ALTAI RESOURCES INC.

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

FOR THE YEAR ENDED DECEMBER 31, 2017 **Dated April 17, 2018**

The following management's discussion and analysis of the financial position and results of operations (the "MD&A") dated April 17, 2018 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, 2017 in comparison with those for the year ended December 31, 2016.

This discussion should be read in conjunction with the audited consolidated financial statements and the related notes for the year ended December 31, 2017, as well as the Company's audited consolidated financial statements for the year ended December 31, 2016 and the related MD&A.

The audited consolidated financial statements for the year ended December 31, 2017 were audited and prepared by management in accordance with the International Financial Reporting Standards (IFRS). The financial statements were presented in Canadian dollars, which is both the functional and presentation currency of the Company. Figures referred to in this discussion are in Canadian dollars, unless otherwise stated.

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

FORWARD LOOKING STATEMENTS

This discussion 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, 2017 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 governs the development of petroleum resources in Quebec. The Petroleum Resources Act outlines the various general conditions and norms (including social acceptability) regarding permitting, exploration, drilling and production.

2017: On September 20, 2017, the Quebec Ministry of Energy and Natural Resources published the draft regulations to govern oil and gas activities in the province and required for the implementation of the Petroleum Resources Act. The regulations cover four main categories –exploration, production, storage and pipeline construction. Originally there was a period of forty-five days of public consultation after which the draft regulations might be implemented with or without amendments. On October 18, 2017, the Ministry extended the consultation period by thirty-five days to December 9, 2017. Altai has reviewed the draft regulations in detail. The final regulations have not been released as at December 31, 2017 and March 31, 2018. The Company is monitoring the progress diligently.

There has been no shale gas exploration or fracture stimulation for natural gas in the Quebec Lowlands since 2010 to date.

The Company considers that its properties present solid economic potential. However, because of the current socio-economic climate related to this project, it recognizes that recovery of its investments in the projects will take time and is dependent on various factors. In view of the prolonged delay regarding approval of shale exploration in Quebec thereby creating uncertainty as to the future of shale gas development, the Company in December 2014 adopted a prudent approach and wrote down the project to $1 as required by accounting standards. The impairment of exploration and evaluation assets can be reversed in the future (in whole or in part), if there is an indication that the impairment may no longer exist. The value of the impaired assets will be re-evaluated when the Petroleum Resources Act and the final regulations have been enforced and as exploration and development work may proceed.

Total cumulative capital and exploration expenditures incurred on the natural gas interests to December 31, 2017 amounted to $24,633,729 (2016 - $24,617,383), with total cumulative write downs of $24,633,728 (2016 - $24,617,382).

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 were paid a fee in kind by Altai, that is, each of the two parties held a 2.5% working interest in the property on the transaction closing. ConocoPhillips Canada Energy Partnership ("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.

There have been no reserve studies performed to accurately estimate the reserves of these properties.

OVERALL PERFORMANCE AND RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2017

1) For the year ended December 31, 2017, the Company earned revenue of $253,245 (2016 - $244,513), comprising of oil revenue, net of royalties, of $149,295 (2016 - $138,059) and $103,950 interest and dividend income (2016 - $106,454). Total expenses, including Cessford property production expenses of $99,714 (2016 - $78,537) amounted to $379,398 (2016 - $324,270). The net loss for the year ended December 31, 2017 was $126,153 (2016 - net loss of $79,757).

2) **Revenue**

(1) Revenue, net of royalty expense, from the Cessford oil property for the year ended December 31, 2017 ($149,295) was higher by 7.53% to that of 2016 ($138,059).

(2) Interest income from short term deposits (GICs) was lower for the year of 2017 than that for 2016 with the greater part of the GICs being cashed in June 2016 for the cash distribution as a return of capital to shareholders. Dividend income from marketable securities was slightly higher than that for 2016 despite the sale of one of the marketable securities in Q1, 2017.

3) **Expenses**

Expenses for the year ended December 31, 2017 and 2016 are as following:

	2017 **$**	**2016** **$**
Production	99,714	78,537
Professional fees	54,000	54,000
Exploration expenditure	16,566	7,248
Gain on sale of marketable securities	(7,581)	–
Stock-based compensation expenses	40,800	-
Other administrative and general expenses	115,939	124,084
Amortization	59,960	60,401
	379,398	324,270

(1) Production expenses – Production costs of $99,714 for the four oil wells of Cessford oil property for the year ended December 31, 2017 were higher by 26.96% to those for 2016 ($78,537). In the third quarter of 2017, $9,286 makeover expense was charged on one of the wells.

(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 – expenditure were to maintain the Sorel-Trois Rivieres natural gas property in good standing and to pay for consulting service for the project since October 2017.

(4) Other administrative and general expenses – the expenses for the year ended December 31, 2017 included $15,000 fees accrued for the audit of the 2017 year end consolidated financial statements.

