

ALTAI RESOURCES INC.

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

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014

Dated November 7, 2014

The following management's discussion and analysis of the financial position and results of operations (the "MD&A") dated November 7, 2014 has been prepared by management and are based on and derived from the condensed interim consolidated financial statements of Altai Resources Inc. (the "Company" or "Altai") for the nine months ended September 30, 2014 in comparison with those at September 30, 2013.

This discussion should be read in conjunction with the condensed interim consolidated financial statements and the related notes for the nine months ended September 30, 2014, as well as the Company's audited consolidated financial statements for the year ended December 31, 2013 and the related MD&A.

The condensed interim consolidated financial statements for the nine months ended September 30, 2014 were unaudited and prepared by management under the International Financial Reporting Standards (IFRS) in accordance with IAS 34, Interim Financial Reporting. 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 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.

All three properties were maintained in good standing as at September 30, 2014 and to date.

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. In October 2014, the 3 claims were converted into 6 new claims totalling 127.6 hectares (315 acres) per the Ministry's computerization of claims.

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 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 exempted 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 was also extended by the same period of time as the exemption. This aspect has been replaced by Bill 5 (2014, Chapter 6) in June 2014 as explained later.

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 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 publiques sur l'environnement (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 Ministère des Affaires municipales, des Régions et de l'Occupation du territoire (MAMROT), the Ministère des Ressources Naturelles et Faune, the oil and 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 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. It released its synthesis report in late February 2014. The findings from this report lay the groundwork for the next stage of the assessment of the shale gas industry. The SEA committee found that the risks and impacts addressed are manageable and are in line with what industry has been open and transparent about for years in Quebec. The report summarizes the 73 research studies examined by the SEA committee. It highlights four key areas of interest including social, economic, environmental and governance impacts as they relate to the principals of sustainable development in Quebec.

On June 13, 2014, the Quebec provincial parliament enacted Bill 5 (2014, Chapter 6) to amend the Act to limit oil and gas activities by extending, beyond June 13, 2014, the period during which exploration permits are exempted from performing the exploration work required under the Act until the date determined by the "Government". The duration of the permits is extended and the increase of the annual rental fee is deferred by the same period of time as the exemption.

At the same time, the Quebec government has expanded the SEA studies to cover the entire hydrocarbon sector of the whole province (instead of just on shale gas and the St. Lawrence Lowlands as in the last three years) which will complement the existing studies on shale gas. The SEA final report is expected to be due by end of November 2014 and will be released by approximately end of February 2015.

At present, still no fracture stimulation for natural gas is authorized in the St. Lawrence Lowlands or elsewhere in Quebec. Suspension of hydraulic fracturing will continue until the end of public consultations.

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 Ministère des Ressources Naturelles 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.

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 is 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.

According to an independent consultant, the main target in Altai's existing lands is a NE trending collapse zone 34 kilometers long averaging one kilometre in width. It may extend further SE within the lands. The zone appears as a depression at the top of Trenton formation of Ordovician age at a depth of about 750 meters. The depression is interpreted to have been caused by hydrothermal dolomitization of fractured limestones (hydrothermal dolomite reservoir facies). Targets in similar geological setting along former shoreline of Cambro-Ordovician craton have produced large quantities of gas and oil in Ohio, Michigan, New York State, West Virginia and elsewhere in the Appalachians. In addition to Trenton formation the stratigraphically lower Chazy, Beekmantown and Potsdam formations have gas showings elsewhere in the Appalachians.

Dr. Robert Theriault, formerly with Hydrocarbons Branch, Quebec Ministry of Natural Resources, compared Altai's deep collapse structure (referred to by him as a "sag" at the top of the Trenton Formation to the Albion-Scipio oil and gas field ("Albion-Scipio") in the State of Michigan, USA. Albion-Scipio, also in the Trenton Formation, has produced over 130 million barrels of oil (290 million barrels of original oil in place) and 200 BCF (billion cubic feet) of natural gas since the start of its production in the late 1950's. The sag zone is 34 kilometers outlined in Altai's permits and may extend for approximately another 20 kilometers towards the SW, all in Altai's existing permits, making its physical size similar to that of Albion-Scipio. He pointed out the similarity of the seismic cross section of Altai's target with that of Albion-Scipio.

