

**ALTAI RESOURCES INC.**  
**CONSOLIDATED BALANCE SHEETS AS AT SEPTEMBER 30, 2008**  
**(PREPARED BY MANAGEMENT)**

	September 30, 2008 (UNAUDITED) \$	December 31, 2007 (AUDITED) \$
<b>ASSETS</b>		
Current		
Cash and cash equivalents	6,212,124	567,093
Marketable securities (Note 4)	163,040	193,470
Accounts receivable	11,132	4,900
Prepaid expenses	5,695	-
	6,391,991	765,463
Note receivable (Note 5)	546,903	546,903
Investment in subsidiaries (Note 5)	550,626	553,877
Interests in mining properties (Note 6)	901,415	933,959
Natural gas interests (Note 7)	1,847,666	1,705,637
Investment in technology project	1	1
Capital assets	2,740	142
Leasehold improvements	9,122	-
<b>Total Assets</b>	<b>10,250,464</b>	<b>4,505,982</b>
<b>LIABILITIES</b>		
Current		
Accounts payable	16,047	32,315
Current portion of consulting charge payable	35,100	35,100
	51,147	67,415
Consulting charge payable	-	35,100
	51,147	102,515
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 8)	9,420,717	9,538,244
Share purchase warrants (Note 8)	6,406,000	306,000
Contributed surplus (Note 9)	1,269,710	299,730
Deficit	(6,915,482)	(5,832,285)
Accumulated other comprehensive income (Note 10)	18,372	91,778
	10,199,317	4,403,467
<b>Total liabilities and shareholders' equity</b>	<b>10,250,464</b>	<b>4,505,982</b>

**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 (UNAUDITED)**

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>Revenue</b>				
Investment and miscellaneous income	36,512	6,908	65,782	17,956
	36,512	6,908	65,782	17,956
<b>Expenses</b>				
Administrative expenses	11,467	10,944	35,042	42,769
Abandonment and write-offs	-	-	400	-
Prospecting and general	-	111	71	262
Stock-based compensation cost	106,800	-	1,084,800	-
Amortization	610	142	796	427
	118,877	11,197	1,121,109	43,458
<b>Net income (loss) before share of net loss of equity investment</b>	<b>(82,365)</b>	<b>(4,289)</b>	<b>(1,055,327)</b>	<b>(25,502)</b>
Share of net loss of equity investment	(1,895)	(455)	(5,845)	(1,403)
Future Income Taxes	(12,745)	(260)	(22,024)	(1,117)
<b>Net loss</b>	<b>(97,005)</b>	<b>(5,004)</b>	<b>(1,083,196)</b>	<b>(28,022)</b>
<b>Net loss per share – basic and fully diluted (Note 10)</b>	<b>(0.003)</b>	<b>(0.000)</b>	<b>(0.029)</b>	<b>(0.001)</b>
<b>CONSOLIDATED DEFICIT</b>				
Balance, beginning of period	(6,818,477)	(5,903,395)	(5,853,063)	(5,901,154)
Restatement of income tax impact on adoption of accounting standards (Note 9)	-	-	20,777	20,777
<b>Net loss</b>	<b>(6,915,482)</b>	<b>(5,004)</b>	<b>(6,915,482)</b>	<b>(28,022)</b>
Balance, end of period	(6,915,482)	(5,908,399)	(6,915,482)	(5,908,399)

