ALTAI RESOURCES INC.

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

FOR THE YEAR ENDED DECEMBER 31, 2012 **Dated April 24, 2013**

The following management's discussion and analysis of the financial position and results of operations (the "MD&A") dated April 24, 2013 has been prepared by management and are based on and derived from the audited consolidated financial statements of Altai Resources Inc. (the "Company" or "Altai") for the year ended December 31, 2012 in comparison with those for the year ended December 31, 2011.

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

The audited consolidated financial statements for the year ended December 31, 2012 were audited and prepared by management in accordance with the International Financial Reporting Standards (IFRS). The financial statements were presented in Canadian dollars, which is both the functional and presentation currency of the Company. Figures referred to in this discussion are in Canadian dollars, unless otherwise stated.

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

FORWARD LOOKING STATEMENTS

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

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

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

COMPANY OVERVIEW

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

OVERVIEW OF PROPERTIES

The Company has three natural resource properties, all in Canada. Two of the properties, both in Quebec, are still in exploration stage. Since late December 2012, Altai has acquired 45% net working interest in an oil producing property in central Alberta.

Altai's properties are as following:-

a) the 50% owned Malartic gold property (named "Blackcliff gold property" by property joint-venture partner and operator) in the Val d'Or area of Quebec,
b) the 100% owned Sorel-Trois Rivieres natural gas property, St. Lawrence Lowlands, Quebec, and
c) the 45% owned Cessford oil property in the Cessford area of central Alberta. ConocoPhillips Canada Energy Partnership of ConocoPhillips Canada Resources Corp., is the 50% partner and operator of the property.

1) **Malartic gold property, Quebec**

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

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

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

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

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

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

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

– Prior to the enactment of Bill 18, the Company held 7 oil and gas and reservoir permits totalling 114,344 hectares (282,544 acres) of land in the St.

Lawrence Lowlands, representing the largest contiguous block in the Utica fairway with a 100% interest held by the operator.

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

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

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

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

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

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

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

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

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

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

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

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

3) **Cessford oil property, central Alberta**

In July 2012, the Company conditionally closed a transaction with Arkoma PUC subject to final closing, for Altai to acquire from the latter a gross 50% (net 45%) working interest in 240 acres of Alberta Crown leases in the Cessford area of central Alberta and production of approximately 12.5 barrels of light oil

per day (11bopd net to Altai) in four long-life oil producing wells for a cash consideration of $800,000. The final closing, which was subject to Arkoma having fulfilled all the terms and conditions of the sale agreement, was completed in late December 2012. The effective date of the transaction was April 11, 2012. Two Calgary parties provided technical support to Altai during the acquisition process and was paid a fee in kind by Altai, that is, each of the two parties held a 2.5% working interest in the property on the transaction closing. ConocoPhillips Canada Energy Partnership of ConocoPhillips Canada Resources Corp., a fully owned subsidiary of ConocoPhillips, US, is the partner and operator of the property.

The four wells are subject to certain royalty payments.

The four wells are producing from the Glauconitic “C” pool. Altai paid approximately $64,000 per flowing barrel of oil per day and $22.80 per barrel of proven reserves in the ground. The average price paid per flowing bopd for 2012 to April 2012 with respect to 36 transactions is $85,891 and $29.17 per barrel in the ground for proven reserves (ATB Corporate Financial Services Bulletin dated April 27, 2012). Reserve life of the wells is estimated at 13-15 years.

There are future infill locations for two additional wells and there are undrilled lands to be explored in the future. Typically vertical wells in the Glauconitic “C” pool come on at 30bopd (13bopd net to Altai) and short horizontal wells perform better.

The acquisition will enhance the cash flow of Altai. This is the Company’s first venture into conventional oil exploration and production in Alberta as Altai diversifies its portfolio of investments.

