

# ALTAI RESOURCES INC.

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

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008

Dated November 5, 2008

The selected consolidated financial information set out below and certain comments which follow are based on and derived from the unaudited consolidated financial statements of Altai Resources Inc. (the "Company" or "Altai") for the nine months ended September 30, 2008 and should be read in conjunction with them. Some of the items discussed in the Management's Discussion and Analysis for the year ended December 31, 2007 ("2007 Annual MD&A") dated April 14, 2008 are relevant for the period under review and therefore readers are advised to read this with the 2007 Annual MD&A.

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 includes forward-looking statements and assumptions respecting the Company's strategies, future operations, commodity prices and discusses certain issues, risks and uncertainties that can be expected to impact on any of such matters.

By their nature, forward-looking statements are subject to numerous risks and uncertainties that can significantly affect future results. Actual future results may differ materially from those assumed or described in such forward-looking statements as a result of the impact of issues, risks and uncertainties whether described herein or not, which the Company may not be able to control. The reader is therefore cautioned not to place undue reliance on such forward-looking statements.

The Company disclaims any intention or obligation to update or revise these forward-looking statements, as a result of new information, future events or otherwise.

### OVERVIEW

The Company is a junior natural resource exploration company with its properties in Canada and the Philippines and at the present time does not have a producing natural resource property.

- 1) Altai's properties in Canada, all in the Quebec Province as following, were maintained in good standing as at September 30, 2008 and to date—
  - a) the 50% owned Malartic gold property (named "Blackcliff gold property" by property joint-venture partner), Val d'Or of 3 claims of 120 hectares (300 acres),
  - b) the 63.52% owned as at September 30, 2008 (**100% owned as of October 8, 2008 upon the completion of the acquisition of Petro St-Pierre Inc. ("PSP") Sorel-Trois Rivieres natural gas property, St. Lawrence Lowlands**, of 7 oil and gas and reservoir permits of **114,252 hectares (282,317 acres)** (excluding the permit of 13,290 Ha (32,840 acres) in which Talisman Energy Canada has 100% working interest and Altai had 8.03% gross royalty as at September 30, 2008 (15% gross royalty post acquisition of PSP), and
  - c) the 100% owned Sept-Iles gas property, Sept-Iles, of 24,042 hectares (59,408 acres).

### 2) Malartic gold property, Quebec

Effective September 2007, the Company and Globex Mining Enterprises Inc. ("Globex") (jointly the "Optionors") have optioned 100% interest in the Malartic gold property to C2C Gold Corporation Inc. ("C2C") 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 date C2C has 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 Company and Globex 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.

In 2008, the Optionees drilled 4,055 meters at the near surface extension of the No. 2 gold vein zone of the property (where a historical non NI 43-101 compliant resource of 222,433 tonnes grading 7.06 g/t Au was reported in 1988) and reported that numerous shallow mineralized intersections of significant grade and/or thickness were encountered.

### 3) Sorel-Trois Rivieres natural gas property, St. Lawrence Lowlands, Quebec

- a) As at September 30, 2008, Altai owned 63.52% of the Sorel-Trois Rivieres natural gas property ("Property") of 7 oil and gas and reservoir permits of 114,252 hectares (282,317 acres), and 8.03% gross royalty in the permit of 13,290 Ha (32,840 acres) in which Talisman Energy Canada ("Talisman") has 100% working interest ("Talisman Permit") and which is contiguous to the Altai permits.

Effective October 8, 2008, with the completion of the acquisition of Petro St-Pierre Inc. ("PSP" and Altai's minority joint venture partner in the Property before the acquisition by Altai), Altai owns 100% of the Property and 15% gross royalty in the Talisman Permit

### The test well Talisman drilled in the Talisman Permit has good Utica shale gas showings.

- (i) In the first quarter of 2008 Altai carried out a seismic reflection survey of five lines aggregating to 12.5 kilometers in the Property orientated to deep gas targets. The survey was carried out along roads. Some of the lines were difficult to interpret due to different reasons. Based on the Consultant's report:
  - (1) The collapse zone (sag) at the top of Trenton Formation is reconfirmed.
  - (2) From bottom to stratigraphically higher horizons Potsdam, Beekmantown Group, Chazy, Black River, Trenton, Utica and Lorraine Formations can be mapped by seismic reflection.
  - (3) The survey shows fracturing and lateral facies changes in the Utica and Lorraine Shales and in the Trenton Formation.