In October 2013, the Quebec government announced a new economic policy which makes a priority of the demonstration of the hydrocarbon potential of the province and the long-term reduction of its dependence on foreign energy sources through the drilling of exploratory wells in a context of rejuvenated regulations, and the complete respect of the environment and the community. The new policy is reflected in the amended Mining Act with certain changes in regulations on the oil and gas sector. It is further demonstrated by the Quebec government's announcement in mid February 2014 of its joint ventures with some junior oil and gas companies in the Anticosti Island oil and gas projects, one of which transactions has closed in late March 2014.

In late July 2014, the Quebec government adopted regulation respecting water withdrawals and water protection as part of a set of measures to regulate oil and gas exploration and development projects while protecting drinking water sources so as to make it possible to continue hydrocarbon exploration and development activities in Quebec while ensuring the supervision of this potential economic development.

3) Cessford oil property, central Alberta

In late 2012 Altai acquired 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. 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. Reserve life of the wells is estimated at 13-15 years.

The acquisition is aimed to 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.

OVERALL PERFORMANCE AND RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014

1) For the nine months ended September 30, 2014, the Company earned revenue of \$279,726 (2013 - \$260,810) comprising of \$94,583 interest and dividend income (2013 - \$96,805), oil revenue, net of royalties, of \$172,475 (2013 - \$164,005) and \$12,668 gain on sale of marketable securities (2013-\$nil). Total expenses, including Cessford property's production expenses of \$102,045 (2013 - \$110,789) and amortization cost of \$45,165 (2013 - \$49,339), amounted to \$321,643 (2013 - \$587,646). The net loss for the nine months ended September 30, 2014 was \$41,917 (2013 - net loss of \$326,836).

2) Expenses

Expenses for the nine months ended September 30, 2014 and 2013 are as following:

	2014 \$	2013 \$
Production	102,045	110,789
Professional fees	76,500	39,000
Other administrative and general expenses	97,933	382,918
Stock-based compensation	-	5,600
Amortization	45,165	49,339
	321,643	587,646

- (1) Production costs of \$102,045 were for the four oil wells of Cessford oil property for the nine months to September 30, 2014.
- (2) Professional fees of \$76,500 for the nine months ended September 30, 2014 were higher than that for the same period in 2013 which had the fees for one of the two officers allocated to the resource projects.
- (3) For the nine months to September 30, 2014, the administrative and general expenses were kept at a low level as the Company maintained its focus to minimize administration expenses, compared to the \$382,918 incurred for the same period in 2013 (mainly due to certain corporate matters).
- (4) Amortization expenses comprise of two components for the nine months of 2014:
 - a) \$1,190 depreciation expense mainly for computer equipment (2013 - \$7,299); and
 - b) \$43,975 amortization expense for the Cessford oil property (2013 - \$42,040).

SUMMARY OF QUARTERLY RESULTS

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

	September 30, 2014 \$	June 30, 2014 \$	March 31, 2014 \$	December 31, 2013 \$	September 30, 2013 \$	June 30, 2013 \$	March 31, 2013 \$	December 31, 2012 \$
Revenue	97,654	92,586	89,486	89,621	86,737	91,419	82,654	133,918
Expenses	103,178	117,835	100,630	358,649	279,024	190,608	118,014	202,849
Recovery of note receivable and accrued interest written down	–	–	–	–	–	–	–	191,161
Net income (loss)	(5,524)	(25,249)	(11,144)	(269,028)	(192,287)	(99,189)	(35,360)	122,230
Net income (loss) per share (Basic and Diluted*)	(0.00) *	(0.00) *	(0.00) *	(0.01) *	(0.00) *	(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 general and administrative expenses included contractual expenses of the Montreal office for all quarters of 2012 and 2013, and part of the quarter ended March 31, 2014. The Montreal office gross rent expense ended at end of January, 2014 and its copier lease expense ended at end of February, 2014.

(3) Q4 of 2012,

- revenue of \$133,918 included \$99,989 oil revenue net of royalties for Cessford oil property for the period from July 24, 2012 to December 31, 2012 being recognized after the conditional closing of the purchase of the property;
- 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
- the Company received \$191,161 from Altai Philippines Mining Corporation as a partial repayment of the outstanding note interest owing to Altai.

