

## **ALTAI RESOURCES INC.**

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

**FOR THE YEAR ENDED DECEMBER 31, 2016**

**Dated March 15, 2017**

The following management's discussion and analysis of the financial position and results of operations (the "MD&A") dated March 15, 2017 has been prepared by management and are based on and derived from the audited consolidated financial statements of Altai Resources Inc. (the "Company" or "Altai") for the year ended December 31, 2016 in comparison with those for the year ended December 31, 2015.

This discussion should be read in conjunction with the audited consolidated financial statements and the related notes for the year ended December 31, 2016, as well as the Company's audited consolidated financial statements for the year ended December 31, 2015 and the related MD&A.

The audited consolidated financial statements for the year ended December 31, 2016 were audited and prepared by management in accordance with the International Financial Reporting Standards (IFRS). The financial statements were presented in Canadian dollars, which is both the functional and presentation currency of the Company. Figures referred to in this discussion are in Canadian dollars, unless otherwise stated.

Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on Altai's website at [www.altairesources.com](http://www.altairesources.com).

#### **FORWARD LOOKING STATEMENTS**

This discussion contains 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 and assumptions are generally identifiable by the terminology used, such as "plan", "intend", "expect", "believe", "estimate", "should", "anticipate" and "potential" or other similar wording. By its very nature, the forward-looking statements contained in this discussion require Altai and its management to make assumptions that may not materialize or that may not be accurate. In addition, the forward-looking statements and assumptions contained in this discussion are subject to known and unknown risks and uncertainties and other factors, some of which are beyond the control of Altai, which could cause actual results, expectations, achievements or performance to differ materially.

The Company disclaims any intention or obligation to update publicly or revise any forward-looking statements if circumstances or management's estimates or opinions should change except as required by applicable securities laws. The reader is cautioned not to place undue reliance on forward-looking statements.

#### **COMPANY OVERVIEW**

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

#### **OVERVIEW OF PROPERTIES**

The Company has three natural resource properties, all in Canada. Two of the properties, both in Quebec, are still in exploration stage. Altai has 45% net working interest in an oil producing property in central Alberta. All properties were in good standing as at December 31, 2016 and to date.

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., was the 50% partner and operator of the property until November 2015 when it assigned both its working interest and operatorship of the property to Canadian Natural Resources Limited.

##### **1) Malartic gold property, Quebec**

The 50% owned Malartic gold property (named "Blackcliff gold property" by property joint-venture partner and operator, Globex Mining Enterprises Inc.) of six map designated claims (CDC) totalling 127.6 hectares (315 acres) in the Val d'Or area of Quebec.

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**

- a) Permits

The Company holds a 100% interest in 5 oil and gas and reservoir exploration permits issued by the Quebec Government and a 15% gross royalty interest on an exploration permit optioned by Altai to Talisman Energy Canada (now Repsol Canada Energy Partnership). The permits and the gross royalty interest are situated in the St. Lawrence Lowlands and are referred to at the Sorel-Trois Rivieres property. Altai's current total land position in the Quebec Lowlands is 80,817 gross hectares (199,699 gross acres) or 70,333 net hectares (173,793 net acres).

Prior to June 13, 2011 the Company held 7 oil and gas and reservoir permits totalling 114,344 hectares (282,544 acres) of land in the St. Lawrence Lowlands. The Quebec provincial legislature enacted Bill 18 (2011, chapter 13) on June 13, 2011, limiting oil and gas activity within Quebec. Bill 18 is composed of two parts. The first part revoked without compensation, all exploration permits situated between the two shores of the St. Lawrence River from the westernmost tip of Anticosti Island and the Ontario border. The second part of Bill 18 exempted holders of exploration permits from performing the work required under the Mining Act (a "stop the clock" provision) until the date determined by the Minister, which date might not be later than 13 June 2014". The duration of the permits was also extended by the same period of time as the exemption. Because of Bill 18, 45,861 hectares (113,323 acres) equal to 40.11% of the Company's 100% owned and operated exploration permits were expropriated without compensation. As a result of the expropriation, the Company took an impairment write down of \$9,845,601 on the carrying value of the property (\$24,547,724) by 40.11%, for the year ended December 31, 2011.

