

ALTAI RESOURCES INC.
CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

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For the years ended December 31, 2013 and 2012

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Altai Resources Inc. (the "Company") were prepared by management in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and approved by the Company's Audit Committee and the Board of Directors. Management acknowledges responsibility for the preparation and presentation of the consolidated financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances. The significant accounting policies of the Company are summarized in Note 3 of the consolidated financial statements.

Management has established processes, which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the consolidated financial statements and (ii) the consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the consolidated financial statements.

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

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

"Niyazi Kacira"
Niyazi Kacira
President

"Maria Au"
Maria Au
Secretary-Treasurer

Toronto, Canada
April 28, 2014



INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Altai Resources Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Altai Resources Inc., which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years ended December 31, 2013 and December 31, 2012, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Altai Resources Inc. as at December 31, 2013 and December 31, 2012, and its financial performance and its cash flows for the years ended December 31, 2013 and December 31, 2012 in accordance with International Financial Reporting Standards.

Emphasis of Matter

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

Kreston GTA LLP

Kreston GTA LLP
Licensed Public Accountants
April 28, 2014
Markham, Canada

ALTAI RESOURCES INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 31, 2013 AND DECEMBER 31, 2012
(EXPRESSED IN CANADIAN DOLLARS)

	Note	December 31, 2013	December 31, 2012
ASSETS			
Current			
Cash and cash equivalents		\$ 4,573,255	\$ 4,808,926
Marketable securities	4	1,616,820	1,503,775
Receivables		78,917	153,511
Prepaid expenses		8,606	8,877
		6,277,598	6,475,089
Exploration and evaluation assets	5	15,614,113	15,605,045
Property and equipment	6	797,253	829,028
		\$22,688,964	\$22,909,162
LIABILITIES			
Current			
Accounts payable and accrued liabilities		\$ 304,873	\$ 88,072
Decommissioning liabilities	7	105,851	65,631
Deferred tax liabilities	8	63,502	47,608
		474,226	201,311
SHAREHOLDERS' EQUITY			
Share capital	9a	36,627,178	36,627,178
Share purchase warrants	9b	—	339,701
Contributed surplus		3,159,111	2,813,810
Deficit		(17,967,078)	(17,371,214)
Accumulated other comprehensive income		395,527	298,376
		22,214,738	22,707,851
		\$22,688,964	\$22,909,162
Commitments	13		

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

Approved on behalf of the board on April 28, 2014.

"Niyazi Kacira"
Director

"Didier Pomerleau"
Director

ALTAI RESOURCES INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(EXPRESSED IN CANADIAN DOLLARS)

	Note	2013	2012
REVENUE			
Oil sales		\$ 233,603	\$ 106,343
Royalties		(11,717)	(6,354)
Interest and dividend income		128,545	139,070
		350,431	239,059
EXPENSES			
Production		159,236	46,379
General and administrative		713,554	395,117
Write off investment in subsidiaries		–	1
Loss on sale of marketable securities		–	84
Stock-based compensation	9	5,600	11,250
Amortization		67,905	34,622
		946,295	487,453
LOSS BEFORE THE UNDERNOTED		(595,864)	(248,394)
Recovery of note receivable and accrued interest		–	191,161
NET LOSS		\$ (595,864)	\$ (57,233)
OTHER COMPREHENSIVE INCOME			
Increase in fair value of available-for-sale marketable securities, net of taxes		97,151	66,331
COMPREHENSIVE (LOSS) INCOME		\$ (498,713)	\$ 9,098
Basic and diluted loss per share			
	10	\$ (0.01)	\$ (0.00)
Weighted Average Number of Common Shares Outstanding			
– basic		55,113,552	55,113,552
– diluted		55,113,552	55,113,552

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

ALTAI RESOURCES INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(EXPRESSED IN CANADIAN DOLLARS)

Share capital

	Number of shares	Amount \$	Share purchase warrants \$	Contributed surplus \$	Accumulated other comprehensive income (net of tax) \$	Deficit \$	Total equity \$
Balance, December 31, 2011	55,113,552	36,627,178	339,701	2,802,560	232,045	(17,313,981)	22,687,503
Net loss for the year	-	-	-	-	-	(57,233)	(57,233)
Increase in fair value of available-for-sale marketable securities	-	-	-	-	66,331	-	66,331
Stock-based compensation	-	-	-	11,250	-	-	11,250
Balance, December 31, 2012	55,113,552	36,627,178	339,701	2,813,810	298,376	(17,371,214)	22,707,851
Net loss for the year	-	-	-	-	-	(595,864)	(595,864)
Increase in fair value of available-for-sale marketable securities	-	-	-	-	97,151	-	97,151
Stock-based compensation	-	-	-	5,600	-	-	5,600
Expired share purchase warrants	-	-	(339,701)	339,701	-	-	-
Balance, December 31, 2013	55,113,552	36,627,178	-	3,159,111	395,527	(17,967,078)	22,214,738