4) **Altai Philippines Mining Corporation**

In the beginning of 2012 the Company had a 40% equity interest in Altai Philippines Mining Corporation (“Altai Philippines” or “APMC”) and a balance of $906,565 accrued interest on a note owing by Altai Philippines for which an allowance had been maintained. The investment and loan were each written down to $1 in 2008.

In September 2012 Altai and APMC agreed for the latter to make a partial repayment of the outstanding note interest owing to Altai with 50% of APMC’s cash recorded in its audited financial statements for the year ended December 31, 2011. Subsequent to such payment, Altai would sell its 40% equity holding in APMC for a nominal sum and forgive APMC for the remaining outstanding note interest.

Pursuant to the transaction which was completed in November 2012, Altai received C$191,161 from APMC, cancelled the remaining outstanding note interest of C$715,404 owed by APMC after the payment, and disposed of the 40% equity interest in APMC.

HIGHLIGHTS OF 2012

1) Effective May 23, 2012, Marc-Andre Lavoie resigned as President and Chief Executive Officer and Geraint Lloyd resigned as Chief Operating Officer and VP Exploration, of the Company. Dr. Kacira, Chairman and a director of the Company, became also the President of the Company. The Montreal office has been closed since May 24, 2012.

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

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

3) In late December 2012, the Company completed the final closing of a transaction with Arkoma PUC for Altai to acquire from the latter a gross 50% (net 45%) working interest in 240 acres of Alberta Crown leases in the Cessford area of central Alberta and production of light oil in four long-life (13-15 years) oil producing wells for a cash consideration of $800,000. Two Calgary parties provided technical support to Altai during the acquisition process and was paid a fee in kind by Altai, that is, each of the two parties held a 2.5% working interest in the property on the transaction closing. ConocoPhillips Canada Energy Partnership of ConocoPhillips Canada Resources Corp., a fully owned subsidiary of ConocoPhillips, US, is the partner and operator of the property.

OVERALL PERFORMANCE AND RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2012

1) For the year ended December 31, 2012, the Company earned revenue of $239,059 (2011 – $147,286) comprising of $139,070 interest and dividend income (2011– $147,286) and oil revenue, net of royalties, of $99,989 (for the period from July 24, 2012, the date of the conditional closing of the Cessford oil property transaction, to December 31, 2012). Total expenses, including Cessford property’s production expenses of $46,379 and amortization cost of $23,355, amounted to $487,453 (2011 – $10,221,445). After the offset by a recovery of note receivable and accrued interest of $191,161 received from Altai Philippines Mining Corporation in the fourth quarter of 2012, the net loss for 2012 came to $57,233 (2011 – net loss of $10,074,159).

2) **Expenses**

Expenses for the years ended December 31, 2012 and 2011 are as following:

	2012 **$**	**2011** **$**
Production expenses	46,379	–
Professional fees	72,514	114, 450
Office rent	93,334	81,739
Travel	995	4,503
Other administrative and general expenses	52,165	47,360
Prospecting	13,086	9,972
Write off investment in subsidiaries	1	–
Write down of exploration and evaluation assets	–	9,845,601
Shareholders meeting	59,805	6,923
Investor relations	1,001	5,598
Transfer agency fees	8,324	8,432

Stock exchange and filing fees	12,215	12,641
Audit fees	30,375	31,500
Legal fees	48,239	393
Stock-based compensation cost	11,250	39,960
Amortization	34,622	12,373
Montreal office closing expenses	3,148	–
	487,453	10,221,445

(1) Production expenses – Production costs of $46,379 were for the four oil wells of Cessford oil property for the period from July 24, 2012 to December 31, 2012.

(2) Professional fees – With the Chairman looking after resource exploration after the resignation of Marc-Andre Lavoie and Geraint Lloyd as officers of the Company on May 23, 2012, the professional fees for the year of 2012 decreased from $114,450 to $72,514.

(3) Office rent – Office rent for 2012 was higher than the 2011's by $11,595, reflecting the Montreal office rent (gross rent of approximately $5,000 per month) for the full year of 2012 versus only operating cost and property tax payment for February - April 2011 (free base rent for that period) plus 8 months' gross rent from May to December 2011.