Altai also retains a 15% gross royalty on an exploration permit operated by (and optioned from Altai) Talisman Energy Canada, now Repsol Canada Energy Partnership, 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).

*Summary of the situation concerning permit holding and exploration activities in the St. Lawrence Lowlands from 2010 to date*

2010: Exploration work in the Quebec Lowlands halted pending the BAPE Report to be presented approximately in 2013.

2011: Bill 18 (2011, chapter 13) was enacted by the Quebec provincial legislature on June 13, 2011. Please refer to Paragraph 2 above for details.

2014: a) Bill 5 of the Quebec provincial legislature (an Act to amend the Act to limit oil and gas activities (Bill 18 (2011, chapter 13) and other legislative provisions) was enacted on June 13, 2014. It allows the Quebec Government to extend, beyond June 13, 2014, the exemption for holders of exploration permits from performing the exploration programs required by law. It also extends the suspension of the term of those permits and defers the increase of the permit annual rent payable until the exemption is lifted. These provisions are still in force at the date of this MD&A.

b) The BAPE released its 4 year study concerning shale gas exploration and development for Quebec and along the St. Lawrence River. The report concluded, among other things, that shale gas development did not have social acceptability and that further work should not continue in the Lowlands. As a result, any and all development programs have been suspended in the Quebec Lowlands "for the time being" according to the Premier of Quebec.

2015: The Environmental Assessment Study prepared by and for the government presented its conclusions to date in late October 2015 and suggested various modifications to existing procedures. Some exploration work may continue, particularly regarding areas other than the Lowlands.

2016: a) The document titled "Energy Policy to 2030" presented and adopted by the Quebec Government in April 2016 provides the general framework for guidance and objectives for the government on the overall policy regarding all energy sources, including oil and gas. As for hydrocarbon exploration and development, the Energy Policy states that it supports responsible development of oil and gas resources in Quebec, that a legal framework will be established and that an office will be created to oversee the Quebec energy sector including various energy projects.

b) Bill 106, "An Act to implement the Energy Policy to 2030 and amend various legislative provisions", was passed in the Quebec National Assembly in December 2016. The Bill contains a series of modifications to existing legislation to cover the Energy Policy, including changes to the Mining Act and other Acts now in force and the creation of a new Petroleum Resources Act that will govern the development of petroleum resources in Quebec. The proposed "Petroleum Resources Act" included in Bill 106 outlines the various general conditions and norms (including social acceptability) regarding permitting, exploration, drilling and production. It does not contain the specific details of each step which will be found in regulations, some of which have yet to be produced.

There has been no shale gas exploration or fracture stimulation for natural gas in the Quebec Lowlands since 2010. Exploration work still cannot be carried out for the time being due to various conditions, including "social acceptance" and political conditions. Altai continues to monitor the situation carefully.

The Company considers that the property is still a promising project for the future, but because of the socio-economic climate related to this project, it recognizes that recovery of its investments in the project in the near term is unlikely. In view of the prolonged delay regarding approval of shale exploration in the province thereby creating uncertainty as to the future of Quebec shale gas development, the Company adopted a prudent approach and wrote down the project to \$1 as required by accounting standards, at December 31, 2014. The impairment of exploration and evaluation assets recognized can be reversed in the coming years (in whole or in part), if there is any indication that the impairment loss recognized may no longer exist and that the recoverable amount of impaired assets exceeds its carrying amount. The value of the impaired assets will be re-evaluated when applicable regulations and various details of Bill 106 are known in the future.

Total cumulative capital and exploration expenditures incurred on the natural gas interests to December 31, 2016 amounted to \$24,617,383 (2015 - \$24,610,134), with total cumulative write downs of \$24,617,382 (2015 - \$24,610,133).

b) Property Summary

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 1800s. 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 but has been unable to do so to date given the current situation in Quebec.

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. Before March 2011, approximately 30 wells had been successfully drilled and fracked in both Tier 1 and Tier 2 on the lands adjacent to Altai's with several operators having produced 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 earn-in well on an Altai Permit near St-Francois-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 kilometer 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 may 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 the 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 1950s. The sag zone, 34 kilometers long and outlined in Altai's permits, 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. Dr. Theriault pointed out the similarity of the seismic cross section of Altai's target with that of Albion-Scipio.