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

ALTAI RESOURCES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(EXPRESSED IN CANADIAN DOLLARS)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	\$ (595,864)	\$ (57,233)
Items not affecting cash		
Stock-based compensation	5,600	11,250
Write off investment in subsidiaries and note receivable	–	1
Amortization	67,905	34,622
Finance expense	4,090	696
Loss on sale of marketable securities	–	84
	(518,269)	(10,580)
Changes in non-cash working capital balances:		
Accounts receivable	74,594	(69,513)
Prepaid expenses	271	–
Accounts payable and accrued liabilities	216,801	62,264
Cash used in operating activities	(226,603)	(17,829)
CASH FLOWS FROM INVESTING ACTIVITIES		
Mineral exploration expenditures, net of tax credits received	–	3,473
Natural gas interests expenditures, net of tax credits received and receivable	(9,068)	(39,088)
Proceeds on sale of marketable securities	–	34,472
Purchase of property and equipment	–	(778,899)
Cash used in investing activities	(9,068)	(780,042)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(235,671)	(797,871)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,808,926	5,606,797
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 4,573,255	\$ 4,808,926

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

ALTAI RESOURCES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(EXPRESSED IN CANADIAN DOLLARS)

1. Nature of Operations and Going Concern

Altai Resources Inc. ("Altai" or the "Company"), incorporated under the laws of the province of Ontario with a head-office location at 2550 Victoria Park Avenue, Suite 738 Toronto, Ontario M2J 5A9. The Company is a resource company with a portfolio of oil revenue producing property and other gas and gold properties which it is in the process of exploring and has not yet determined whether those properties contain reserves that are economically recoverable. All properties are in Canada.

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

These consolidated financial statements have been prepared with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. Apart from an oil revenue producing property, the other properties are at an early stage of development. The Company has incurred losses in the past and currently has an accumulated deficit of \$17,967,078.

The Company's ability to continue as a going concern is dependent upon the existence of economically recoverable resource reserves, the ability of the Company to obtain necessary financing to complete the exploration and the development of those properties, and upon future profitable production or proceeds from the disposition thereof.

The Company has cash and cash equivalents of \$4,573,255 and believes this amount is sufficient to meet its planned exploration expenditures on its properties and to meet its corporate administrative expenses for the next 12 months. Long term, the Company may pursue opportunities to raise additional funds, and while the Company has been successful in raising funds in the past, there can be no assurance that adequate funding will be available in the future.

2. Basis of Presentation

Statement of compliance

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

The consolidated financial statements for the years ended December 31, 2013 and 2012 were approved by the Board of Directors on April 28, 2014.

Basis of measurement

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

Functional and presentational currency

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

Accounting judgments and estimation uncertainty

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

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

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

Asset impairments

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

At December 31, 2013, management assessed whether there were indicators that the CGUs may be impaired. Management determined no such indicators are present and therefore no impairment exists.

Decommissioning liabilities

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

Depletion, depreciation and amortization

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

Valuation allowance for deferred income taxes

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

Fair value measurements

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

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

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

3. Summary of Significant Accounting Policies

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

Basis of consolidation

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

Revenue recognition

Revenues from the sale of crude oil are recognized when the title and the risks and rewards of ownership pass to the buyer. Revenue is presented net of production expenses and royalties.

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

Cash and cash equivalents

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

Marketable securities

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

Exploration and evaluation assets

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

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

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

Property, plant and equipment

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

The cost of oil properties include all costs directly associated with the acquisition of crude oil wells and adherent land. These expenditures include its purchase price, legal fees related to the acquisition, and the initial estimate of decommissioning liabilities. The oil properties include four wells and three pieces of adherent land. Since all four wells located within a single geographic unit and have same useful lives and depreciation methods, the four well components have been grouped together as one component. The Company does not currently have a reserve study to allow for depletion based on unit-of-production and therefore depletes the oil property over an estimated useful life using the straight line method.

