



# Stateside Report



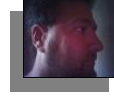
*“A Unique Report Service for the Retail Resource Investor”*



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**November 2008**

*Introducing:*



**ALTAI** RESOURCES INC.



*“The most leveraged of the Four Horsemen to the success of the Utica Shale play”*

Back in April 2008, I coined the term “Four Horsemen of the Utica Shale” to represent the four primary junior resource companies that were best positioned to benefit from the April 1<sup>st</sup> 2008 announcement by Forest Oil of the discovery of a new shale gas basin in Quebec. Those four companies are Altai Resources (ATI.V), Questerre Energy (QEC.TO), Junex Inc. (JNX.V), and Gastem Inc (GMR.V). This report will highlight the investment merits of the smallest and arguably the most leveraged of the Four Horsemen to the success of the Utica Shale play, Altai Resources.

To understand the opportunities presented to Altai Resources today, it's important to first gain an appreciation for the history of the company and it's president Dr. Niyazi Kacira. Dr. Kacira's father was a subsistence farmer and his mother, with no formal education, raised the children. The foundation of his family education in Turkey was honesty, integrity, honor, hospitality, respect for elders and protection of those younger. Seven out of the ten children eventually became professionals.

Dr. Kacira obtained his B. Sc. (Geology) and Master of Geological Engineering from the University of Geneva (Switzerland), his Ph.D. (Geology) at the University of Western Ontario, London Canada and his MBA from the University of Toronto. From 1970-1988, he worked for various mining companies including Anaconda American Brass, Amoco Canada Petroleum, Denison Mines, Kerr Addison Mines (Noranda) and Canhorn Mining.



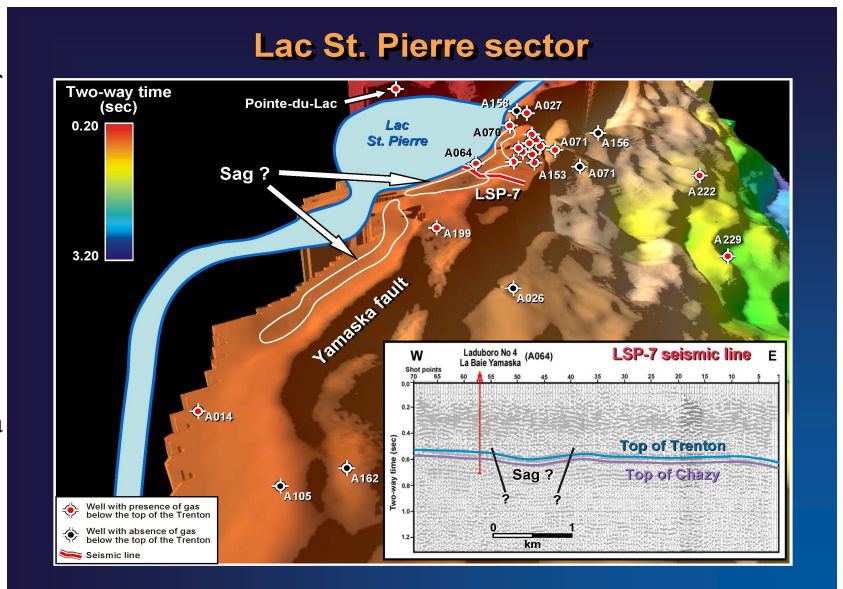
*“Altai Mountains”*

In 1987, Dr. Kacira bought a controlling stake in Black Cliff Mines Limited (would eventually become Altai Resources) which had one Malartic gold property. He added several other properties over the next years and spun out some of these properties into a separately traded public company. In 1992, he changed the name of the company from Black Cliff Mines to Altai Resources Inc. The Altai Mountains have a particular significance in the mythology and legends of the Turkish race.

**History of Altai's Property**

In 1989, Altai Resources (then Black Cliff Mines) farmed into the present day Utica Shale property of one permit then 100% owned by Petro St-Pierre. Altai gradually increased its interest and added additional permits to the property. Over the succeeding years, Petro St-Pierre chose not to participate in various exploration expenditures and their interest was gradually diluted.