### 3) Cessford oil property, central Alberta

In 2012, the Company 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 approximately 12.5 barrels of light oil per day (11bopd net to Altai) in four long-life oil producing wells for a cash consideration of \$800,000. 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 ("Conoco") of ConocoPhillips Canada Resources Corp., a fully owned subsidiary of ConocoPhillips, US, was the 50% partner and operator of the property until November 2015 when it assigned both its working interest and operatorship of the property to Canadian Natural Resources Limited ("CNRL").

The four wells are subject to certain royalty payments.

The four wells are producing from the Glauconitic "C" pool. Altai paid approximately \$64,000 per flowing barrel of oil per day and \$22.80 per barrel of proven reserves in the ground. Reserve life of the wells is estimated at 13-15 years.

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

## HIGHLIGHTS OF 2016

### 1) Reduction of Stated Capital and Special Cash Distribution

On April 15, 2016 the Board of Directors approved a special cash distribution by way of a return of capital on the common shares of the Company of \$0.05 per common share (the "Cash Distribution"). The special resolution on reduction of stated capital and cash distribution(s) approved by shareholders at the July 16, 2015 shareholders meeting allowed the Board to approve the Cash Distribution by way of a return of capital.

The Cash Distribution to shareholders was made in accordance with the "due bill" trading procedures mandated by the TSX Venture Exchange for distribution or dividend the amount per share of which exceeds 25% of the share trading price on the declaration date.

The aggregate amount of the Cash Distribution was \$2,755,678. It was funded from Altai's cash reserves and the payment was made on June 9, 2016. Please refer to the reduction of stated capital under the section on Share Capital for further details.

2) In the Annual General Meeting of Shareholders held on July 15, 2016, Niyazi Kacira, Didier Pomerleau, Mehmet Taner, Jeffrey Ackert and Raymond Savoie were re-elected as directors of the Company.

The re-elected board appointed Niyazi Kacira as the Chairman and President of the Company and Maria Au as the Secretary-Treasurer.

## OVERALL PERFORMANCE AND RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2016

1) For the year ended December 31, 2016, the Company earned revenue of \$244,513 (2015 - \$300,613), comprising of oil revenue, net of royalties, of \$138,059 (2015 - \$177,016) and \$106,454 interest and dividend income (2015 - \$123,597). Total expenses, including Cessford property production expenses of \$78,537 (2015 - \$79,030) amounted to \$324,270 (2015 - \$335,160). The net loss for the year ended December 31, 2016 was \$79,757 (2015 - net loss of \$34,547).

### 2) Revenue

(1) Revenue, net of royalty expense, from the Cessford oil property for the year ended December 31, 2016 (\$138,059) was lower by 22.0% to that of 2015 (\$177,016) as the drop in crude oil prices since November 2015 continued into 2016 and only started to rise gradually and bumpily since March 2016 to date. Production of one of the wells, suspended for the winter months due to the weather, only resumed in March 2016, while revenue data for the fourth well became only partially available from March 2016 on from CNRL with the transfer of operatorship from Conoco. The production data and related revenue payment for that well for the period prior to March 2016 have not yet been provided by CNRL due to further delays on CNRL's part.

(2) Apart from the result of low interest rates, short term deposits (GICs) held by the Company were redeemed with related interest income in early June 2016 to fund the \$2,755,678 cash distribution to shareholders by way of a return of capital of the common shares of the Company, therefore interest income to December 31, 2016 was lower than that for the same period in 2015. However, dividend income to December 31, 2016 rose slightly due to higher dividends received from the marketable securities in the portfolio.

### 3) Expenses

Expenses for the year ended December 31, 2016 and 2015 are as following:

	2016 \$	2015 \$
Production	78,537	79,030
Professional fees	54,000	51,750
Exploration expenditure – oil and gas	7,248	7,293
Loss on sale of marketable securities	–	12,825
Other administrative and general expenses	124,084	123,020
Amortization	60,401	61,242
	324,270	335,160

(1) Production expenses – Production costs of \$78,537 for the four oil wells of Cessford oil property for the year ended December 31, 2016 were lower by 0.6% to those for 2015 (\$79,030).