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

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

Impairment

The Company assesses assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If any such indication of impairment exists, the Company makes an estimate of its recoverable amount. The recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset or asset group is considered impaired and is written down to its recoverable amount. In

assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset or the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money. An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. Any previously recognized loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reverse is recognized in the consolidated statement of operations. After such reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

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

Provisions

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

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

Decommissioning liabilities

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

Fair value of stock options

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

Income taxes

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

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

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

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

Stock-based compensation cost

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

Loss per common share

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

Leases

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

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

Financial instruments

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

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 FVTPL. 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.

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
Accounts payable and accrued liabilities	Financial liabilities measured at amortized cost	Amortized cost
Decommissioning liabilities	Financial liabilities measured at amortized cost	Amortized cost

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, marketable securities, accounts receivable, and accounts payable and accrued liabilities approximate their carrying values due to their short term nature. Decommissioning liabilities have been recorded at its present value.

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.

Accounting policies implemented on January 1, 2013

The following accounting policies became effective and were implemented by Altai as of January 1, 2013. They do not have any impact on the Company's financial statements:

IAS 27, Separate Financial Statements, 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 28, Investments in Associates and Joint Ventures, 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.

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 11, Joint Arrangements establishes the principles for financial reporting by entities when they have an interest in arrangements that are jointly controlled.

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.

Future changes in accounting policies

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

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

4. Marketable Securities

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

Total fair market values and costs of the available-for-sale marketable securities at December 31, 2013 and 2012 are as follows:

	2013	2012
Total fair market values	\$1,616,820	\$1,503,775
Total costs	\$1,137,563	\$1,137,563

5. Exploration and Evaluation Assets

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

	Interests in mining properties (i)	Natural gas interests (ii)	Total
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Balance at December 31, 2011	\$867,363	\$14,702,067	\$15,569,430
Expenditures, net of tax credits received and receivable	(3,473)	39,088	35,615
Balance at December 31, 2012	\$863,890	\$14,741,155	\$15,605,045
Expenditures, net of tax credits received and receivable	–	9,068	9,068
Balance at December 31, 2013	\$863,890	\$14,750,223	\$15,614,113

i) Interests in mining properties

Malartic Township gold property, Quebec	Acquisition cost	Expenditure	Total
Balance at December 31, 2011	\$123,711	\$743,652	\$867,363
Expenditures, net of tax credits received and receivable	–	(3,473)	(3,473)
Balance at December 31, 2012	\$123,711	\$740,179	\$863,890
Expenditures	–	–	–
Balance at December 31, 2013	\$123,711	\$740,179	\$863,890

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

ii) Natural gas interests

Sorel-Trois Rivieres natural gas property, Quebec

As at December 31, 2013, Altai holds 100% interest in five oil and gas and reservoir permits in the Sorel-Trois Rivieres area, St. Lawrence Lowlands covering 68,483 hectares (169,221 acres).

The Company also has 15% gross royalty on all net receipts from an adjacent permit (and its successor permit) of 13,290 hectares (32,840 acres) that Talisman Energy Canada has 100% working interest. That permit has been reduced to 12,334 hectares (30,477 acres) due to Bill 18 in Quebec.

6. Property and Equipment

	December 31, 2013			December 31, 2012		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
Computer equipment	\$23,284	\$ 21,540	\$ 1,744	\$23,284	\$ 13,906	\$ 9,378
Furniture and fixtures	4,303	3,731	572	4,303	3,274	1,029
Leasehold improvement	11,802	11,802	–	11,802	10,622	1,180
Oil properties (1)	876,926	81,989	794,937	840,796	23,355	817,441
	\$916,315	\$119,062	\$797,253	\$880,185	\$51,157	\$829,028

(1) On July 24, 2012, the Company closed a transaction with Arkoma PUC (“Arkoma”) for the Company to acquire a gross 50% (net 45%) working interest in 240 acres of Alberta Crown leases in the Cessford area of central Alberta and production of light oil in four long-life oil producing wells. The cost of oil properties include all costs directly associated with the acquisition of crude oil and adherent land. These expenditures include its purchase price, legal fee related to acquisition, and the initial estimate of decommissioning liabilities. 692012 Alberta Ltd. and another Calgary party provided technical support to Altai during the acquisition process and were 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 various royalty payments, some of which are 1.25-3% of gross revenue on certain wells and another which is based on barrels of oil produced. Reserve life of the four wells is estimated at 15 years. There have been no reserve studies performed to accurately estimate the reserves of these properties. There are future infill locations for two additional wells and there

are undrilled lands to be explored in the future. None of the cost of the acquisition was allocated to the unproven exploration property.