(4) Q1 of 2013,

- revenue of \$82,654 included \$48,881 oil revenue net of royalties for Cessford property for the quarter.
- expenses included \$42,654 production expenses and \$14,013 amortization expenses of the Cessford property for the quarter.

(5) Q2 of 2013,

- interest and dividend income was lower than that of Q1 as the Interest rates of the new GICs bought in Q2 of 2013 were generally lower than those for the GICs that matured in April 2013.
- higher expenses were due to legal fees related to general corporate matters.

(6) Q3 of 2013,

The high expenses for the quarter were due to production costs of the Cessford oil property with makeover expenses incurred on one of the four oil wells, and expenses related to the shareholder rights plan and other corporate matters.

(7) Q4 of 2013,

High expenses for the quarter were due to the makeover expenses incurred in a second well of the Cessford oil property, expenses for the special meeting of the shareholders held in November 2013, allocation of the consulting charges of an officer from resource projects to professional fees, audit fees for 2013 audit and related service, and other corporate matter expenses.

(8) Q1 of 2014

- revenue of \$89,486 included \$59,573 oil revenue net of royalties for Cessford property for the quarter.
- expenses included \$28,347 production expenses and \$14,658 amortization expense of the Cessford property for the quarter.

(9) Q2 of 2014

Production cost of the Cessford oil property increased in Q2 due to the makeover expenses of a third oil well.

(1) Q3 of 2014

Lower net loss was due to overall higher revenue, and lower production cost of the Cessford oil property and administration expenses.

EXPENDITURES FOR MINING PROPERTY AND OIL AND GAS INTERESTS

(a) Expenditures for the resource properties for the nine months ended September 30, 2014 and 2013 are:

	2014 \$	2013 \$
Malartic gold property, Quebec	–	–
Sorel-Trois Rivieres gas property, Quebec	7,225	41,597
Expenditures	7,225	41,597

(b) Expenditures for revenue producing oil property

	2014 \$	2013 \$
Cessford oil property, Alberta		
Acquisition	-	-
Expenditures	-	(572)
Total	-	(572) (1)

(1) mainly due to reduction in final legal fees for the acquisition of the property.

OUTLOOK FOR 2014 AND BEYOND

1) In the Quebec Utica Shale play, no exploration work has taken place in the St Lawrence Lowlands during 2012, 2013 and 2014 to date.

Bill 18 enacted by the Quebec National Assembly in June 2011 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 provided for work exemptions and time extension of permits. The work expenditure requirement was to be determined by the Minister not later than June 13, 2014.

This second aspect of Bill 18 was replaced by Bill 5 (2014, Chapter 6) enacted on June 13, 2014 which extends, beyond June 13, 2014, the period during which exploration permits are exempted from performing the exploration work required under the amended Mining Act until the date determined by the Quebec government. Bill 5 also extended the duration of the permit and deferred the increase of the annual rental fee per the amended Mining Act by the same period of time as the exemption. These work exemption and time extension of the permits will benefit Altai's remaining 173,793 net acres in Quebec.

Suspension of hydraulic fracturing will continue until the end of public consultations.

Due to the above, coupled with the still relatively low (though improved) dry natural gas prices in North America, Altai has delayed its planned exploration spending in its property until more favourable conditions are present.

The SEA committee released its synthesis report in late February 2014. The findings from this report lay the groundwork for the next stage of the assessment of the shale gas industry. The SEA committee found that the risks and impacts addressed are manageable and are in line with what industry has been open and transparent about for years in Quebec. The report highlights four key areas of interest including social, economic, environmental and governance impacts as they relate to the principals of sustainable development in Quebec.

At the same time as the enactment of Bill 5 (2014, Chapter 6) in June 2014, the Quebec government expanded the Strategic Environmental Assessment (SEA) studies to cover the entire hydrocarbon sector of the whole province (instead of just on shale gas and the St. Lawrence Lowlands as in the last three years) which will complement the existing studies on shale gas. The SEA final report is expected to be due by end of November 2014 and will be released approximately by the end of February 2015.