(2) Professional fees – Niyazi Kacira, Chairman and President of the Company, continued to voluntarily offer to provide his professional services to the Company without any cash compensation to help the Company to reduce its expenses.

(3) Exploration expenditure-oil and gas – expenditure was to maintain the Sorel-Trois Rivieres natural gas property in good standing.

(4) Other administrative and general expenses – the expenses for the year ended December 31, 2016 included \$6,792 expenses for the cash distribution to shareholders.

(5) Amortization - Amortization expenses of \$60,401 for the year ended December 31, 2016 comprised of two components:

- a) \$495 depreciation expense for equipment (2015 - \$1,336); and
- b) \$59,906 amortization expense for the Cessford oil property (2015 - \$59,906).

### SUMMARY OF QUARTERLY RESULTS

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

	December 31, 2016 \$	September 30, 2016 \$	June 30, 2016 \$	March 31, 2016 \$	December 31, 2015 \$	September 30, 2015 \$	June 30, 2015 \$	March 31, 2015 \$
Revenue	66,422	61,430	63,808	52,853	71,161	78,202	84,001	67,249
Expenses	92,789	74,986	81,524	74,971	87,667	79,071	99,118	69,304
Net loss	(26,367)	(13,556)	(17,716)	(22,118)	(16,506)	(869)	(15,117)	(2,055)
Net loss per share (Basic and Diluted)*	(0.00)	(0.00)	(0.00)	(0.00)	(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) Q1 of 2015

- a) Revenue was lower than the other three previous quarters due to the lower oil revenue (net of royalties) resulting from drastically lower crude oil prices in the quarter.
- b) Lower expenses are recorded in three of the four expense categories, especially with professional fees as Niyazi Kacira, Chairman and President of the Company, voluntarily offered to provide his professional services to the Company without any cash compensation effective January 1, 2015.

#### 2) Q2 of 2015

- a) Revenue was slightly higher than that of Q1 of 2015 with the improved net revenue from Cessford oil property as the oil prices stabilized in Q2 and increased dividends from the marketable securities in the portfolio.
- b) Higher expenses than those in Q1 of 2015 mainly due to:
  - 1) \$7,026 exploration expenditures for the Sorel-Trois Rivieres gas property;
  - 2) Loss of \$12,826 in the sale of some marketable securities; and
  - 3) Annual corporate filing fees and expenses for the annual and special shareholders meeting held on July 16, 2015.

#### 3) Q3 of 2015

Net loss of \$869 for this quarter was the smallest among the eight quarters reported on due to the slightly higher oil revenue recorded.

#### 4) Q4 of 2015

Net loss of \$16,506 for this quarter was mainly due to accrual of annual audit fees for 2015.

#### 5) Q1 of 2016

Revenue was lower than the previous seven quarters due to lower oil revenue (net of royalties) as a result of low crude oil prices, production of one well being suspended due to winter weather, and production data on one well being not yet available due to the change of operatorship from Conoco to CNRL.

#### 6) Q2 of 2016

- a) Revenue was higher than that of Q1, 2016 due to
  - 1) \$8,221 increase in oil production revenue with slightly higher oil prices in Q2, the resumption of production in the well that was shut down for the winter months and the report and receipt of revenue for the fourth well for Q2 (the Company is still awaiting data for Q1 from CNRL).
  - 2) Interest and dividend income was lower than that for Q1, 2016 due to all short term deposits (GICs) being cashed in early June 2016 to fund the cash

distribution to shareholders as a return of capital of the common shares of the Company. The lower interest income was made up by the higher dividend income received from the marketable securities in the portfolio.

b) Expenses in Q2 were higher due to exploration expenditure for the Sorel-Trois Rivieres gas property of \$7,248 and \$3,278 expenses for the annual shareholders meeting being held in July 2016.

7) Q3 of 2016

a) Revenue was lower than that of Q2, 2016 due to lower interest income with the bulk of short term deposits having been cashed in early June 2016 to fund the cash distribution to shareholders as a return of capital of the common shares of the Company.

b) Production costs for the Cessford property were lower than those of Q2, 2016 by \$1,888. Other administrative and general expenses included \$3,242 expenses for the cash distribution to shareholders done in June 2016 and \$5,125 expenses for the annual shareholders meeting held in July 2016.