7. Decommissioning Liabilities

The decommissioning liability was estimated based on the Company's net ownership interest in all wells and facilities, the estimated cost to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statement could be significant. The total undiscounted amount of the estimated cash flows required to settle the asset retirement obligation is approximately \$121,000 (December 31, 2012 – \$90,000) which will be incurred in 14 years. A nominal risk free rate of 3.24% (December 31, 2012 – 2.2%), and an inflation rate of 2% (December 31, 2012 – nil), was used to calculate the fair value of the asset retirement obligation. Changes to the liability were as follows:

	December 31, 2013	December 31, 2012
Decommissioning liability, beginning of year	\$ 65,631	\$ -
Obligation incurred on acquisitions	-	64,935
Change in estimate future cash outflows	44,900	-
Change in discount rate	(8,770)	-
Accretion	4,090	696
Decommissioning liability, end of year	\$ 105,851	\$ 65,631

8. Income Taxes

(a) The provision for income taxes attributable to income before income taxes differs from the amounts computed by applying the combined federal and provincial tax rate of 26.5% (2012-26%) of pre-tax loss as a result of the following:

	2013	2012
Loss before income taxes	(595,864)	\$ (57,233)
Computed expected income tax recovery	(157,904)	(14,881)
Non-deductible expenses	2,889	6,327
Share issuance costs claimed	(1,111)	(4,924)
Capital loss	-	22
Temporary differences not recognized in the year	17,995	9,183
Change of valuation allowance	138,131	4,273
Provision for income taxes	-	\$ -

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

	2013	2012
Deferred income tax assets:		
Non-capital losses	253,972	\$ 113,026
Capital losses	407,640	399,949
Tax basis of development, exploration and oil and gas expenditures in excess of carrying value	585,263	589,758
Share issue costs	2,074	3,125
Total deferred income tax assets	1,248,950	\$ 1,105,858
Less: Valuation allowance	1,248,950	1,105,858
Net deferred income tax assets	-	\$ -

Deferred income tax liabilities:		
Marketable securities –unrealized gains	63,502	\$ 47,608
Carrying value of property and equipment in excess of tax basis	154,385	160,345
Total deferred income tax liabilities	217,886	207,953
Less: Valuation allowance	154,385	160,345
Net deferred income tax liabilities	63,502	\$ 47,608

At December 31, 2013, the Company has non-capital loss carry forwards of \$958,386 (2012 – \$434,715) and resource deduction tax pools of \$4,645,610 (2012 – \$4,696,301) available to reduce future years' income for tax purposes.

Income tax losses by year of expiry:

2014	\$137,160
2015	14,845
2026	47,050
2029	33,749
2031	185,478
2032	16,433
2033	523,671
	\$958,386

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, 2011, 2012 and 2013	55,113,552	\$36,627,178

At a special meeting of the shareholders on November 12, 2013, the shareholders approved a special resolution authorizing the board of directors to reduce the stated capital attributable to the common shares of the Company and associated special distribution, permitting the board, at its discretion, make one or more distributions, if any, to Altai shareholders in the form of a return of capital at such future dates and amounts as the board may deem advisable, up to a maximum accumulative total of \$4,000,000.

Shareholder Rights Plan

At a special meeting of the shareholders on November 12, 2013, the shareholders ratified and approved a Shareholder Rights Plan (the "Rights Plan") which was adopted by the board of directors on August 28, 2013 pursuant to the Rights Plan Agreement of August 28, 2013. The Rights Plan will be in effect for three years.

The Rights Plan is designed to provide the Board sufficient time to consider and evaluate any unsolicited take-over bid for the Company's common shares and if considered appropriate, seek, develop and pursue alternatives to maximize value for shareholders, encourage the equal treatment of shareholders in connection with any take-over offer, give adequate time for shareholders to properly assess a take-over bid without undue pressure, and generally to prevent any person from acquiring ownership of or the right to vote on 20% or more of Altai common shares while the process undertaken by the Board of Directors is ongoing.

The Rights Plan provides that one right would be issued to each issued and outstanding common share of the Company as of the effective date of the Rights Agreement and to each common share issued after the Rights Agreement effective date and prior to the separation time. A rights certificate will not be issued until the rights become exercisable after the separation time. If a person acquires common shares in breach of the Rights Plan, each right held by a shareholder, other than the acquiring person and its affiliates, associates and joint actors, will upon exercise and payment of the exercise price, entitle the right holder to purchase that number of common shares from the Company having an aggregate market price equal to twice the exercise price of the rights.