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 (UNAUDITED)**

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>Operating activities</b>				
Net income (loss)	(97,005)	(5,004)	(1,083,196)	(28,022)
Items not affecting cash				
Share of net loss of equity investment	1,895	455	5,845	1,403
Stock-based compensation cost	106,800	—	1,084,800	—
Future income taxes	12,745	—	22,024	—
Abandonment and write-offs	—	—	400	—
Amortization	610	142	796	427
Decrease (increase) in accounts receivable	15,048	1,035	(6,232)	2,874
Increase in prepaid expenses	—	1,500	(5,695)	1,500
Increase (decrease) in accounts payable	9,128	(42,294)	(16,268)	9,135
Increase (decrease) in consulting charge payable	—	—	(35,100)	(35,100)
Cash provided by (used in) operating activities	49,221	(44,166)	(32,626)	(47,783)
<b>Investing activities</b>				
Interests in mining properties	(2,500)	—	22,100	—
Deferred exploration expenditures	365	(2)	44	(2)
Natural gas interest	3,440	3,794	(197,029)	(183,242)
Sale (purchase) of capital assets	(1,350)	—	(2,914)	—
Leasehold improvement	(9,602)	—	(9,602)	—
Investment in subsidiaries	(33)	(1)	(2,595)	(32)
Cash provided by (used in) investing activities	(9,680)	3,791	(189,996)	(183,276)
<b>Financing activities</b>				
Issue of shares	—	—	(43,800)	—
Share purchase warrants	—	—	6,100,000	—
Contributed surplus	—	—	(114,820)	—
Shares issue costs	—	—	(73,727)	—
Future income tax	—	260	—	1,117
Cash provided by financing activities	5,867,653	260	5,867,653	1,117
<b>Change in cash</b>	<b>39,541</b>	<b>(40,115)</b>	<b>5,645,031</b>	<b>(229,942)</b>
Cash, beginning of period	6,172,583	613,032	567,093	802,859
<b>Cash, end of period</b>	<b>6,212,124</b>	<b>572,917</b>	<b>6,212,124</b>	<b>572,917</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2008**

**1. Basis of presentation**

The interim period consolidated financial statements have been prepared by the Company (without being reviewed by auditors) in accordance with Canadian generally accepted accounting principles. The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of annual consolidated financial statements, except where there are changes in accounting policies which have been disclosed in these financial statements. Certain information and footnote disclosure normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These interim period consolidated financial statements should be read together with the audited consolidated financial statements and the accompanying notes. In the opinion of the Company, its unaudited interim period consolidated financial statements contain all adjustments necessary in order to present a fair statement of the results of the interim periods presented.

**2. Adoption of new accounting standards**

a) CICA Section 3862 "Financial instruments – disclosures"

Effective January 1, 2008, the Company adopted this standard which relates to the disclosure of financial instruments. CICA Section 3863 "Financial instruments – presentation" must be adopted at the same time, replacing CICA Section 3861 "Financial instruments – disclosure and presentation".

b) CICA Section 3863 "Financial instruments – presentation"

Effective January 1, 2008, the Company adopted this standard which relates to the presentation of financial instruments. CICA Section 3862 "Financial instruments – presentation" must be adopted at the same time, replacing CICA Section 3861 "Financial instruments – disclosure and presentation".

c) CICA Section 1535 "Capital disclosures"

Effective January 1, 2008, the Company adopted this standard which relates to the disclosure of capital management strategies.

d) CICA Section 3031 "Inventories"

Effective January 1, 2008, the Company adopted this standard which relates to the measurement and disclosure of inventories. The adoption of this standard has no impact on the Company's financial statements for the six months ended June 30, 2008.

**3. Management of Capital**

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to pursue the development of its oil and gas and mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

In the management of capital, the Company includes the components of shareholders' equity as well as cash and cash equivalents and marketable securities.

To maintain or adjust its capital structure, the Company may attempt to issue new shares, acquire or dispose of assets or adjust the amount of cash and cash equivalents.

The Company's investment policy is to invest its cash in highly liquid short-term interest-bearing investments, such as banker's acceptances, with initial maturity terms of 60 days or less from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations.

**4. Marketable securities**

The marketable securities include major Canadian bank shares and publicly traded common shares received pursuant to property agreements and are reported in their fair market values as at September 30, 2008 (total cost – \$146,463).

**5. Investment in subsidiaries**

Note receivable is from Altai Philippines Mining Corporation ("Altai Philippines").