8) Q4 of 2016

a) Revenue was slightly higher in Q4 due to higher oil revenue from the Cessford property.

b) Production costs for the Cessford wells were higher due to the annual insurance premium of \$3,750 for the property and the accrued land rents of \$3,809 charged by CNRL. Other administrative and general expenses included \$15,000 year-end audit and tax return preparation fees for the year of 2016.

#### **EXPENDITURES FOR MINING PROPERTY AND OIL AND GAS INTERESTS**

1) Expenditures for the resource properties for the year ended December 31, 2016 and 2015 are:

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Malartic gold property, Quebec	-	-
Sorel-Trois Rivieres gas property, Quebec	7,248	7,026
<b>Expenditures</b>	<b>7,248</b>	<b>7,026</b>

2) Expenditures for revenue producing oil property

There is no capital cost or expenditure for the Cessford oil property, Alberta for the years ended December 31, 2016 and 2015.

#### **OUTLOOK**

1) As mentioned in Section 2a of Overview of Properties, in the Quebec Utica Shale play, no exploration work has taken place in the St. Lawrence Lowlands since 2010. The Company plans to maintain the Sorel-Trois Rivieres property in good standing until such time as exploration work can resume.

The Energy Policy to 2030 adopted by the Quebec Government in April 2016 states that the Government supports responsible development of oil and gas resources in Quebec, that a legal framework will be established and that an office will be created to oversee the Quebec energy sector including various energy projects.

Bill 106, "An Act to implement the Energy Policy to 2030 and amend various legislative provisions", passed in Quebec National Assembly in December 2016, contains a series of modifications to existing legislation to cover the Energy Policy to 2030, including changes to the Mining Act and other Acts now in force and the creation of a new Petroleum Resources Act that will govern the development of petroleum resources in Quebec.

The "Petroleum Resources Act" in Bill 106 outlines the various general conditions and norms (including social acceptability) regarding permitting, exploration, drilling and production. The specific details of each step will be found in regulations, some of which have yet to be produced. The legal framework for future exploration and development programs is now in place and the Company hopes that it will be able to proceed with work programs in the future.

The Company considers that the Sorel-Trois Rivieres property is still a promising project for the future. The value of the impaired asset will be re-evaluated as and when exploration and development work proceed in the future.

2) The 45% net working interest in the 240 acres Cessford oil production of light oil in four long-life (13-15 years) was operated by ConocoPhillips Canada Energy Partnership (property partner (50%) and operator) of ConocoPhillips Canada Resources Corp., a fully owned subsidiary of ConocoPhillips, US until November 2015 when it assigned both its working interest and operatorship of the property to Canadian Natural Resources Limited.

This is Altai's first venture into conventional oil exploration and production in Alberta as the Company diversifies its portfolio of investment. The crude oil prices have gradually and bumpily moved up after bottoming out in January and February 2016 but are still very low within the past 5 years' range. Whether the oil prices and net revenue from the Cessford property will improve in the future remains to be seen as global economic factors are currently still in turmoils.

#### **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 2016, the Company's working capital was \$6.04 million comprising of \$4.21 million cash and cash equivalents and \$1.83 million available-for-sale marketable securities. As at December 31, 2016, the Company's working capital was \$3.67 million comprising of \$1.46 million cash and cash equivalents and \$2.21 million available-for-sale marketable securities.

On June 9, 2016, the Company used \$2,755,678 of its cash reserves to pay to shareholders for the special cash distribution by way of a return of capital on the common shares of the Company of \$0.05 per common share that was declared by the board of directors on April 15, 2016. Please refer to details of the reduction of stated capital and cash distribution under the section on Share Capital and Altai's press release of April 15, 2016 available on SEDAR at [www.sedar.com](http://www.sedar.com) or at Altai's website at [www.altairesources.com](http://www.altairesources.com). The remaining cash and working capital after the cash distribution are expected to be sufficient to fund Altai's continuing operations for the foreseeable future.

In 2016, the Company continued its usual thrifty mode in administrative and general expenses.

Yields on low risk bank deposits papers are low due to further reduction in interest rates in Canada (and the rest of the world). Despite that, the Company prefers to invest part of its cash in bank deposits and GICs.