The original plan for the present day Utica Shale property was to develop shallow (less than 150 meters deep) gas storage reservoirs based on gas in recent gravels under Lake St. Pierre. This strategy was not unique to Altai Resources as Junex Inc was also focusing on developing gas storage reservoirs on some of their nearby properties. As of today, Altai has spent a total of \$4.5 million on this area with \$3.5 million being spent on the gas storage reservoir idea. Since year 2000, Altai carried out several deep seismic surveys which along with some older surveys, outlined a collapse zone or sag (see graphic above) on top of the Trenton Formation. Prior to the recent shale developments, this was Altai's primary target in the area.

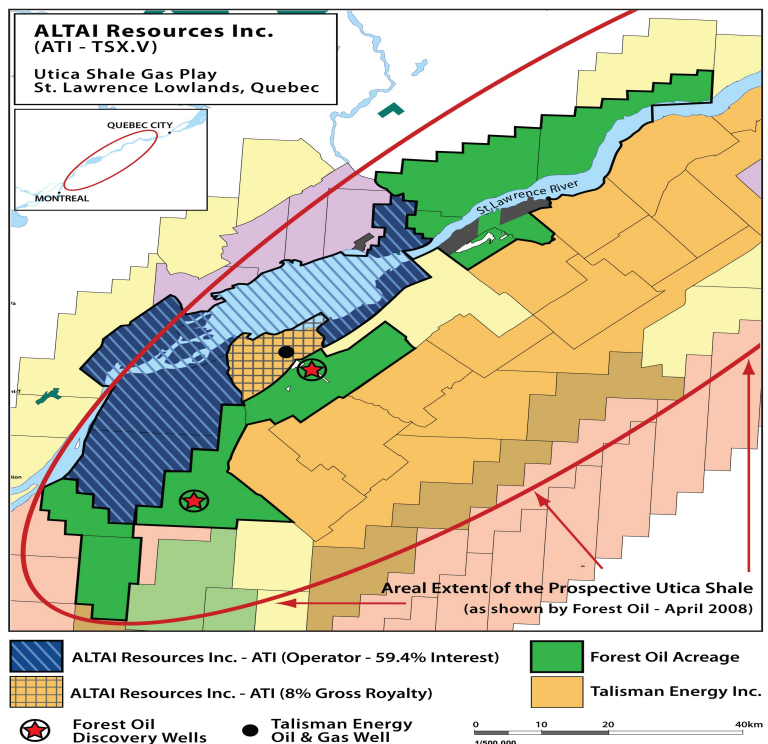


"Sag Zone"

There was a minimal amount of actual drilling done on the present day Utica Shale Property. Nearly 20 years ago, two natural gas wells were drilled (PSP1 and PSP2) both under Lake St. Pierre. PSP 1 was tested for 3 days and flowed 1.3 Mcf/day at the end of those 3 days. PSP2 was not tested due to difficulty in stabilizing the drilling barge (too windy late in the Fall season).

**Recent Activity on Altai's Utica Shale Properties**

In July 2005, Altai signed an agreement with Talisman Energy Canada ("Talisman") of Calgary, Alberta for a portion of their oil and gas permits in the Sorel-Trois Rivieres area, Quebec (current Utica Shale Property). The agreement involved four permits and a fraction of a fifth one aggregating to approximately 74,250 hectares (183,500 acres). Talisman's main interest in the permits was the Trenton-Black River formation looking for conventional natural gas. They drilled one well in permit No. 2002PG625 in July 2006 to a depth of 1,298 meters and had good gas showings in the shales (see black dot on the map at right) although no specific information on the well has been released by Talisman.



In September 2007, Talisman returned three of the four optioned permits to Altai and retained permit No. 2002PG625. Talisman had fulfilled their obligation on the permit by drilling the test well and no further work commitments are required per the terms of the agreement. Altai retains a 15% gross royalty on the permit.

In the first quarter of 2008, Altai contracted to have a seismic survey over portions of their Utica Shale property consisting of five lines totaling 12.5 kilometers. It was done primarily to fulfill the statutory work obligation with the government of Quebec. The Lorraine, Utica, and Trenton-Black River formations were reconfirmed and the data will be used for future drilling purposes.