In October 2013, the Quebec government announced a new economic policy which makes a priority of the demonstration of the hydrocarbon potential of the province and the long-term reduction of its dependence on foreign energy sources through the drilling of exploratory wells in a context of rejuvenated regulations, and the complete respect of the environment and the community. The new policy is reflected in the amended Mining Act with certain changes in regulations on the oil and gas sector. It is further demonstrated by the Quebec government's announcement in mid February 2014 of its joint ventures with some junior oil and gas companies in the Anticosti Island oil and gas projects, one of which transactions has closed in late March 2014.

In late July 2014, the Quebec government has adopted regulation respecting water withdrawals and water protection as part of a set of measures to regulate oil and gas exploration and development projects while protecting drinking water sources so as to make it possible to continue hydrocarbon exploration and development activities in Quebec while ensuring the supervision of this potential economic development.

The new economic policy, the announcement of the Quebec Government's joint ventures with the junior oil and gas companies in the Anticosti Island, the release of SEA's report in February 2014 and the July 2014 adopted regulation give rise to some hope on the shale gas and gas development in Quebec.

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). 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.

In the first nine months of 2014, the production revenue has gone up marginally and the production expenditure has come down marginally despite the makeover expenditure on one well completed in May 2014. The Company is monitoring closely the performance/situation of the property.

3) The Company is endeavouring to add new energetic management which will work for the best interest of Altai and all its shareholders.

Altai intends to rebuild our asset portfolio, explore them and then wait for better markets for financing to develop them. The search, review and examination of resource assets for our potential acquisition is an ongoing process for the Company. With the current depressed resource commodities market, probability of equity financing for junior resource companies remains relatively low. Furthermore, quality projects are difficult to be found. We expect that it will continue to take us a while to "sift through" a vast number of projects to get one, if not more, with worthwhile potential.

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 2014, the Company's working capital was \$6.19 million comprising of \$4.57 million cash and cash equivalents and \$1.62 million available-for-sale marketable securities. As at September 30, 2014, the Company's working capital was \$6.33 million comprising of \$4.30 million cash and cash equivalent and \$2.03 million available-for-sale marketable securities.

In 2014, the Company has returned to its usual thrifty mode in administrative and general expenses.

At present, our priority continues to be preservation of our working capital for future exploration development of our resource projects. Yield on low risk short term and long term papers remains low due to the persistent low interest rates in North America (and the rest of the world). 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 market prices of the shares in our portfolio continued to fluctuate in 2014 while edging up slightly, in view of the still sensitive swings in investment moods, big fluctuation of stock prices and uncertain global economic outlook to date (especially in October). The income from this investment was higher than that of the secured short term papers. The total fair market values at September 30, 2014 were \$2,028,040 (2013 - \$1,538,060) compared to total costs of \$1,400,868 (2013 - \$1,137,563).

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 junior resource companies improves) for the exploration of the Company's resource properties.

3) The Company includes the following in its capital as at September 30, 2014 and 2013:

	2014	2013
Shareholders' equity comprised of		
Share capital	\$36,627,178	\$36,627,178
Contributed surplus	3,159,111	3,159,111
Deficit	(18,008,995)	(17,698,050)
Accumulated other comprehensive income	523,843	327,202
	<u>\$22,301,137</u>	<u>\$22,415,441</u>

The Company's objectives when managing capital are:

- to ensure that the Company maintains the level of capital necessary to meet the requirements of its exploration programs and current operating expenditures;
- to allow the Company to respond to changes in economic and/or marketplace conditions;
- to give shareholders sustained growth in shareholder value by increasing shareholders' equity; and
- 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:

- realizing proceeds from the disposition of its investments; and
- 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, 2014.

SIGNIFICANT ACCOUNTING POLICIES

The preparation of the Company's condensed interim consolidated financial statements requires management to use accounting policies relevant for its industry and operations. The significant accounting policies used are presented in Note 3 to the unaudited consolidated financial statements for the nine months ended September 30, 2014.

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

- 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
- 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 September 30, 2014 was 55,113,552.

2) 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 200,000 stock options granted under the 2002 Stock Option Plan remain in full force until they are exercised, expired or cancelled. The options are generally exercisable for up to five years from the date of grant.

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

At September 30, 2014, there were 3,350,000 option shares available for future grants.

During the period ended September 30, 2014, the Company did not grant any stock options.