The Company has a 40% equity interest in Altai Philippines and has a direct 10% Net Smelter Return (NSR) royalty interest in all properties in which Altai Philippines has an interest. Alternatively, the Company may elect to give up its 10% NSR interest in return for building and owning 80% of the ore processing facilities; in such event, the Company will buy the ore from Altai Philippines by paying a royalty equal to 10% of the direct mining costs of the ore delivered to the processing facilities. Altai Philippines will subsequently have 20% ownership of the processing plant.

In the event that properties are joint-ventured, leased or sold to a third party interest(s), 60% of residual proceeds will accrue to the Company until it recovers its expenditures and outlays and 40% to Altai Philippines. After recovery of the Company's expenditures, proceeds will be shared equally.

The properties of Altai Philippines are Sibuyan Island lateritic nickel-cobalt property, Negros Island sulfur property and Lahuy Island gold property.

In November 2004, Altai Philippines entered into an option agreement with a consortium headed by Sunshine Gold Pty Ltd ("Sunshine") of Australia on Altai Philippines' nickel laterite property on Sibuyan Island ("Sibuyan property"). Under the option agreement, Sunshine, after satisfactory due diligence on the property, would have ninety days from the date of Altai Philippines obtaining approval of the Mineral Production Sharing Agreement (MPSA) application for the property to exercise the option to purchase the Sibuyan property. Sunshine was to fund the expenses for the MPSA application. As at September 30, 2008 and to date, the MPSA application has not yet been approved.

## 6. Interests in mining properties

	Balance, Beginning of year \$	Expenditure \$	Option, Grant and Write off \$	Balance, End of Period \$
<b>Property generative</b>				
Property	–	–	–	–
Expenditure	400	–	400	–
<b>Malartic Township, Quebec</b>				
Property	206,211	2,500	35,000	173,711
Expenditure	727,348	743	387 <sup>(1)</sup>	727,704
<b>Total</b>				
Property	206,211	2,500	35,000	181,211
Expenditure	727,748	743	787	727,704
<b>Total</b>	933,959	3,243	35,787	901,415

<sup>(1)</sup> Grant from the Quebec Government

### Malartic Township gold property, Quebec

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

Effective September 2007, the Company and Globex (jointly the "Optionors") have optioned 100% interest in the Malartic Township gold property to C2C Gold Corporation Inc. and Animiki Mining Corporation (jointly the "Optionees"). All cash, shares and royalties to be received under the terms of the option agreement are to be shared equally by the Optionors. To September 30, 2008 and to date, C2C paid the Optionors \$175,000 cash and 600,000 C2C shares. \$200,000 cash and 200,000 shares are due from the Optionees upon each of the second and third anniversaries. \$5,000,000 of work must be completed by the end of the fourth year of the option. The Optionors will retain a 3% (three percent) gross metal royalty on any mineral production from the property and a 10% (ten percent) net profits royalty. Upon the sixth anniversary, the Optionees must commence an annual advance royalty payment of \$50,000.

## 7. Natural gas interests

	Balance, Beginning of year \$	Expenditure \$	Option and Grant	Balance, End of Period \$
a) <b>Sorel-Trois Rivieres property, St. Lawrence Lowlands, Quebec</b>	1,705,637	266,481	72,179 <sup>(1)</sup>	1,899,939
b) <b>Sept-Iles permit, Quebec North</b>	–	2,727	55,000	(52,273)
<b>Total</b>	1,705,637	265,077	127,179	1,847,666

<sup>(1)</sup> Grant from the Quebec Government

### a) Sorel-Trois Rivieres natural gas property, Quebec

(1) At September 30, 2008, the Company and its joint venture partner in the Sorel-Trois Rivieres natural gas property, Quebec, Petro St-Pierre Inc.,

("PSP"), have seven oil and gas and reservoir permits in the Sorel area, St. Lawrence Lowlands Region, of Quebec, covering 114,252 hectares (282,317 acres).