### **April Fool's Day 2008**

On April 1, 2008, Forest Oil (FST) issued the following press release:

#### **Utica Shale**

Over the last two years, Forest has accumulated approximately 269,000 net acres, under lease or farm-out, 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 MMcfe/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

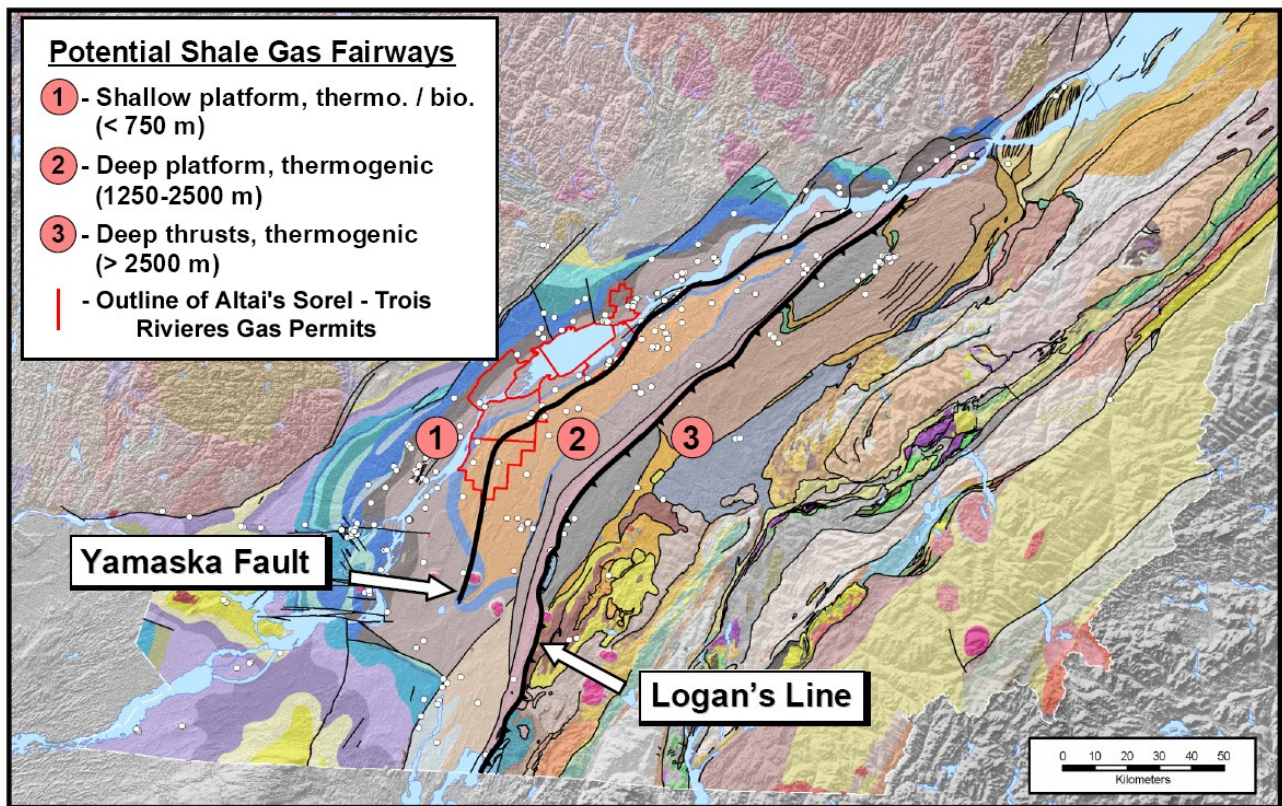
Forest plans to drill three horizontal wells in 2008 to refine its drilling and completion techniques. First production is expected in 2009 with the potential for a full scale drilling program in 2010 and beyond.