Part of the Company's cash is held 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 the market prices of the shares in our portfolio continued to fluctuate in 2016 while gradually edged up. At December 31, 2016 the fair market value of the portfolio has increased during the year by \$385,624 despite the prevalence of global economic uncertainties, market volatility round the world, and the effect of BREXIT. The dividend income stream from our portfolio remained steady in 2016 and the Company expects that it will be maintained in 2017. The income from this investment was higher than that of the secured short term deposits. The total fair market values at December 31, 2016 were \$2,213,977 (2015 - \$1,828,353) compared to total costs of \$1,350,532 (2015 - \$1,350,532).

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.

3) The Company includes the following in its capital as at December 31, 2016 and 2015:

	2016	2015
<b>Shareholders' equity comprised of</b>		
Share capital	\$ 33,871,500	\$ 36,627,178
Contributed surplus	3,159,111	3,159,111
Deficit	(32,842,279)	(32,762,522)
Accumulated other comprehensive income	728,810	394,281
	<b>\$ 4,917,142</b>	<b>\$ 7,418,048</b>

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 for the ensuing twelve months.

#### **SIGNIFICANT ACCOUNTING POLICIES**

The preparation of the Company's consolidated financial statements requires management to use accounting policies relevant for its industry and operations. The significant accounting policies used are presented in Note 3 to the audited consolidated financial statements for the years ended December 31, 2016 and 2015.

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

- 1) estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. The estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Actual results could differ from those estimates; and
- 2) critical judgments related to the economic recoverability of the Company's resources properties and the assumption that the Company will continue as a going concern.

#### **SHARE CAPITAL**

##### **1) Share capital**

###### **Authorized**

An unlimited number of common shares of no par value.

Issued and outstanding common shares	No. of shares	Amount
<b>Balance at December 31, 2014 and 2015</b>	<b>55,113,552</b>	<b>\$36,627,178</b>
Reduction of stated capital and cash distribution	-	(2,755,678)
<b>Balance at December 31, 2016</b>	<b>55,113,552</b>	<b>\$33,871,500</b>

## Reduction of Stated Capital and Cash Distribution

On April 15, 2016 the Board of Directors approved a special cash distribution by way of a return of capital on the common shares of the Company of \$0.05 per common share (the "Cash Distribution"). The special resolution on reduction of stated capital and cash distribution(s) approved by shareholders at the July 16, 2015 shareholders meeting allowed the Board to approve the Cash Distribution by way of a return of capital.

The Cash Distribution to shareholders was made in accordance with the "due bill" trading procedures mandated by the TSX Venture Exchange ("TSXV") for distribution or dividend the amount per share of which exceeds 25% of the share trading price on the declaration date.

The aggregate amount of the Cash Distribution was \$2,755,678. It was funded from Altai's cash reserves and the payment was made on June 9, 2016.

Key dates for the Cash Distribution were:

- The Record Date to determine shareholders entitled to receive the Cash Distribution : May 18, 2016 ("Distribution Record Date")
- The Payment Date for the Cash Distribution : June 9, 2016 (the "Payment Date")
- Due Bill Trading Period : May 16, 2016 to June 9, 2016 inclusively. In accordance with the applicable rules of the TSXV, the "due bill" trading procedures of the TSXV was applied to the Cash Distribution. The common shares traded on a "due bill" basis from two trading days prior to the Distribution Record Date to the Payment Date, inclusively (the "due bill period"). Any trades that were executed during the due bill period were identified to ensure purchasers of the common shares receive the entitlement to the respective distribution.
- The Ex-distribution Date : June 10, 2016. The common shares commenced trading on an ex-distribution basis on June 10, 2016, as of which date purchases of the common shares would no longer have an attaching entitlement to the distribution.
- The Due Bill Redemption Date : June 14, 2016 (two trading days after the Ex-distribution Date)

## 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 was in effect for three years and expired on August 27, 2016 without being renewed.

The Rights Plan was 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 was ongoing.

The Rights Plan provided 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 would not be issued until the rights became exercisable after the separation time. If a person acquired 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, would 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 provided for permitted bids, which among other things, would have to be made by way of a take-over bid circular to all shareholders of Altai, was for all of the outstanding common share, had 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, had been deposited or tendered to the bid and not withdrawn.