These results suggest that exploration targets can be mapped (hence their depths can be determined) by seismic surveys to aid in budgeting the drilling programs.

(ii) On April 1, 2008, **Forest Oil Corporation**, a US oil and gas company, announced in its press release a significant gas discovery in the Utica shale of the St. Lawrence Lowlands:

QUOTE

*“Over the last two years, Forest has accumulated approximately 269,000 net acres, under lease or farmout, in the St. Lawrence Lowlands in Quebec, Canada. Two vertical pilot wells were drilled in 2007, testing the Utica Shale, to a total depth of approximately 4,800 feet. Production rates tested up to 1 Million cfe/d. Although the play is still in the early stages, Forest believes the initial results are encouraging due to the following factors:*

- Shallow depth of the shale
- Rock properties are comparable to other more established shale plays
- High-quality natural gas with minimal impurities
- Infrastructure in place with nearby access to major pipelines
- Premium natural gas pricing to NYMEX makes the economics compelling

*Forest plans to drill three horizontal wells in 2008 to refine its drilling and completion techniques..... First production is expected in 2009 with the potential for a full scale drilling program in 2010 and beyond.”*

UNQUOTE

The Utica shales in the Altai permits are partly within the shallow platform, less than 750 meters deep, and partly within the deep platform, 1,250 – 2,500 meters. In the Company’s permits, most of the gas in Utica shale is expected to be thermogenic gas with minor biogenic component.

The Utica shales are overlain by much thicker Lorraine shales, the gas potential of which were not, to date, discussed much, but are prospective for gas.

(iii) The main carbonate gas target in Altai’s Property is the Trenton-Black River which is expected to underlie the entire property. One major deep exploration target (at depth of about 800 meters) has been delineated. The target is a NE trending fault zone 34 kilometers long averaging one kilometer in width, all on land. The zone appears as a depression (a graben) at the top of Trenton formation of Ordovician age at a depth of about 750 meters. The depression is interpreted by Paul Laroche, Consultant Geologist-Geophysicist, to have been caused by hydrothermal dolomitization of fractured limestones (hydrothermal dolomite reservoir facies). Targets in similar geological setting along former shoreline of Cambro-Ordovician craton have produced large quantities of gas and oil in Ohio, Michigan, New York State, West Virginia and elsewhere in the Appalachians. In addition to the Trenton formation, the stratigraphically lower Chazy, Beekmantown and Potsdam formations have gas showings elsewhere in the Appalachians. Such targets are long and narrow. Altai’s deep gas target zone may extend for another 20 kilometers to the SW, all in Altai’s permits.

When the consulting report was done (2004) no attention was paid to the gas potential of Utica and the overlying Lorraine formations.

**In their report dated May 2, 2008 Fraser Mackenzie analysts estimated the recoverable resource potential of Altai gas permits (excluding gross royalty in Talisman permit) at 953 Bcf and unrisks Potential Net Asset Value per share at \$44.44.**

**Altai’s land package is adjacent and central to the properties of Gastem Inc., Questerre Energy Corporation and Junex Inc most of which are optioned either to Forest Oil or Talisman Energy. The underlying prospective Utica Shale extends onto Altai’s property.**

b) On October 8, 2008, Altai completed the acquisition of 100% of the outstanding 2,225,060 shares of Petro St-Pierre Inc. (“PSP”), a private company, the minority joint venture partner of the Altai Property, by issuing 8.2 million Altai common shares and paying cash of approximately \$350,000 to the former PSP shareholders and assuming PSP’s debt of approximately \$250,000. Before the transaction closing, PSP held 36.48% interests (as at September 30, 2008) in the Property and 6.97% gross royalty in the Talisman Permit.