(4) Prospecting – For 2012, the Company incurred $13,086 prospecting expenses (of which $12,000 was incurred in Q1) versus $9,972 for 2011.

(5) Shareholders meeting – For the first time in the history of Altai, the Company incurred more than $10,000 expenses for its annual shareholders' meeting held on June 22, 2012. The extra expenses were spent on defending successfully the Company in an unforewarn but anticipated proxy fight with a former officer and director of Altai who nominated an alternative set of director candidates during the said meeting.

(6) Audit fees – The 2012 figure included $5,375 under-accrued fees for the 2011 year-end audit and $25,000 fees accrued for 2012 year-end audit . 2011's figure included $6,500 under-accrued fees for 2010 year end audit and $5,000 fee for the auditors' review of the 2011 Q1 condensed interim consolidated financial statements re IFRS policies, applications and compliance.

(7) Amortization – Amortization expenses comprise of two components:
a) $11, 267 depreciation expense for equipment – the figure is slightly lower for 2012 due to the website development cost having been fully depreciated by year end of 2011. In Q3 of 2012 $1,231 undepreciated value of furniture in the closed Montreal office was written off

b) $23,355 amortization expense for the Cessford oil property for the period from July 24, 2012 to December 31, 2012.

(8) Legal fees – Legal fees of $48,239 for 2012 were incurred due to the resignation of M-A Lavoie and G. Lloyd as officers of the Company on May 23, 2012 and for the annual general meeting of the shareholders held on June 22, 2012 as explained in (5) above.

(9) Stock-based compensation cost
a) With the resignation of M-A Lavoie and G. Lloyd as officers of the Company on May 23, 2012, their respective 1,000,000 and 200,000 non-vested special options were cancelled immediately. The total stock-based compensation cost of $49,950 recorded for the period from October 1, 2010 to December 31, 2011 had been reversed in 2012.

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

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

c) The net stock-based compensation cost for 2012 is $11,250.

SUMMARY OF QUARTERLY RESULTS

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

	December 31, 2012 $	September 30, 2012 $	June 30, 2012 $	March 31, 2012 $	December 31, 2011 $	September 30, 2011 $	June 30, 2011 $	March 31, 2011 $
Revenue	133,918	33,141	36,104	35,896	32,501	38,322	40,628	35,835
Expenses	202,849	66,378	120,369	97,857	9,949,059	80,127	90,887	101,372
Recovery of note receivable and accrued interest written down	191,161	–	–	–	–	–	–	–
Net income (loss)	122,230	(33,237)	(84,265)	(61,961)	(9,916,558)	(41,805)	(50,259)	(65,537)
Net income (loss) per share (Basic and Diluted*)	0.00	(0.00) *	(0.00) *	(0.00) *	(0.18) *	(0.00) *	(0.00) *	(0.00) *

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

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

(2) The higher administrative and general expenses in all quarters of 2011 and 2012 reflected the effect of the expenses of the Montreal office (set up on

February 1, 2011) and the two previous officers (M.A. Lavoie and G. Lloyd) accommodated there.

Though the Montreal office has been closed since May 24, 2012, the Company has to continue paying the expenses of the Montreal office rent and copier leases both of which expire in February 2014, and the basic utilities for that office. Due to the terms of the head lease, Altai may incur additional expenses if the Montreal office space is subleased. The Company has decided not to sublease that office for the remaining lease term.

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

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

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

(4) the $120,369 expenses of Q2 of 2012 included $38,000 legal fees re the resignation of two officers – Lavoie and Lloyd on May 23, 2012.

