

# ALTAI RESOURCES INC.

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

FOR THE YEAR ENDED DECEMBER 31, 2008

Dated April 21, 2009

The selected consolidated financial information set out below and certain comments which follow 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, 2008 and should be read in conjunction with them.

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 December 31, 2008 and to date:--

- a) the 50% owned Malartic gold property (named "Blackcliff gold property" by property joint-venture partner) of 3 claims of 120 hectares (300 acres), in Val d'Or area of Quebec.
- b) the **100% owned 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 15% gross royalty), and
- c) the 100% owned Sept-Iles gas property, Sept-Iles, of 24,042 hectares (59,408 acres).

### 2) Malartic gold property, Quebec

a) 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.

b) In September 2008, the Company and Globex bought back the 2% NSR from the NSR holder in 1 of the 3 claims and cancelled the NSR upon completion of the buy-back.

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

At the beginning of 2008, Altai owned a 59.4% working interest in the property and the remaining interest (40.6%) was owned by Petro St-Pierre Inc. ("PSP"), the property joint-venture partner. Altai also owned 8.03% gross royalty (out of 15% gross royalty, with PSP owned the balance 6.97%) in the Talisman permit.

In June 2008, Altai and PSP agreed for Altai to acquire 100% of the outstanding 2,225,060 PSP shares by issuing 8.2 million Altai common shares and paying cash of approximately \$327,000 to the then PSP shareholders and assuming PSP's debt of approximately \$273,000.

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 15% 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.**

a) 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 Sorel-Trois Rivieres natural gas property ("Property") of 7 oil and gas and reservoir permits of 114,252 hectares (282,317 acres), and 15% 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.

(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) In April 2008 Forest Oil announced a gas discovery in Utica Shales (Ordovician age) two kilometers east of the Altai Permits. The discovery generated significant market and industry interest in the gas potential of St. Lawrence Lowlands. The initial enthusiasm diminished somewhat due to decrease of natural gas prices.

St. Lawrence Lowlands is an emerging major gas play aggregating to approximately 1.5 million acres. In the last three years fourteen wells were drilled in the play all with gas discoveries. Utica shales (about 150 meters or thicker) and overlying Lorraine shales-siltstones (500 to 2,000 meters) contain gas and both formations are amenable to fracture stimulation for enhanced gas flow. Approximately 240,000 acres of Altai lands are in Tier 2 area (west of Yamaska Fault) where the depth to Utica are less than 1,000 meters. The remainders are in Tier 1 area where Utica is at a depth of 1,250 to 2,500 meters. Forest Oil which controls the lands adjacent to Altai lands to the east, north and south estimates (in 2008) that recoverable gas potential of the Utica Formation in its land is 93 billion cubic feet (Bcf) per section (640 acres). Talisman (in 2008) puts the recoverable gas potential of Utica at 25 to 160 Bcf per section and that of Lorraine at 50 to 190 Bcf per section.

Gas in St. Lawrence Lowlands enjoys US\$ 1 Mcf (Thousand cubic feet) price advantage for producers compared to Western Canadian gas due to its proximity to consuming markets in Quebec and Eastern United States. To date there is no producing module in the Lowlands, hence precise economics of this emerging gas play are not known.

(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. Such targets are long and narrow. In 2006 Talisman Energy Canada drilled one well in one Altai permit aimed at the collapse zone at the top of Trenton-Black River. No gas was found at the target but "good gas shows" were present in the stratigraphically higher Utica Shales. In addition to the Trenton formation, the stratigraphically lower Chazy, Beekmantown and Potsdam formations have gas showings elsewhere in the Appalachians. Altai's deep gas target zone may extend for another 20 kilometers to the SW, all in Altai's permits.

**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.**

**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.**

(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) In November 2008, Altai signed a Farmin Option Agreement with RJK Explorations Ltd. ("RJK") for RJK to earn 100% interest in the Property from Altai. RJK had issued 500,000 RJK shares to Altai at end of August 2008 pursuant to the July 2008 signed Letter of Intent re the farmin of the Permit. RJK has to complete a drilling program of a minimum of 1,200 meters in the Property by January 23, 2009, which date has been extended to end of May 2009. RJK will issue a further 500,000 shares to Altai if RJK wishes to earn 100% interest in the Property after drilling. Altai will retain a 15% gross royalty if and when RJK earns 100% interest in the Property.

#### **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 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.

i) 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 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 for C\$1.3 million. Sunshine was to fund the expenses for the MPSA application. As at December 31, 2008 and to date, the MPSA application has not yet been approved.

ii) In June 2008, Altai Philippines entered into an agreement to sell its Negros Island sulphur property to a private Philippine company (the “Optionee”) for US\$1,500,000 payable in three instalments over a maximum of 6 years (US\$500,000 every two years or less) subject to certain approvals of the Philippine Government. As at December 31, 2008 and to date, no instalment payment has been made by the Optionee.

Though there are outstanding sale option agreements on two of the three properties of Altai Philippines, there is uncertainty in the timing of the MPSA and other approvals for the properties by the Philippine Government. The Company has therefore written down each of its investment in and its note receivable from Altai Philippines to \$1.

#### **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 – disclosure” 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.

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.

##### **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.

##### **e) CICA Section 1400 “General standards of financial statement presentation”**

The CICA Accounting Standards Board amended Section 1400 to include requirements for management to assess and disclose an entity’s ability to continue as a going concern. This section applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. Effective January 1, 2008, the Company adopted this standard. The adoption of this amendment has no impact on the Company’s financial statements.