(5) Amortization - Amortization expenses of $59,960 for the year ended December 31, 2017 (2016 - $60,401) comprised of two components:
a) $192 depreciation expense for equipment (2016 - $495); and
b) $59,768 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, 2017 $	September 30, 2017 $	June 30, 2017 $	March 31, 2017 $	December 31, 2016 $	September 30, 2016 $	June 30, 2016 $	March 31, 2016 $
Revenue	63,121	58,424	52,806	78,894	66,422	61,430	63,808	52,853
Expenses	98,038	123,461	83,193	74,706	92,789	74,986	81,524	74,971
Net loss	(34,917)	(65,037)	(30,387)	4,188	(26,367)	(13,556)	(17,716)	(22,118)
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 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.

2) 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.

3) 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.

4) 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.

5) Q1 of 2017
a) Revenue was higher in Q1 due to higher oil revenue from the Cessford property.
b) Production costs for the Cessford wells were higher with higher production volume. Total expenses ($74,706) were slightly lower with the offset by a gain on the sale of marketable securities ($8,396).

6) Q2 of 2017
a) Revenue was lower in Q2 due to lower oil revenue from the Cessford property partly because of prior period downward adjustment of revenue by the operator of the wells, CNRL.
b) Production costs for the four oil wells ($20,619) were close to that of Q1 though the revenue generated was lower. $7,149 exploration expenditures incurred for the Sorel-Trois Rivieres gas property.

7) Q3 of 2017
a) Revenue was slightly higher in Q3 mainly due to higher Cessford property oil production revenue.
b) Production costs for the four oil wells ($28,287) increased due to the $9,286 makeover costs for one of the wells. There is also $40,800 stock-based compensation expense for the 800,000 share options granted to replace those expired in Q2, 2017.

8) Q4 of 2017
a) Revenue was slightly higher in Q4 than in Q3 due to higher oil production revenue from Cessford property.
b) Exploration expenditure of $7,500 was for consulting service for the Sorel-Trois Rivieres gas property.

EXPENDITURES FOR MINING PROPERTY AND OIL AND GAS INTERESTS

1) Expenditures for the resource properties for the year ended December 31, 2017 and 2016 are:

	2017 $	2016 $
Malartic gold property, Quebec	–	–
Sorel-Trois Rivieres gas property, Quebec	16,496	7,248
Expenditures	16,496	7,248

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, 2017 and 2016.

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 the new Petroleum Resources Act.

The “Petroleum Resources Act” outlines the various general conditions and norms (including social acceptability) regarding permitting, exploration, drilling and production and governs the development of petroleum resources in Quebec.

On September 20, 2017, the Quebec Ministry of Energy and Natural Resources published the draft regulations to implement the Petroleum Resources Act. The regulations cover four main categories – exploration, production, storage and pipeline construction. Originally there was a period of forty-five days of public consultation after which the draft regulations might be implemented with or without amendments. On October 18, 2017, the Ministry extended the consultation period by thirty-five days to December 9, 2017. Altai has studied the draft regulations in detail and monitors the progress carefully.

The Company considers that its properties still present solid economic potential. 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.

Crude oil prices have gone up moderately since early 2017. Whether the oil prices will continue to increase and net revenue from the Cessford property will improve in the future remain to be seen given current global economic factors.

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 2017, 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. As at December 31, 2017, the Company’s working capital was $3.77 million comprising of $1.47 million cash and cash equivalents and $2.30 million available-for-sale marketable securities.

In 2017, the Company continued its usual thrifty mode in administrative and general expenses.

Yields on low risk bank deposit papers continue to be low due to the still low interest rates in Canada. 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. The fair market value of the portfolio increased during the year by $98,922, net of taxes. The dividend income stream from our portfolio remained steady in 2017 and the Company expects that it will be maintained in 2018. The income from this investment was higher than that of the secured short term deposits. The total fair market values at December 31, 2017 were $2,304,993 (2016 - $2,213,977) compared to total costs of $1,327,517 (2016 - $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, 2017 and 2016:

	2017	2016
Shareholders' equity comprised of		
Share capital	$ 33,889,620	$ 33,871,500
Contributed surplus	3,193,791	3,159,111
Deficit	(32,968,432)	(32,842,279)
Accumulated other comprehensive income	827,732	728,810
	$ 4,942,711	**$ 4,917,142**

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, 2017 and 2016.

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
Balance at December 31, 2015	**55,113,552**	**$36,627,178**
Reduction of stated capital and cash distribution	–	(2,755,678)
Balance at December 31, 2016	**55,113,552**	**$33,871,500**
Issued for cash – exercise of options	120,000	12,000
Fair value of options exercised	–	6,120
Balance at December 31, 2017	**55,233,552**	**$33,889,620**

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 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.