Upon the completion of this transaction on October 8, 2008, Altai Resources Inc. holds 100% interest in the largest uncommitted (not farmed-out) contiguous land block of 282,317 acres (among the junior public companies) in the heart of the St. Lawrence Lowlands Utica Shale Gas Fairway. Including the gross royalty in the Talisman Permit, the Company holds varying interests in a land package consisting of **315,000 acres located about 2 km west of the Forest Oil Corporation discovery wells in the St. Lawrence Lowlands.**

(iv) Development of a gas storage site or sale of storage rights is also an important aim of the Sorel-Trois Rivieres property for Altai.

#### 4) **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”) at Sept-Iles, Quebec North which is approximately 750 km north-east of the Company’s Sorel-Trois Rivieres gas property.

The Permit covers a gas well drilled in 1970 that encountered gas in recent sediments at a depth of 270 feet (90 meters) and was plugged and abandoned. As the underlying rocks are part of the Canadian Shield, the gas is probably seepage gas from Paleozoic Sediments under the St. Lawrence estuary.

(2) At end of July, 2008 Altai signed an Earn-in Option Letter of Intent (the “Letter of Intent”) with RJK Explorations Ltd. (“RJK”) on this Permit. Terms for RJK to earn 100% interest in the Permit from Altai include:

- RJK to issue 500,000 common shares to Altai upon signature of Letter of Intent. RJK has issued those shares to Altai;
- RJK to drill a minimum of 1,200 meters in the Permit within 180 days from signature date of Letter of Intent;
- 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.

#### 5) **Altai Philippines Mining Corporation (“Altai Philippines”)**

The Company has a 40% equity interest in Altai Philippines Mining Corporation ("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 40% to Altai Philippines. After recovery of the Company's expenditures, proceeds will be shared equally.

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

- i) The Company and Altai Philippines intend to sell or option the Negros Island sulfur property.
- ii) As at September 30, 2008 and to date, the option agreement that Altai Philippines signed with a consortium headed by Sunshine Gold Pty Ltd. of Australia in late 2004 for the sale of Altai Philippines' lateritic nickel-cobalt property on Sibuyan Island, has not yet closed as the Mineral Production Sharing Agreement application for the property has not yet been approved.

#### **ADOPTION OF NEW ACCOUNTING POLICIES**

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.

#### **OUTLOOK FOR 2008 AND BEYOND**

The balance of the proceeds from the flow-through share units private placement made in late 2006 has provided funds for the Company to carry out targeted exploration work on its oil and gas and reservoir permits for the January-February 2008 work program, whereas the proceeds from the common share units private placement made at the same time, together with the cash payments received in 2008 from the option of the Marlatic gold property, increase the general working capital of the Company.

**In April and May 2008, the Company has raised a total of \$5.853 million** consisting of \$5.18M from three private placements (including \$2M made by Sprott Asset Management Inc. and \$0.8M by MMCAP International Inc SPC), \$630,000 from exercise of share purchase warrants, and \$131,380 from exercise of stock options. These funds significantly boost the Company's general working capital and enabled Altai to pay for the cash portions totalling \$600,000 (cash to former PSP shareholders and payment of PSP's debts) of the consideration in acquiring Petro St-Pierre Inc. for its minority interest in the Sorel-Trois Rivières gas property.

Impact of the current global financial crisis and volatile and uncertain times on the Company are as following:

1. Due to general market conditions, the share price of the Company has decreased dramatically. Therefore any financing to be done for work for projects, if any at all, in the near future will have a bigger dilution factor on the share capital of the Company. Financings are much more difficult to come by (to all companies) and the Company will be more reluctant to do financings at lower share prices. Financing for any exploration or development of projects may be temporarily affected and take longer time to complete.
2. As major oil and gas companies are equally affected by the economic downturn, they become more reluctant to commit and take on new projects or joint ventures at present.
3. The combination of the above two factors will temporarily slow down the Company's process in deciding on the mode of development of the Sorel-Trois Rivières gas property. However we believe that in the long run, if and when oil and gas are proven in Quebec and in Altai's Property, our Property will be in a much more favourable position compared to projects in much more remote parts of North America due to its proximity to the TransCanada Pipelines and the user markets.
4. It affects the cash investment strategy of the Company. Preservation of the capital takes top priority. The Company invests only in Grade AAA and above short term papers despite the lower yields compared to those offered by the more risky papers. It is anticipated that the interest income generated in the fourth quarter of the year will decrease due to the decreasing interest rates.  
The Company owns major bank shares and common shares issued by its property optionees. The value of all these marketable securities has decreased dramatically at present. But such investment makes up only a small portion of the investment of the Company.  
As such, the Company's investment is liquid and reasonably safe.
5. Since Altai does not have any long term debt nor committed capital expenditures, has relatively low administration expenses and liquid investment, the Company will have no liquidity issues.

Over the next twelve months, the Company's efforts will remain focused on exploring and developing the Sorel-Trois Rivières natural gas property in the St. Lawrence Lowlands, which has been significantly enhanced by Forest Oil's discovery referred to in their press release of April 1, 2008.

### **OVERALL PERFORMANCE AND RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008**

a) For the first nine months of 2008, the Company had a net loss of \$1,083,196 including its share (\$5,845) of the net loss of equity investment in Altai Philippines. The big loss was mainly due to the stock-based compensation cost (a non-cash item) of \$1,084,800 recorded in the second and third quarters. The administration expenses remained low at \$11,467 for the period which was covered by the investment income of \$36,512.

b) In the first quarter of 2008, the major sources of funding for the Company's exploration work in the Sorel-Trois Rivieres natural gas property, and the fourth installment payment of a long term consulting charge payable mainly came from the proceeds of the 2006 flow-through share units and the common share units private placements.

The \$5.9 million proceeds from the 3 private placements and exercise of share purchase warrants and stock options done in the second quarter of the year boost significantly the general working capital of the Company and funds for exploration of Altai's properties, and helped in the Company's payment of the cash portions of the consideration for the acquisition of PSP.

c) The marketable securities held by Altai comprising mostly of Canadian major bank shares denominated in Canadian currency, are liquid but have decreased further in value in the first nine months of 2008. The 300,000 common shares of C2C Gold Exploration Inc. received per Malartic gold property agreement and the 500,000 RJK Explorations Ltd. shares received per Sept-Iles gas property option have also decreased in their market values as at September 30, 2008. All shares have been adjusted to their fair market values as at September 30, 2008.

### **DISCLOSURE CONTROLS**

Disclosure controls and procedures are designed to provide reasonable assurance that material information is generated and reported to management, including the President and the Secretary-Treasurer, as appropriate to permit timely decisions and to permit timely and accurate public disclosure.

Management, including the President and the Secretary-Treasurer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of September 30, 2008. Based on this evaluation, the President and the Secretary-Treasurer have concluded that the Company's disclosure controls and procedures, as defined in Multilateral Instrument 52-109 (Certification of Disclosure in Issuers' Annual and Interim Filings), are effective to ensure that information required to be disclosed in reports filed or submitted by the Company under applicable Canadian Securities Legislation is recorded, processed, summarized and reported within the time limits specified in such rules.

### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

The President and the Secretary-Treasurer of the Company are responsible for designing and continually maintaining and reviewing internal controls over financial reporting or causing them to be designed and maintained under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

The President and the Secretary-Treasurer have evaluated whether there were changes to its internal controls over financial reporting during the nine months ended September 30, 2008 that have materially affected, or that are reasonably likely to materially affect its internal controls over financial reporting. No such changes were identified through their evaluation.

### **OUTSTANDING SHARES**

As of November 5, 2008, the Company's share capital is as following:

	Basic	Weighted average
Issued and outstanding common shares	49,413,552	39,602,138
Stock options	820,000	538,142
Warrants	5,100,000	3,627,049
Common shares fully diluted	55,333,552	43,767,329