial Assets

a) Indications of Impairment

Assets are to 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

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.

c) Reversal of Impairment

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.

6) IAS 12 – Income taxes

IAS 12, Income Taxes was amended 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 Company has adopted the amended IAS 12 on January 1, 2012 and the changes to IAS 12 have no effect on the Company's financial results and financial position.

7) IFRS 7 – Financial instruments - Disclosures

The amended IFRS 7 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 Company has adopted the amended IFRS 7 on January 1, 2012 and the changes to IFRS 7 have no effect on its financial statement disclosures.

4. Summary of significant accounting policies

The significant accounting policies used in the presentation of these condensed interim 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 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) 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.

11) 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.

12) 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.

13) 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.

14) 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.

15) 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 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 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 September 30, 2012 and 2011are as follows:

	2012	2011
Total fair market values	$1,493,895	$1,474,485
Total costs	$1,137,563	$1,195,157

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 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
Expenditure, net of tax credit, for the period	(3,473)	95,436	91,963
Balance at September 30, 2012	$863,890	$14,797,503	$15,661,393

1) Interests in mining properties

Malartic Township gold property, Quebec	Acquisition cost	Expenditure	Total
Balance at December 31, 2010	$123,711	$733,940	$857,651
Expenditure, net of tax credit, for the year 2011	–	9,712	9,712
Balance at December 31, 2011	$123,711	$743,652	$867,363
Expenditure, net of tax credit, for the period	–	(3,473)	(3,473)
Balance at September 30, 2012	$123,711	$740,179	$863,890

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

("Globex"), which names the project "Blackcliff gold property".

2) Natural gas interests

	Sorel-Trois Rivieres property, Quebec
Balance at December 31, 2010	$24,388,017
Expenditure, net of tax credit, for the year	159,651
Write down of exploration and evaluation assets	(9,845,601)
Balance at December 31, 2011	$14,702,067
Expenditure, net of tax credit, for the period	95,436
Balance at September 30, 2012	14,797,503

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).

Due to the expropriation, the Company wrote down the natural gas interests by $9,845,601 for the year ended December 31, 2011.

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.

8. Property and equipment

	September 30, 2012			September 30, 2011		
	Cost	**Accumulated amortization**	**Net**	**Cost**	**Accumulated amortization**	**Net**
Computer equipment	$21,559	$11,999	$9,560	$22,598	$ 7,454	$15,144
Website development	–	–	–	6,750	6,375	375
Furniture and fixtures	4,303	3,142	1,161	4,303	1,135	3,168
Leasehold improvement	11,802	10,032	1,770	11,802	7,672	4,130
	$37,664	$25,173	$12,491	$45,453	$22,636	$22,817

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 December 31, 2010	49,513,552	$35,585,982
Issued for cash - common shares issued for private placement – 2011	5,600,000	1,400,000
Share purchase warrants valuation - 2,800,000 warrants issued for private placement – 2011		(344,400)
Share issuance costs relating to private placement – 2011		(19,103)
Balance at September 30, 2011	55,113,552	$36,622,479
Share issuance costs relating to private placement – 2011		4,699
Balance at December 31, 2011 and September 30, 2012	55,113,552	$36,627,178

b) Share purchase warrants

Warrants	No. of warrants	Warrant value	Weighted average exercise price
Outstanding at December 31, 2010	1,000,000	$ 462,000	$1.25
Issued for common share units private placement – 2011	2,800,000	344,400	$0.45
Expired without being exercised – 2011	(1,000,000)	(462,000)	$1.25
Outstanding at September 30, 2011	2,800,000	$ 344,400	$0.45
Issuance costs – 2011	–	(4,699)	–
Outstanding at December 31, 2011 and September 30, 2012	2,800,000	$ 339,701	$0.45

The following table summarizes the warrants outstanding as at December 31, 2011 and September 30, 2012:

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

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 September 30, 2012, there were 2,730,000 option shares available for future grants.