(5) For Q4 of 2012,
a) revenue of $133,918 included $99,989 oil revenue net of royalties for Cessford oil property for the period of July 24, 2012 to December 31, 2012 being recognized after the final closing of the purchase of the property.
b) expenses included $49,379 production expenses and $23,355 amortization expense of the Cessford property for the period from July 24, 2012 to December 31, 2012, $50,000 expense related to the annual shareholders' meeting and $25,000 audit fee accrued for the 2012 year-end audit; and
c) the Company received $191,161 from Altai Philippines Mining Corporation as a partial repayment of the outstanding note interest owing to Altai.

EXPENDITURES FOR MINING PROPERTY AND OIL AND GAS INTERESTS

(a) Expenditures for the resource properties for the years of 2012 and 2011 are:

	2012 $	2011 $
Malartic gold property, Quebec	–	9,924
Sorel-Trois Rivieres gas property, Quebec	186,839	231,249
Expenditures	186,839	241,173

(b) Expenditures for revenue producing oil property

	2012 $	2011 $
Cessford oil property, Alberta		
Acquisition	772,111	–
Expenditures	3,750	–
Total	775,861	–

OUTLOOK FOR 2013 AND BEYOND

1) In the Quebec Utica Shale play, most of the recent focus continues to be on regulatory and social acceptability issues. No exploration work has taken place in the St Lawrence Lowlands during 2012 and to our best knowledge, very little, if any, work is scheduled to take place in 2013.

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

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

Also contributing to the current negative investor perception was the enactment of Bill 18 by the Quebec National Assembly in June 2011.This Bill has revoked without compensation all the exploration permits located in the St Lawrence River, West of Anticosti. This measure effectively expropriated 113,677 net acres of the total 287,470 net acres of the pre-Bill 18 exploration permits held by Altai in the Province of Quebec. Bill 18 also provides for work exemptions and time extension of permits which will benefit Altai's remaining 173,793 net acres in Quebec. The Company is still reviewing the new legislation with its advisers.

2) In late December 2012, the Company completed the final closing of the transaction to acquire 45% net working interest in the 240 acres Cessford oil property in the Cessford area of central Alberta and the production of light oil in four long-life (13-15 years) wells for a cash consideration of $800,000. There are future infill locations for two additional wells and undrilled lands to be explored and for drilling opportunities. The property partner (50%) and operator is ConocoPhillips Canada Energy Partnership of ConocoPhillips Canada Resources Corp., a fully owned subsidiary of ConocoPhillips, US.

This is Altai's first venture into conventional oil exploration and production in Alberta as the Company diversifies its portfolio of investment.

Project performance from April 1 to December 31, 2012 (based on the operation results reported by the operator) indicates that cash flow from this project will be generally sufficient to pay for Altai's overhead expenses excluding the legacy costs of the Montreal office (which has been closed since May 2012) which include that office's leases of premises and equipment to February 2014.

3) Corporate renewal: The two officers of Altai (N. Kacira, President and M. Au, Secretary-Treasurer) who manage the business and affairs of this

Company are at retirement age. Therefore the Company is endeavouring to bring in new energetic management which will work for the best interest of Altai and all its shareholders.

We thought that the most appropriate way to accomplish this is a merger with an entity which has a dynamic and conscientious management. The candidate entity we are looking for will ideally have:

a) an energetic and highly ethical manager who will work for the best interest of the Company. Integrity, honesty and transparency are fundamental to Altai's culture and the only true legacy that the present management can leave behind.

b) the merger candidate will have asset(s) with resources preferably in base metals and/or precious metals that can be expanded/upgraded by future exploration and for economic development.

All efforts so far (over the last six months) have not been successful essentially due to the following:-
a) over-valuation of the marginal assets by candidate companies; and
b) too much debt of candidate companies.

Microcap companies have not yet mentally adjusted to difficult market circumstances which are far from over and will likely continue for another three to five years. Time is therefore on Altai's side. Altai is one of those rare microcap companies whose revenues more than cover its expenses, hence we are in no hurry to make a deal unless it is a good deal for all concerned and for the best interest of Altai.