## 2) Share purchase warrants

There is no share purchase warrants outstanding at December 31, 2014 through to December 31, 2016 and to date.

## 3) Stock options

The 2010 Stock Option Plan permits the grant of up to 4,950,000 option shares to directors, officers and employees of the Company or of its subsidiaries. Options granted 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, 2016, there were 3,750,000 option shares available for future grants.

During the year ended December 31, 2016, the Company did not grant any stock options.

A summary of the status of the Company's stock options as at December 31, 2016 and 2015 and changes during the periods then ended is presented below:

	2016		2015	
Stock options	No. of options	Weighted average exercise price	No. of options	Weighted average exercise price
Outstanding at beginning of year	1,200,000	\$0.100	1,600,000	\$0.170
Options expired without being exercised	—	—	(400,000)	0.380
Outstanding and exercisable at end of year	1,200,000	\$0.100	1,200,000	\$0.100

The following table summarizes information on outstanding and exercisable stock options as at December 31, 2016:

Number of options outstanding and exercisable	Exercise price	Remaining contractual life (years)	Expiry date
800,000	\$0.100	0.48	June 21, 2017
400,000	0.100	1.52	July 9, 2018
1,200,000	\$0.100	0.83	

4) The Company's share capital at December 31, 2015, December 31, 2016 and February 28, 2017 are as following:

	December 31, 2015, December 31, 2016 and February 28, 2017	
	Basic	Weighted average
Issued and outstanding common shares	55,113,552	55,113,552
Stock options	1,200,000	1,200,000
Common shares fully diluted	56,313,552	56,313,552

#### COMMITMENTS

- a) The Company's Toronto office extended its office lease by one year to expire at the end of June 2017. The basic rent for the extended lease is \$1,248 per month. The total rent payment for 2017 is approximately \$7,488.
- 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 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 years ended December 31, 2016 and 2015. The remuneration of directors and officers of the Company for the years ended December 31, 2016 and 2015 are as follows:

	2016			2015		
	Cash compensation	Fair value of stock-based compensation	Total compensation	Cash compensation	Fair value of stock based compensation	Total compensation
<b>Directors</b>	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
<b>Officers</b>						
Niyazi Kacira – Chairman and President	0 (1)	0	0	0	0	0
Maria Au – Secretary-Treasurer	54,000	0	54,000	51,750	0	51,750
	\$54,000 (2)	\$ 0	\$54,000	\$51,750	\$ 0	\$51,750
<b>Total – Directors and Officers</b>	\$54,000	\$ 0	\$54,000	\$51,750	\$ 0	\$51,750

(1) Niyazi Kacira, Chairman and President of the Company, voluntarily offered to provide his professional services to the Company without any cash compensation effective January 1, 2015, to help the Company to reduce its expenses.

(2) These fees have been allocated all to administrative expenses (2015 - \$51,750).

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, 2016 and 2015.

#### OFF-BALANCE SHEET TRANSACTIONS

At December 31, 2016 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 December 31, 2016 and to date are expected to be 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.

**DISCLOSURE CONTROL AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management has established processes to provide them with sufficient knowledge to support representations that they have exercised reasonable diligence to ensure that (i) the annual financial statements and annual MD&A (the "annual filings") for the financial year ended December 31, 2016 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, for the periods covered by the annual filings, and (ii) the annual financial statements together with other financial information included in the annual filings fairly present in all material respects the financial condition, financial performance and cash flows of the Company, as of the date of and for the periods presented in the annual filings.

In contrast to the certificates required for non-venture issuers under National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings (NI 52-109), the Venture Issuer Basic Certificates filed by the Company's President (in his capacity as an officer also performing the functions of a chief executive officer) and the Secretary-Treasurer (in her capacity as an officer also performing the functions of a chief financial officer) (together the "certifying officers") do not include representations relating to the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as defined in NI 52-109. In particular, the certifying officers filing the certificates are not making any representations relating to the establishment and maintenance of

i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed in the annual and interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Company's generally accepted accounting standards (IFRS).

The Company's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in the certificates. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of the annual and interim filings and other reports provided under securities legislation.