#### **OUTLOOK FOR 2009 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 Malartic gold property, increased the general working capital of the Company.

**In April and May 2008, the Company 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 Rivieres 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 slowdown the Company’s process in the development of the Sorel-Trois Rivieres gas property in the St. Lawrence Lowlands, Quebec. 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. The interest income generated in the fourth quarter of the year has decreased significantly due to the decreasing interest rates. The year 2009 will not be any better as the interest rates will remain low. 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 in the next few years.

6. In view of the current economic recession, the Company has extended in March 2009, the warrant term by one year to May 4, 2010 for the 1,000,000 common share purchase warrants issued pursuant to the private placement of 2,000,000 common share units at \$0.95 per unit closed on May 5, 2008 with warrant exercise price of \$1.25 per common share and original one year warrant expiry date of May 4, 2009. All other terms and conditions of the warrants remain the same. A director of the Company and a company controlled by him each holds 100,000 of those warrants.

Over the next twelve months, the Company's efforts will remain focused on exploring and developing the Sorel-Trois Rivieres 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 and that of Talisman Energy Canada. Altai will try to joint venture the property with companies which have the appropriate expertise and means to bring the vast acreage to full development.

#### **OVERALL PERFORMANCE AND RESULTS OF OPERATIONS FOR 2008**

a) For the year of 2008, the Company had a net loss of \$1.61 million. The big loss was mainly due to the non-cash items of \$1.1 million write down of its investment in Altai Philippines Mining Corporation and the note receivable from Altai Philippines and the stock-based compensation cost of \$640,000. The administration expenses were low at \$47,000 for the year which was covered by the investment income of \$98,000.

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 2008 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 steadily in value in the year 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 December 31, 2008. All shares have been adjusted to their fair market values as at December 31, 2008.

#### **SELECTED ANNUAL INFORMATION**

	December 31, 2008	December 31, 2007	December 31, 2006
	\$	\$	\$
Total revenue	152,860	25,642	7,177
Net income (loss)	(1,609,807)	48,092	(48,583)
Income (loss) per share (Basic and Diluted)	(0.041)	0.002	(0.002)*
Total assets	30,539,823	4,505,982	4,447,339
Long term debt	Nil	35,100	70,200
Dividend paid	Nil	Nil	Nil
Weighted average number of shares outstanding			
Basic	39,602,138	28,856,554	26,115,524
Diluted (including share options and warrants)	43,767,329	31,063,554	27,506,324

#### **SUMMARY OF QUARTERLY RESULTS**

2008	Three Months Ended			
	December 31	September 30	June 30	March 31
	\$	\$	\$	\$
Revenue	87,078	36,512	24,711	4,559
Net loss	(526,611)	(97,005)	(974,887)	(11,304)
Net loss per share (Basic and Diluted*)	(0.013)*	(0.002)*	(0.026)*	(0.000)*

Weighted average number of shares				
Basic	39,602,138	37,697,767	37,697,767	28,856,554
Diluted (including share options and warrants)	43,767,329	41,862,958	41,852,794	31,053,554

2007	Three Months Ended			
	December 31	September 30	June 30	March 31
	\$	\$	\$	\$
Revenue	7,686	6,908	6,532	4,516
Net income (loss)	76,114	(5,004)	(14,492)	(8,526)
Net Income (loss) per share (Basic and Diluted*)	0.003	(0.000)	(0.001)*	0.000
Weighted average number of shares				
Basic	28,565,554	28,856,554	28,856,554	28,856,554
Diluted (including share options and warrants)	31,063,554	32,329,554	32,792,554	32,792,554

\* Due to the loss in the second quarter of 2007 and in all quarters of 2008, the diluted weighted average number of shares used to calculate the diluted net loss per share in the respective periods is the same as the basic weighted average number of shares as the inclusion of outstanding share options and warrants would be anti-dilutive.

### **LIQUIDITY AND CAPITAL RESOURCES**

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 was approximately \$1,629 per month. The lease includes a 12 months Rent Free Period spread over the first three years of the lease.

### **RELATED PARTY TRANSACTIONS**

- Consulting services were provided by two officers. Fees for such services amounted to \$48,000 (2007 – \$45,000). These fees have been allocated to administrative expenses (\$1,400) and resource properties (\$46,600).
- 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.

### **PRESENTATION OF ANNUAL FINANCIAL STATEMENTS AND MD&A**

Management, including the President and the Secretary-Treasurer, have reviewed the annual financial statements and annual MD&A (the “annual filings”) for the financial year ended December 31, 2008.

Based on the knowledge of the President and the Secretary-Treasurer, having exercised reasonable diligence, the annual filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, for the period covered by the annual filings.

Based on the knowledge of the President and the Secretary-Treasurer, having exercised reasonable diligence, the annual financial statements together with other financial information included in the annual filings fairly present in all material respects the financial condition, results of operations and cash flows of the Company for the periods presented in the annual filings.

### **OUTSTANDING SHARES**

As of April 21, 2009, the Company’s share capital is as following:

	Basic	Weighted average
Issued and outstanding common shares	49,513,552	49,498,484
Stock options	820,000	802,740
Warrants	5,100,000	5,100,000
Common shares fully diluted	55,433,552	55,401,223