The Rights Plan provides for permitted bids, which among other things, must be made by way of a take-over bid circular to all shareholders of Altai, is for all of the outstanding common share, has a minimum offering period of 60 days, and only if more than 50% of the outstanding voting shares held by all shareholders other than the bidder and any of its affiliates, associates and joint actors, have been deposited or tendered to the bid and not withdrawn.

b) Share purchase warrants

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

c) Stock options

The 2002 Stock Option Plan was discontinued and terminated on May 3, 2010 and replaced by the 2010 Stock Option Plan to grant up to 4,950,000 option shares to directors, officers and employees of the Company or of its subsidiaries. The outstanding 300,000 stock options granted under the 2002 Stock Option Plan remain in full force until they are exercised, expired or cancelled. The options are generally exercisable for up to five years from the date of grant.

The prices of all stock options granted are greater than or equal to the closing fair market value of each common share on the days prior to the options being granted.

At December 31, 2013, there were 3,250,000 option shares available for future grants.

During the year ended December 31, 2013, the Company granted a total of 400,000 share options, being 200,000 share options to each of the two new directors (who joined the Board in 2013), at \$0.10 per share with an expiry date of July 9, 2018 and vested immediately.

The fair values of the options granted during the year ended December 31, 2013 were estimated at the date of the grants using the Black-Scholes Option Pricing model with the following assumptions: expected volatility of 41%; expected dividend yield of 0.0%; risk free interest rate of 1.63%, and expected life of five years. The total fair value of the stock options granted was \$5,600.

The Company has recorded a net stock-based compensation expense of \$5,600 for the year ended December 31, 2013 (2012 - \$11,250).

A summary of the status of the Company's stock options as at December 31, 2013 and 2012 and changes during the periods then ended is presented below:

	2013		2012	
	No. of options	Weighted average exercise price	No. of options	Weighted average exercise price
Stock options				
Outstanding at beginning of year	2,220,000	\$0.365	3,020,000	\$0.480
Granted	400,000	0.100	1,200,000	0.100
Cancelled	(920,000)	0.605	(2,000,000)	0.379

Outstanding at end of year	1,700,000	\$0.173	2,220,000	\$0.365
Exercisable at end of year	1,700,000	\$0.173	2,220,000	\$0.365

The following table summarizes information on outstanding and exercisable stock options as at December 31, 2013:

Number of options outstanding and exercisable	Exercise price	Remaining contractual life (years)	Expiry date
100,000	\$0.225	0.18	March 4, 2014
200,000	\$0.460	1.15	February 21, 2015
200,000	\$0.300	1.75	September 30, 2015
800,000	\$0.100	3.48	June 21, 2017
400,000	\$0.100	4.52	July 9, 2018
1,700,000		3.05	

10. Loss Per Share

The following table sets forth the computation of basic and diluted loss per share for the years ended December 31, 2012 and 2011:

	2013	2012
Net loss for the year	\$(595,864)	\$(57,233)
Weighted average number of shares – basic	55,113,552	55,113,552
Effect of dilutive shares		
Stock options	–	–
Share purchase warrants	–	–
Weighted average number of shares – diluted	55,113,552	55,113,552
Basic and diluted net loss per share (1)	\$(0.01)	\$(0.00)

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

11. Related Party Transactions

Consulting services were provided by management personnel who are officers of the Company and companies owned by officers of the Company. The directors of the Company did not receive any cash compensation in their capacity as directors during the years ended December 31, 2013 and 2012. The remuneration of directors and officers of the Company for the years ended December 31, 2013 and 2012 are as follows:

	2013			2012		
	Cash compensation	Fair value of stock-based compensation	Total compensation	Cash compensation	Fair value of stock based compensation	Total compensation
Directors	\$ 0	\$5,600	\$ 5,600	\$ 0	\$ 51,000	\$ 51,000
Officers						
Niyazi Kacira – Chairman, and President (effective May 23, 2012)	45,000	0	45,000	36,000	0	36,000
Marc-Andre Lavoie – President & CEO (to May 23, 2012)	0	0	0	37,027	(41,625) (2)	(4,598)
Maria Au – Secretary-Treasurer	52,500	0	52,500	48,000	10,200	58,200
Geraint Lloyd – COO and VP Exploration (to May 23, 2012)	0	0	0	40,427	(8,325) (2)	32,102
	\$97,500 (1)	\$ 0	\$ 97,500	\$161,454	\$(39,750)	\$121,704
Total – Directors and Officers	\$97,500	\$5,600	\$103,100	\$161,454	\$ 11,250	\$172,704

(1) These fees have been allocated to administrative expenses in the amount of \$97,500 (2012 - \$72,514) and resource properties in the amount of Nil (2012 - \$88,940).