At the beginning of 2008 the Company owned a 59.40% working interest in the property. As at September 30, 2008 this working interest was 63.52%. PSP had 36.48% working interest at September 30, 2008. Mengold Resources Inc. ("Mengold") holds a 10% net profit interest participation in the Company's future share of net profits of the permit existing at October 27, 1990 after payback from that permit. Mengold's participation is limited to the recovery of its investment carrying value of \$259,010.

Altai had 8.03% gross royalty (out of 15% gross royalty) on all net receipts from the permit (#2002PG625) of 13,290 hectares (32,840 acres) that Talisman Energy Canada has 100% working interest.

(2) In June 2008, Altai entered into an agreement with PSP to acquire 100% of the shares of PSP (2,225,060 shares) by issuing 8.2 million Altai common shares and paying approximately \$350,000 cash to existing PSP shareholders and assuming PSP debts/liabilities/payable of approximately \$250,000.

With the completion of the transaction in early October, Altai now holds 100% interest in the Sorel-Trois Rivieres property and 15% gross royalty in the Talisman Permit #2002PG625. (Please refer to Note 14).

**b) Sept-Iles gas property, Sept-Iles, Quebec North**

(1) In June 2008, Altai acquired a gas permit of 24,042 hectares (59,408 acres) ("Permit") in the Sept-Iles area, Quebec North Region, which is about 750 km north east of the Sorel-Trois Rivieres oil and gas property.

(2) At the end of July 2008, Altai signed an Earn-in Option Letter of Intent with RJK Explorations Ltd. ("RJK") on the Sept-Iles property for RJK to earn 100% interest in the Permit from Altai, RJK has issued 500,000 RJK shares to Altai at end of August 2008; RJK would have to drill a minimum of 1,200 meters in the Permit within 180 days from signature date of Letter of Intent; Altai and RJK to enter into an option agreement; RJK to issue a further 500,000 shares to Altai if RJK wishes to earn 100% interest in the Permit after drilling; and Altai retains a 15% gross royalty if and when RJK earns 100% interest in the Permit.

**8. Share capital, share purchase warrants and options**

**a) Share Capital**

**Authorized**

An unlimited number of common shares of no par value.

**Shares Issued**

	No. of shares	Amount \$
<b>Balance at December 31, 2006</b>	<b>28,856,554</b>	<b>9,623,560</b>
Tax benefits renounced – flow-through		(85,316)
<b>Balance at December 31, 2007</b>	<b>28,856,554</b>	<b>9,538,244</b>
Issued for cash in 2008		
– Private placements common shares (1)	10,200,000	5,180,000
– exercise of warrants (b)	1,800,000	630,000
– exercise of stock options	357,000	131,380
Shares purchase warrant valuation (b)		(6,100,000)
Share issue costs – cash		(73,727)
Stock-based compensation value of options exercised in 2008		114,820
<b>Balance at September 30, 2008</b>	<b>41,213,554</b>	<b>9,420,717</b>

- (1) Between April and May 2008, the Company closed the following three private placements:
- On April 11, 2008 a non-brokered private placement of 1,200,000 share units at \$0.40 per unit made by two investors was closed for gross proceeds of \$480,000. Each unit is comprised of one common share and one half share purchase warrant. Each whole warrant entitles the holder to purchase one common share at the price of \$0.60 per share expiring April 10, 2010;
  - On April 11, 2008 a non-brokered private placement of 7,000,000 share units at \$0.40 per unit made by two institutional investors was also closed. Each unit is comprised of one common share and one half share purchase warrant. Each whole warrant entitles the holder to purchase one common share at the price of \$0.65 per share expiring April 10, 2010; and
  - On May 5, 2008 a non-brokered private placement of 2,000,000 share units at \$0.95 per unit was closed. Each unit consists of one common share and one half share purchase warrant. Each whole warrant entitles the holder to purchase one common share at the price of \$1.25 per share expiring May 4, 2009. The Company paid cash finder's fee of \$43,700 for this private placement
- (2) At September 30, 2008, there were 219,667 escrowed common shares outstanding.