Shareholder Rights Plan

The Shareholder Rights Plan which was implemented on August 28, 2013 and had been in effect for three years, expired on August 27, 2016 without being renewed.

2) Share purchase warrants

There is no share purchase warrants outstanding at December 21, 2015 through to December 31, 2017 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, 2017, there were 3,750,000 option shares available for future grants.

During the year ended December 31, 2017, the Company granted a total of 800,000 share options, being 200,000 share options to each of three directors and one officer, at $0.10 per share with an expiry date of July 6, 2022 and vested immediately. These grants were to replace options expired on June 21, 2017.

The fair values of the options granted during the year ended December 31, 2017 were estimated at the date of the grants using the Black-Scholes option pricing model with the following assumptions: expected volatility of 106%; expected dividend yield 0.0%; risk free interest rate 1.13%, expected life – five years. The total fair value of the stock options granted was $40,800.

A summary of the status of the Company's stock options as at December 31, 2017 and 2016 is presented below:

	2017		2016	
Stock options	**No. of options**	**Weighted average exercise price**	**No. of options**	**Weighted average exercise price**
Outstanding and exercisable at beginning of year	1,200,000	$0.100	1,200,000	$0.100
Cancelled	(800,000)	$0.100	–	–
Granted	800,000	$0.100	–	–
Exercised	(120,000)	$0.100	–	–
Outstanding and exercisable at end of year	1,080,000	$0.100	1,200,000	$0.100

The following table summarizes information on outstanding and exercisable stock options as at December 31, 2017:

Number of options outstanding and exercisable	Exercise price	Remaining contractual life (years)	Expiry date
400,000	$0.100	0.52	July 9, 2018
680,000	0.100	4.52	July 6, 2022
1,080,000	$0.100	3.04	

4) The Company's share capital at December 31, 2016, December 31, 2017 and March 15, 2018 are as following:

	December 31, 2016		December 31, 2017		March 15, 2018	
	Basic	Weighted average	Basic	Weighted average	Basic	Weighted average
Issued and outstanding common shares	55,113,552	55,113,552	55,233,552	55,147,744	55,833,552	55,309,108
Stock options	1,200,000	0	1,080,000	345,306	480,000	312,168
Common shares fully diluted	56,313,552	55,113,552	56,313,552	55,493,050	56,313,552	55,621,276

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. Please refer to a) of Subsequent Events for the payment of $16,000 to a staff of Altai in February 2018.

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, 2017 and 2016. The remuneration of directors and officers of the Company for the years ended December 31, 2017 and 2016 are as follows:

	2017			2016		
	Cash compensation	**Fair value of stock-based compensation**	**Total compensation**	**Cash compensation**	**Fair value of stock based compensation**	**Total compensation**
Directors	$ 7,500(1)	$ 30,600	$ 38,100	$ 0	**$ 0**	$ 0
Officers						
Niyazi Kacira – Chairman and President	0 (2)	0	0	0	0	0
Maria Au – Secretary-Treasurer	54,000	10,200	64,200	54,000	0	54,000
	$ 54,000 (3)	$ 10,200	$ 64,200	$ 54,000	$ 0	$ 54,000
Total – Directors and Officers	$ 61,500	$ 40,800 (4)	$ 102,300	$ 54,000	$ 0	$ 54,000

(1)Since October 2017, a director has been paid a monthly fee of $2,500 to provide consulting service for the Sorel-Trois Rivieres natural gas property.

(2)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.

(3)These fees have been allocated all to administrative expenses (2016 - $54,000).

(4)200,000 share options were granted to each of three directors and one officer at $0.10 per share with an expiry date of July 6, 2022 and vested immediately. These grants were to replace options expired on June 21, 2017.

The fair values of these options granted were estimated at the date of the grants, using the Black-Scholes option pricing model with the following assumptions: expected volatility of 106%; expected dividend yield 0.0%; risk free interest rate 1.13%; expected life – 5 years.

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, 2017 and 2016.

OFF-BALANCE SHEET TRANSACTIONS

At December 31, 2017 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 involvment in the operations allows for the identification of risks and variances from expectations. The Board approves and monitors the risk management process.

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

(a) Credit risk

Credit risk is the risk of financial loss to the Company if counterparty to a financial instrument fails to meet its payment obligations. The Company's exposure to credit risk includes cash and cash equivalents. 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.

(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, 2017 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.

SUBSEQUENT EVENTS

a) In February 2018, $16,000 termination fee was paid to a staff of the Company upon resignation in accordance with the agreement signed in October 2010.

b) 1) In February 2018, a stock option of 200,000 common shares at an exercise price of $0.10 per share was exercised for proceeds of $20,000.

2) In March 2018, two stock options, each of 200,000 common shares at an exercise price of $0.10 per share, were exercised for total proceeds of $40,000

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, 2017 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.