If the merger idea does not work, Altai has other alternatives with the idea of building our asset portfolio, explore them and then wait for better markets to develop them. Under the prevailing market conditions we observe that even those companies which announce fairly good transactions are hammered (selling on news) in the market. Therefore the best way for Altai may be to acquire assets on our own and wait for better times to see revaluation of its market price.

LIQUIDITY AND CAPITAL RESOURCES

1) The Company's treasury funds comprise of cash and cash equivalents and available-for-sale marketable securities.

At the beginning of 2012, Altai had working capital of $7.07 million comprising of $5.61 million cash and cash equivalent and $1.47million available-for-sale marketable securities. As at December 31, 2012, the Company's working capital was $6.31 million comprising of $4.81 million cash and cash equivalents and $1.50 million available-for-sale marketable securities. The 2012 year-end balance of working capital is net of the net $0.78 million spent on the acquisition of 45% net working interest in the Cessford oil property in Alberta.

Preservation of the capital remains a priority of the Company, especially with the continual jitters and uncertainty in the debt crisis in the Eurozone and the prospects of economic recovery and growth in US.

There is virtual impossibility of equity financing in the near future for the resource industry in North America, especially for junior resource companies. Yield on low risk short term and long term papers remains low due to the persistent low interest rates in Canada versus the much higher yield for the much more risky papers. Despite that, the Company continues to prefer investing the greater part of its cash in secured short term papers with maturity from 30 days to one year, such as guaranteed investment certificates (GIC) which offer very low yields.

Since July 2009 the Company invested and continues to hold part of its cash in shares of Canadian major banks and relatively stable companies which are denominated in Canadian currency and are liquid and regularly pay dividends or interests. A small portion of the marketable securities are shares received by the Company pursuant to previous option agreements and they are publicly traded in Canada. As such, the Company's marketable securities investment remains liquid and reasonably safe, though as we have expected, the prices of the shares in our portfolio continue to fluctuate throughout 2012 in view of the current swings in investment moods and economic and debt issues in the Western hemisphere. The income from this investment was higher than that of the secured short term papers. The total fair market values at December 2012 were $1,503,775 (2011- $1,465,460) compared to total costs of $1,137,563 (2011 - $1,172,119).

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

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

3) The Company includes the following in its capital as at December 31, 2012 and 2011:

	2012	2011
Shareholders' equity comprised of		
Share capital	$36,627,178	$36,627,178
Share purchase warrants	339,701	339,701
Contributed surplus	2,813,810	2,802,560
Deficit	(17,371,214)	(17,313,981)
Accumulated other comprehensive income	298,376	232,045
	$22,707,851	$22,687,503

The Company's objectives when managing capital are:
a) to ensure that the Company maintains the level of capital necessary to meet the requirements of its exploration programs and current operating expenditures;
b) to allow the Company to respond to changes in economic and/or marketplace conditions;
c) to give shareholders sustained growth in shareholder value by increasing shareholders' equity; and
d) to maintain a flexible capital structure which optimizes the cost of capital at acceptable levels of risk.

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its underlying assets. The Company maintains or adjusts its capital level to enable it to meet its objectives by:
a) realizing proceeds from the disposition of its investments; and
b) raising capital through equity financings.

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

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

SIGNIFICANT ACCOUNTING POLICIES

The preparation of the Company's consolidated financial statements requires management to use accounting policies relevant for its industry and operations. The significant accounting policies used are presented in Note 4 to the audited consolidated financial statements for the year ended December 31, 2012.

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

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

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

SHARE DATA

1) The number of shares outstanding as at December 31, 2012 was 55,113,552.

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

During 2012, the Company granted a total of 1,200,000 share options, being 200,000 share options to each of the five directors (elected at the June 22, 2012 annual general meeting of the Shareholders) 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 year 2012 were estimated at the date of the grants using the Black-Scholes option pricing model with the following assumptions: expected volatility of 58%; expected dividend yield 0.0%; risk free interest rate 1.63%, expected life – five years. The total fair value of stock options granted was $61,200.