(2) 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 two officers' resignation on May 23, 2012 and those share options were cancelled because they did not meet the vesting condition.

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, 2013 and 2012.

12. Key Management Personnel Compensation

The following are the expenses that the Company recognized for its key management personnel for the years ended December 31, 2013 and 2012:

	2013	2012
Professional fees	\$97,500	\$161,454
Stock-based compensation, see note 11 (2)	–	(39,750)
	\$97,500	\$121,704

13. Commitments

- a) The Company's Toronto office extended its office lease by one year to expire at the end of June 2014. The basic rent is \$1,218 per month.
- b) In October 2010 the Company signed agreements to pay \$50,000 and \$16,000 as termination fees to Maria Au, an officer of the Company, and a staff of Altai, respectively, when their service to the Company terminates in the future.
- c) The Company's Montreal office has a three year lease expiring at the end of January 2014. The basic rent is \$2,592 per month. That office has been closed since May 24, 2012. Due to the terms of the head lease, the Company may incur additional expenses if the Montreal office space is subleased. Altai decided not to sublease that office for the remaining lease term.
- d) The Company's Montreal office has a three year copier lease contract expiring at the end of 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
2014	\$9,900	524	\$10,424

- e) The Company is committed to certain royalty payments on its oil production assets, the cost of which cannot be reasonably estimated.

14. Financial Instruments Hierarchy

The following table presents the Company's financial instruments, measured at fair value on the consolidated statements of financial position as at December 31, 2013 categorized into levels of the fair value hierarchy in accordance with IFRS 7:

	Level 1 Quoted market price	Level 2 Valuation technique - observable market inputs	Level 3 Valuation technique -non-observable market inputs	Total
Financial assets				
Fair value through profit or loss				
Cash and cash equivalents	\$4,573,255	–	–	\$4,573,255
Available-for-sale				
Marketable securities	1,616,820	–	–	1,616,820
Total	\$6,190,075			\$6,190,075

There were no significant transfers from Level 1 to 2 or Level 2 to 1 during the years ended December 31, 2013 and 2012.

15. Management of Capital

The Company includes the following in its capital as at December 31, 2013 and 2012:

	2013	2012
Shareholders' equity comprised of		
Share capital	\$36,627,178	\$36,627,178
Share purchase warrants	—	339,701
Contributed surplus	3,159,111	2,813,810
Deficit	(17,967,078)	(17,371,214)
Accumulated other comprehensive income	395,527	298,376
	\$22,214,738	\$22,707,851

The Company's objectives when managing capital are:

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

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

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

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

The payment of cash dividends does not form part of Altai's current capital management program and, to date, the Company has not declared any cash dividends on its shares. The Company's management is responsible for the management of capital. The Company expects that its current capital resources will be sufficient to discharge its liabilities as at December 31, 2013.

16. Financial Instruments

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

The Company is exposed in varying degrees to a number of risks arising from financial instruments. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. Management's close involvement 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, accounts receivable and marketable securities. The risk exposure is limited to their carrying amounts at the date of the financial position statement.

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

- (b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages its

liquidity risk by actively forecasting, planning, reviewing and monitoring expenditures and commitments and anticipated financial requirements.

Cash and cash equivalents on hand at December 31, 2013 are sufficient to fund the Company's on-going operational needs for the next 12 months.

(c) Market risk

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

1) Commodity risk

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

2) Currency risk

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

3) Interest rate risk

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

17. Subsequent Events

- 1) The lease of the Company's Montreal office expired on January 31, 2014 and the premises have been officially vacated by the Company on that date. The security deposit balance held by the landlord was applied to pay the January 2014 gross rent.
- 2) The copier leased by the Montreal office has been returned to the leasing company upon the expiry of the lease contract at the end of February 2014.
- 3) 100,000 option shares at \$0.25 per share granted to an officer of the Company expired on March 4, 2014 without being exercised.
- 4) In April 2014 the Company has extended its Toronto office lease by one year expiring at the end of June 2015. The basic rent is \$1,218 per month.