

# ALTAI RESOURCES INC.

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

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009

Dated November 16, 2009

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, 2009 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, 2008 ("2008 Annual MD&A") dated April 21, 2009 are relevant for the period under review and therefore readers are advised to read this with the 2008 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, 2009 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 the Val d'Or area of Quebec,
  - b) the **100% owned Sorel-Trois Rivieres natural gas property, St. Lawrence Lowlands, of 14 oil and gas and reservoir permits of 114,344 Ha (282,544 acres)** (excluding the permit of 13,290 Ha (32,840 acres) in which Talisman Energy Canada has 100% working interest and Altai has 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) The Malartic gold property was optioned to C2C Gold Corporation Inc. ("C2C") effective September 2007. All cash, shares and royalties to be received under the terms of the option agreement were shared equally by the Company and Globex Mining Enterprises Inc. (jointly the "Optionors"). To December 31, 2008, C2C had paid the Optionors \$175,000 cash and 600,000 C2C shares.

In late October 2009, the Agreement was terminated by the Optionors, with C2C not having earned any interest in the property, due to C2C's failure to fulfil its obligations per the Agreement.

In 2008, C2C 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) Altai owns 100% of the Sorel-Trois Rivieres natural gas property ("Property") of 14 oil and gas and reservoir permits of 114,344 Ha (282,544 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.

Altai's 100% owned property is the largest uncommitted (not farmed-out) contiguous land block of 282,544 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 **315,380 acres located about 5 km west of the Forest Oil Corporation discovery wells in the St. Lawrence Lowlands.**

- (i) 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 price advantage for producers compared to Western Canadian gas due to its proximity to user 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.

(ii) A carbonate gas target 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 (the depression) 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.

In October 2009, Altai started a seismic survey aggregating to 40 kilometers in its Sorel-Trois Rivieres permits. Most of the survey (31 kilometers) will be in the southern part of the property. The primary aims of the survey are:

- (a) To continue mapping gas bearing formations of Utica and Lorraine and other potential targets; and
- (b) To better define the location of Yamaska Fault which defines the boundary between shallower (west of the Fault) and deeper target.

The seismic survey results are expected to be available in the Spring of 2010.

#### **4) Sept-Iles Gas Property, Sept-Iles, Quebec North**

(1) Altai owns 100% interest in a gas permit of 24,042 hectares (59,408 acres) ("Property") at Sept-Iles, Quebec North which is approximately 750 km north-east of the Company's Sorel-Trois Rivieres gas property.

The Property 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) The 2008 Farmin Option Agreement ("Agreement") with RJK Explorations Ltd. ("RJK") on the Property was terminated by RJK in May 2009 with RJK failing to fulfill all its obligations per Agreement and not earning any interest in the Property.

(3) In June-July 2009, Altai completed a resistivity survey over the area of previous gas discovery. The resistivity survey was aimed at mapping the extent, if any, of the gas bearing strata. The gas in recent unconsolidated sediments are in sands and gravels with clay cover. The resistivity survey suggests that in the area of gas showing the clay layer directly overlies the Precambrian basement, hence the gas potential of the property is thought to be low. No further work is planned for this 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 September 30, 2009 and to date, the MPSA application has not yet been approved.

ii) In June 2008, Altai Philippines entered into an agreement to grant an option to buy 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 September 30, 2009 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 at end of 2008 its investment in and its note receivable from Altai Philippines to \$1 each.

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

a) **CICA Section 3064 "Goodwill and intangible assets"**

This standard replaces Section 3062 "Goodwill and other intangible assets" and Section 3450 "Research and development costs". It provides more specific guidance on the recognition of intangible assets and requires that research and development expenditures be evaluated against the same criteria as expenditures for intangible assets. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The standard increases harmonization of Canadian standards with international financial reporting standards and applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. The adoption of this standard had no impact on the Company's financial statements for the nine months ended September 30, 2009.

b) **Credit risk and the fair value of financial assets and financial liabilities**

In January 2009, the Emerging Issues Committee of the CICA issued EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" which applies to interim and annual financial statements for periods ending on or after January 20, 2009. The adoption of this standard by the Company had no impact on its financial statements for the nine months ended September 30, 2009.

c) **Mining exploration costs**

On March 27, 2009, the Emerging Issues Committee of the CICA issued an abstract EIC-174, "Mining Exploration Costs", which provides further guidance on the interpretation of capitalization of exploration costs related to mining properties in particular, and on impairment of long-lived assets in general. The adoption of this abstract by the Company had no impact on its financial statements for the nine months ended September 30, 2009.

#### **OUTLOOK FOR 2009 AND BEYOND**

In 2008, the Company raised \$5.853 million mainly from three private placements and partly from exercise of share purchase warrants and stock options. These funds significantly boost the Company's general working capital even after the Company having paid the cash portion (\$600,000) of the consideration in its 2008 acquisition of Petro St-Pierre Inc. for its minority interest in the Sorel-Trois Rivieres gas property.

Due to the low natural gas price, the share price of the Company remains low. 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. The Company will be more reluctant to do financings at lower share prices.

As major oil and gas companies are still affected by the uncertainty in the economic recovery and low natural gas price, they remain more reluctant to commit and take on new projects or joint ventures at present.

The combination of the above two factors continues to 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 Pipelines and the user markets, especially Quebec.

Preservation of the capital remains the top priority of the Company. Yield on low risk short term papers remains very low due to the all time low interest rates throughout the world versus the much higher yield for the much more risky papers. Despite that, the Company prefers and continues to invest the greater part of its cash in secured short term papers which offer very low yields. Therefore the interest income generated in the past nine months of the year has decreased dramatically. It is anticipated that the global interest rates will remain very low for the balance of 2009. The Company continually monitors the investment environment and the availability of low risk investment opportunities for its cash investment purpose.

Since July 2009 the Company has invested part of its cash in major bank shares and relatively stable companies' shares which are liquid and regularly pay dividends. As such, the Company's marketable securities investment is liquid and reasonably safe.

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.

In view of the economic conditions since late 2008, 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.

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 THE NINE MONTHS ENDED SEPTEMBER 30, 2009**

a) During the first nine months of 2009, the Company had a net loss of \$53,800. The loss was mainly due to low interest income from its short term investment but compensated by relatively low administrative expenses.

b) The marketable securities held by Altai comprising Canadian major bank shares and relatively stable companies denominated in Canadian currency are liquid. The overall market value of the shares has slightly increased. In the same period 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 agreement have decreased slightly in their overall market values in the third quarter of 2009. All shares have been adjusted to their fair market values as at September 30, 2009.

### **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 per month for 2009 is approximately \$1,621 to April 30, 2009 and \$1,487 effective May 1, 2009. The lease includes a 12 months Rent Free Period spread over the first three years of the lease.

### **RELATED PARTY TRANSACTIONS**

a) Consulting services were provided by two officers. Fees for such services amounted to \$57,000 (2008 – \$36,000). These fees have been allocated to administrative expenses (\$2,300) and resource properties (\$54,700).

b) The fifth (last) 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 2009.

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

Management, including the President and the Secretary-Treasurer, have reviewed the interim financial statements and the interim MD&A (together the "interim filings") for the nine months ended September 30, 2009.

Based on the knowledge of the President and the Secretary-Treasurer, having exercised reasonable diligence, the interim 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, with respect to the period covered by the interim filings.

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

### **OUTSTANDING SHARES**

As of November 16, 2009, the Company's share capital is as following:

	<u>Basic</u>	<u>Weighted average</u>
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	<u>55,433,552</u>	<u>55,401,224</u>