**b) Share purchase warrants**

	Expiry date	Number of share purchase warrants	Black-Scholes Value \$	Exercise price \$
<b>Balance at December 31, 2007</b>	<b>April 29, 2008</b>	<b>1,800,000</b>	<b>306,000</b>	<b>0.35</b>
Share purchase warrants exercised in 2008	April 29, 2008	(1,800,000)	(306,000)	0.35
Share purchase warrants issued for common share units private placement (1)	April 10, 2010	600,000	756,000	0.60
Share purchase warrants issued for common share units private placement (2)	April 10, 2010	3,500,000	4,410,000	0.65
Share purchase warrants issued for common share units private placement (3)	May 4, 2009	1,000,000	1,240,000	1.25
<b>Balance at September 30, 2008</b>		<b>5,100,000</b>	<b>6,406,000</b>	

- The share purchase warrants are valued using the Black-Scholes warrant/option pricing model with the following assumptions: Expected life of 2 years, a risk-free interest rate of 5.38%, a volatility of 2,420% and a dividend yield of 0%. The fair value of \$756,000 has been recognized in the Company accounts.
- The share purchase warrants are valued using the Black-Scholes warrant/option pricing model with the following assumptions: Expected life of 2 years, a risk-free interest rate of 5.38%, a volatility of 2,420% and a dividend yield of 0%. The fair value of \$4,410,000 has been recognized in the Company accounts.
- The share purchase warrants are valued using the Black-Scholes warrant/option pricing model with the following assumptions: Expected life of 1 year, a risk-free interest rate of 5.25%, a volatility of 2,380% and a dividend yield of 0%. The fair value of \$1,240,000 has been recognized in the Company accounts.

**c) Options**

- The 2002 Stock Option Plan which authorizes the Board to grant up to 2,293,000 option shares to directors, officers and employees of the Company or of its subsidiaries is in effect. The options are generally exercisable for up to five years from the date of grant.

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

At September 30, 2008, there were 753,000 option shares available for future grants.

The following table summarizes share option activities since December 31, 2006:

	Options outstanding	
	Number of shares	Weighted average exercise price
<b>Balance at December 31, 2006</b>	<b>870,000</b>	<b>0.120</b>
Cancelled	(463,000)	0.100
<b>Balance at December 31, 2007</b>	<b>407,000</b>	<b>0.144</b>
Cancelled	(50,000)	0.100
Exercised	(357,000)	0.368
Granted	820,000	1.340
<b>Balance at September 30, 2008</b>	<b>820,000</b>	<b>1.181</b>

The following table summarizes outstanding share options at September 30, 2008:

	Number of share options outstanding			Expiry date	Weighted average exercise price
	Exercisable	Unexercisable	Total		\$
	100,000	–	100,000	August 17, 2010	0.150
	300,000	–	300,000	April 2, 2013	0.700
	100,000	–	100,000	April 14, 2013	1.480
	200,000	–	200,000	June 23, 2013	2.420
	120,000	–	120,000	September 4, 2013	2.420
	820,000	–	820,000		1.181

## (2) Accounting for stock-based compensation cost

In 2008, the Company recognized \$1,084,800 stock-based compensation costs comprising of the following:

- (i) \$204,000 related to 300,000 vested option shares granted to an officer and two directors with a fair value of \$0.68 estimated using the Black Scholes option pricing model and the following assumptions: Expected life of 5 years, a risk-free interest rate of 5.38%, a volatility of 1,260% and a dividend yield of 0%;
- (ii) \$290,000 related to 200,000 vested option shares granted to two directors with a fair value of \$1.45 estimated using the Black Scholes pricing model and the following assumptions: Expected life of 5 years, a risk-free interest rate of 5.38%, a volatility of 2,800% and a dividend yield of 0%; and
- (iii) \$484,000 related to 200,000 vested option shares granted to two directors with a fair value of \$2.42 estimated using the Black Scholes option pricing model and the following assumptions: Expected life of 5 years, a risk-free interest rate of 5.17%, a volatility of 4,740% and a dividend yield of 0%.
- (iv) \$106,800 related to 120,000 vested option shares granted to a new director (100,000 shares) and a staff (20,000 shares) with a fair value of \$0.89 estimated using the Black Scholes option pricing model and the following assumptions: Expected life of 5 years, a risk-free interest rate of 5.06%, a volatility of 1,680% and a dividend yield of 0%.