During the nine months ended September 30, 2012, the Company granted a total of 1,200,000 share options, being 200,000 share options to each of the five directors and an officer of the Company, at $0.10 per share with an expiry date of June 21, 2017 and vested immediately.

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

The 1,000,000 and 200,000 special options to Marc-Andre Lavoie and Geraint Lloyd granted on October 1, 2010 at $0.30 per share, non-vested as at May 23, 2012, the date of their resignation as officers of the Company, were cancelled after their resignation. The stock-based compensation expenses for the said cancelled non-vested option shares recorded for the period from October 1, 2010 to March 31, 2012 totalling $59,940 have been reversed in the second quarter of 2012.

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

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.

A summary of the status of the Company's stock options as at September 30, 2012 and 2011 and changes during the periods then ended is presented below:

	2012		2011	
Stock options	**No. of options**	**Weighted average exercise price**	**No. of options**	**Weighted average exercise price**
Outstanding at beginning of period	3,020,000	$0.480	3,020,000	$0.480
Granted	1,200,000	0.100	–	–
Cancelled	2,000,000	0.300	–	–
Outstanding at end of period	2,220,000	$0.365	3,020,000	$0.480
Exercisable at end of period	2,220,000	$0.365	1,820,000	$0.599

The following table summarizes information on outstanding and exercisable stock options as at September 30, 2012:

Number of options outstanding	Number of options exercisable	Exercise price	Remaining contractual life (years)	Expiry date
300,000	300,000	$0.700	0.50	April 2, 2013
100,000	100,000	2.420	0.73	June 23, 2013
20,000	20,000	0.930	0.93	September 4, 2013
100,000	100,000	0.225	1.43	March 4, 2014
300,000	300,000	0.460	2.40	February 21, 2015
200,000	200,000	0.300	3.00	September 30, 2015
1,200,000	1,200,000	0.100	4.73	June 21, 2017
2,220,000	2,220,000	$0.365	3.32	

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 period. 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 period.

The following table sets forth the computation of basic and diluted loss per share for the periods ended September 30, 2012 and 2011:

	2012		2011	
Net loss for the period	$(179,461)		$(157,601)	
Weighted average number of shares – basic	55,113,552		54,908,424	
Effect of dilutive shares				
Stock options	21,064		–	
Share purchase warrants	–		–	
Weighted average number of shares – diluted	55,134,616		54,908,424	
Basic and diluted net income (loss) per share	$(0.00)	(1)	$(0.00)	(1)

(1) Due to the loss in the periods of 2012 and 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 nine months ended September 30, 2012 and 2011. The remuneration of directors and officers of the Company for the nine months ended September 30, 2012 and 2011 are as follows:

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

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

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

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

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

12. Key management personnel compensation

The following are the expenses that the Company recognized for its key management personnel for the nine months ended September 30, 2012 and 2011:

	2012	2011
Professional fees	$140,454	$213,450
Stock-based compensation	10,200	29,970
	$150,654	$243,420

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. That office has been closed since May 24, 2012. The Company is trying to sublease the Montreal office space.

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

Future income tax liabilities as at September 30, 2012 and 2011 are:-

	2012	**2011**
Carrying value of natural gas interests	$ –	$7,448,211
Marketable securities – unrealized gains	$46,323	39,106
Net future income tax	$46,323	$7,487,317

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 September 30, 2012 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	$5,407,196	–	–	$5,407,196
Available-for-sale				
Marketable securities	1,493,895	–	–	1,493,895
Total	$6,901,091			$6,901,091

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

16. Management of capital

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

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

The Company's objectives when managing capital are:

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

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

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

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

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

(a) realizing proceeds from the disposition of its investments; and
(b) raising capital through equity financings.

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

The payment of cash dividends does not form part of Altai's current capital management program and, to date, the Company has not declared any cash dividends on its shares. 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, 2012.

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 September 30, 2012 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.