A summary of the status of the Company's stock options as at September 30, 2014 and 2013 and changes during the periods then ended is presented below:

Stock options	2014		2013	
	No. of options	Weighted average exercise price	No. of options	Weighted average exercise price
Outstanding at beginning of period	1,700,000	\$0.173	2,220,000	\$0.365
Granted	-	-	400,000	0.100
Expired/cancelled without being exercised	(100,000)	0.225	(920,000)	0.605
Outstanding and exercisable at end of period	1,600,000	0.170	1,700,000	\$0.173

The following table summarizes information on outstanding and exercisable stock options as at September 30, 2014:

Number of options outstanding	Number of options exercisable	Exercise price	Remaining contractual life (years)	Expiry date
200,000	200,000	0.460	0.40	February 21, 2015
200,000	200,000	0.300	1.00	September 30, 2015
800,000	800,000	0.100	2.73	June 21, 2017
400,000	400,000	0.100	3.77	July 9, 2018
1,600,000	1,600,000	\$0.170	2.48	

3) The Company's share capital at September 30, 2013, December 31, 2013, September 30, 2014 and October 31, 2014 are as following:

	September 30, 2013		December 31, 2013		September 30, 2014 and October 31, 2014	
	Basic	Weighted average	Basic	Weighted average	Basic	Weighted average
Issued and outstanding common shares	55,113,552	55,113,552	55,113,552	55,113,552	55,113,552	55,113,552
Stock options	1,700,000	1,390,958	1,700,000	1,491,781	1,600,000	1,600,000
Share purchase warrants	-	-	-	-	-	-
Common shares fully diluted	56,813,552	56,504,510	56,813,552	56,605,333	56,713,552	56,713,552

COMMITMENTS

- a) The Company's Toronto lease expires on June 30, 2015. 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 any manner in the future.
- c) 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. The basic rent was \$2,592 per month.
- d) 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.

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

	Office rent	Equipment lease	Total
2014	\$14,616	\$524	\$15,140
2015	7,308	-	7,308
	\$21,924	\$524	\$22,448

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

RELATED PARTY TRANSACTIONS

Consulting services were provided by management personnel who are officers of the Company and companies owned by officers of the Company. The directors of the Company did not receive any cash compensation in their capacity as directors during the nine months ended September 30, 2014 and 2013. The remuneration of directors and officers of the Company for the nine months ended September 30, 2014 and 2013 are as follows:

	2014			2013		
	Cash compensation	Fair value of stock-based compensation	Total compensation	Cash compensation	Fair value of stock based compensation	Total compensation
Directors	\$ 0	\$ 0	\$ 0	\$ 0	\$5,600	\$5,600
Officers						
Niyazi Kacira – Chairman and President	36,000	0	36,000	33,000	0	33,000
Maria Au Secretary-Treasurer	40,500	0	40,500	39,000	0	39,000
	\$76,500 (1)	\$ 0	\$76,500	\$72,000	\$ 0	\$72,000
Total – Directors and Officers	\$76,500	\$ 0	\$76,500	\$72,000	\$5,600	\$77,600

(1) These fees have been allocated all to administrative expenses (2013 - \$39,000) and nil to resource properties (2013 - \$33,000).

The Company did not pay any other benefits, apart from the compensation reported above, to the directors and officers during the nine months ended September 30, 2014 and 2013.

OFF-BALANCE SHEET TRANSACTIONS

At September 30, 2014 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 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 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 financial institutions. The risk is mitigated because the financial institutions are major institutions with high credit ratings. The marketable securities are mainly very liquid securities that are reflected at market value.

(b) Liquidity risk

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

Cash and cash equivalents on hand at September 30, 2014 are sufficient to fund the Company's ongoing operational needs for the next 12 months.

(c) Market risk

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

1) Commodity risk

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

2) Currency risk

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

3) Interest rate risk

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

GENERAL MATTERS

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

PRESENTATION OF INTERIM FINANCIAL REPORT AND INTERIM MD&A

Management, including the President and the Secretary-Treasurer, have reviewed the interim financial report and interim MD&A (the "interim filings") for the nine months ended September 30, 2014.

Based on the knowledge of the President and the Secretary-Treasurer, having exercised reasonable diligence, the interim 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, with respect to the period covered by the interim filings.

Based on the knowledge of the President and the Secretary-Treasurer, having exercised reasonable diligence, the interim financial report together with other financial information included in the interim 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 interim filings.

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