A total of 2,000,000 option shares were cancelled in 2012. The 1,000,000 and 200,000 special options to Marc-Andre Lavoie and Geraint Lloyd granted on October 1, 2010 at $0.30 per share, and non-vested as at the date of their resignation as officers of the Company, were cancelled. The stock-based compensation expenses for the said cancelled non-vested option booked for the period from October 1, 2010 to December 31, 2011, totalling $49,950, were reversed in 2012. Another 400,000 vested share options granted to them as officers were also cancelled per the terms of the 2010 Stock Option Plan before the end of June 2012. 400,000 vested share options to ex-directors were cancelled in July 2012.

The Company has recorded net stock-based compensation expense of $11,250 for 2012 (2011 - $39,960).

At December 31, 2012, there were 2,220,000 share options outstanding.

3) At December 31, 2012, there were 2,800,000 share purchase warrants outstanding with exercise price of $0.45 per share expiring January 10, 2013. These share purchase warrants have expired on January 10, 2013 without being exercised.

4) The Company's share capital at December 31, 2011 and 2012, and March 31, 2013 are as following:

	December 31, 2011		**December 31, 2012**		**March 31, 2013**	
	Basic	Weighted average	Basic	Weighted average	Basic	Weighted average
Issued and outstanding common shares	55,113,552	54,960,127	55,113,552	55,113,552	55,113,552	55,113,552
Stock options	3,020,000	3,020,000	2,220,000	1,652,787	2,220,000	2,220,000
Share purchase warrants	2,800,000	2,723,288	2,800,000	2,800,000	–	–
Common shares fully diluted	60,933,552	60,703,415	60,135,552	59,566,339	57,333,552	57,333,552

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
2013	$38,412	$3,144	$41,556

2014	2,592	524	3,116
	$41,004	$3,668	$44,672

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, 2012 and 2011. The remuneration of directors and officers of the Company for the years ended December 31, 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)	36,000	0	36,000	36,000	0	36,000
Marc-Andre Lavoie – President & CEO (to May 23, 2012)	37,027 (1)	(41,625) (3)	37,027	96,900	33,300 (3)	130,200
Maria Au – Secretary-Treasurer	48,000	10,200	58,200	48,000	0	48,000
Geraint Lloyd – COO and VP Exploration (to May 23, 2012)	40,427 (1)	(8,325) (3)	40,427	102,000	6,660 (3)	108,660
	$161,454 (2)	$(39,750)	$171,654	$282,900	$39,960	$322,860
Total – Directors and Officers	$161,454	$11,250	$222,654	$282,900	$39,960	$322,860

(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 $72,514 (2011 - $114,450) and resource properties in the amount of $88,940 (2011 - $168,450).

(3) The total stock based compensation expenses of $49,950 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 December 31, 2011 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 years ended December 31, 2012 and 2011.

OFF-BALANCE SHEET TRANSACTIONS

At December 31, 2012 and to date, the Company does not have any off-balance sheet arrangements.

FINANCIAL INSTRUMENTS

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

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

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

1) Credit risk

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

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

2) Liquidity risk

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

3) Market risk

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

a) Commodity risk

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

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

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

GENERAL MATTERS

From time to time, the Company may be involved in minor and immaterial legal issues in the normal course of business.

SUBSEQUENT EVENTS

1) On January 10, 2013, the 2,800,000 share purchase warrants at exercise price of $0.45 per share expired without being exercised.

2) On April 9, 2013, the Board of Directors approved two proposed concurrent private placements, one for subscription of up to 5 million common shares by an officer of the Company and another by an arm's length investor for up to 4 million common shares. Price for both private placements is $0.06 per common share. The transactions are subject to TSX Venture Exchange approval.

PRESENTATION OF ANNUAL FINANCIAL REPORT AND ANNUAL MD&A

Management, including the President and the Secretary-Treasurer, have reviewed the annual financial statements and annual MD&A (the "annual filings") for the financial year ended December 31, 2012.

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

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

AT12MD&A