## 9. Contributed surplus

	2008	2007
	\$	\$
<b>Balance, beginning of year</b>	<b>299,730</b>	<b>139,730</b>
Stock-based compensation cost	1,084,800	–
Stock-based compensation value of options exercised	(114,820)	–



<b>Balance, end of period</b>	<b>1,269,710</b>	<b>139,,730</b>
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#### 10. Accumulated other comprehensive income

	<b>2008</b>	<b>2007</b>
	\$	\$
<b>Balance, beginning of year</b>	<b>91,778</b>	–
Restatement of increase in unrealized gain on available-for-sale marketable securities, net of taxes of \$20,777	–	94,269
<b>Balance, beginning of year – as restated</b>	<b>91,778</b>	<b>94,269</b>
Other comprehensive loss during the period – unrealized loss on available-for-sale marketable securities, net of taxes recovered of \$22,024	(73,406)	(5,068)
<b>Balance, end of period</b>	<b>18,372</b>	<b>89,201</b>

#### 11. Earnings (loss) per share

Basic net earnings (loss) per share is calculated by dividing the net earnings (loss) by the weighted average number of shares outstanding during the period. Diluted net earnings (loss) per share is calculated by dividing the net earnings (loss) by the sum of the weighted average number of shares outstanding and all additional shares that would have been outstanding if potentially dilutive securities had been issued during the period.

The following table sets forth the computation of basic and diluted loss per share:

	<b>2008</b>	<b>2007</b>
	\$	\$
<b>Numerator</b>		
Net loss for the period – basic and diluted	(1,083,196)	(28,022)
<b>Denominator</b>		
Weighted average number of shares – basic	37,697,767	28,856,554
<b>Effect of dilutive shares</b>		
Stock options	538,142	407,000
Warrants	3,627,049	2,800,000
Compensation options	–	266,000
Weighted average number of shares – diluted	41,862,958	32,329,554
Basic and diluted net loss per share (1)	(0.029)	(0.001)

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

#### 12. Related party transactions

- a) Consulting services were provided by two officers. Fees for such services amounted to \$36,000 (2007 – \$33,000). These fees have been allocated to administrative expenses (\$1,400) and resource properties (\$34,600).
- b) The fourth instalment (\$35,100) of the \$175,500 consulting charge payable in equal instalments over 5 years to an officer of the Company per agreement signed in 2004, had been paid in the first quarter of 2008.

#### 13. Office rental lease

The Company has a 5 year office lease starting from July 1, 2008. The basic rent per month is \$1,218 and the additional rent for 2008 is approximately \$1,629 per month. The lease includes a 12 months Rent Free Period spread over the first three years of the lease.

#### 14. Subsequent event

In early October 2008, the Company completed its acquisition of Petro St-Pierre Inc. (“PSP”) issuing 8,200,000 common shares to PSP’s former shareholders and made aggregate cash payments of approximately \$350,000 and assumed approximately \$250,000 of PSP’s debts.

With this strategic acquisition of PSP, Altai owns 100% interest in the Sorel-Trois Rivieres natural gas property of a vast contiguous land package 114,252 hectare (282,317 acres) in the heart of the St. Lawrence Lowlands Shale Gas Fairway among the junior public companies. In addition the Company has 15% gross royalty in a permit of 13,290 hectares (33,000 acres) now held by Talisman Energy Canada in the same area.