This announcement by Forest Oil was a watershed moment for Altai Resources and it was almost immediately reflected in its share price going from a low of \$.05/share prior to the Forest Oil announcement to an ultimate high of \$3.95 this summer before correcting back down along with all commodity-related junior resource companies over the last few months. Altai, Questerre, Junex and Gastem became the darlings of the junior resource sector while most other precious metal and base metal junior exploration companies plodded along in obscurity. Analysts from Wellington West, Fraser-Mackenzie, Sprott, and others issued reports or commentary on the Four Horsemen which provided further catalysts for investor attention on this group.

Most of the attention was and still has been focused on Questerre, Junex and Gastem as Questerre management was out front early promoting the merits of the shale “fairway” which they, along with Talisman, had amassed a large land position. In contrast, Altai has done very little marketing and promotion on the merits of their primarily “shallow” play. Yet recent drilling by Forest Oil seems to indicate a move by Forest to gravitate to this under-appreciated acreage.

# Map showing location of Sorel – Trois Rivieres Oil and Gas Property of Altai Resources Inc. in the Potential Shale Gas Fairways, St. Lawrence Lowlands

(Courtesy of Dr. R. Theriault, Hydrocarbons Branch, Quebec Ministry of Natural Resources)



As shown in the map above, the majority of Altai's property (outlined in red) lies in the shallow platform (north of the Yamaska fault) where the Utica shale formation is less than 750 meters deep (approximately 240,000 acres) with the rest in the deeper platform at 1,250-2,500 meters (approximately 40,000-50,000 acres). The majority of the acres on the JV with Talisman (33,000 acres in which Altai retains a 15% gross royalty) is in the shallow platform.

Questerre and others have been vocal proponents of the economic advantages of the deeper shale platform. Although the pressure is greater at deeper depths which should produce a higher rate of gas flow, it is less expensive to drill a shallower well and Altai's shallow property lies closer to the various gas pipelines so the infrastructure build out will be less costly. In the current financial environment where capital is constrained, the shallow platform has obvious advantages assuming the testings and completions prove up the play.

## Economics of the Play

Several independent analyst reports have detailed the potential economics of the play for both the shallow and deeper platforms (Wellington West and Fraser- MacKenzie) and these highly favorable reports are available via the web. The preliminary indications by Forest Oil show that the Utica play has the potential to be one of the best economic natural gas plays in North America. These calculations will be confirmed over the next 6-12 months as results of the testing and completions become known.

The premium price to the NYMEX (+\$1.05) is what drives the preliminary economics of the Utica play. The Marcellus shale play in Pennsylvania and New York exhibit similar characteristics to the Utica play. Chesapeake Energy listed all of the required NYMEX prices of their extensive shale plays in order to achieve a 10% IRR and the Marcellus was the lowest at \$3.50 (compared to the Haynesville, Barnett and Fayetteville).

## **Drilling Activity Since Forest's April 1<sup>st</sup> Announcement**

Forest Oil has been very selective in the amount of public information they have released on their drilling activities due to “competitive reasons”. When a company such as Forest Oil says they won't release information due to “competitive reasons”, the only logical “competitive reason” to withhold information would be to keep a lid on the market value of available surrounding acreage should they wish to acquire it. This has also been the case with the northern B.C. Montney shale plays in Western Canada where companies have been reluctant to release drilling information in hopes of picking up Crown Land sales at lower prices. Altai has the largest uncommitted (not farmed-out) contiguous land package in the heart of the St. Lawrence Lowlands Utica Shale Gas Fairway making it the primary “competitor”.

Although Forest Oil has provided very little information on their drilling progress to date, we do know the following from published sources:

- On their two vertical holes referenced in their April 1<sup>st</sup> announcement (one being only 2 km from Altai's property), they are following up with drilling 2 horizontal wells targeting the Utica Shale. The first is a re-entry of the St. Louis de Richelieu well and involved directional drilling a 600 meter horizontal leg with a four-stage hydraulic fracture stimulation. The second well, St. Francois du Lac 1H, is being drilled similar to the St. Louis de Richelieu well. This well is adjacent to the St. Francois du Lac well which tested up to 1 mmcf/d earlier this year. Forest Oil has stated in their quarterly conference calls that they may push this horizontal distance a bit in order to gain more data on how far they can drill the horizontals in a shallow environment. As they refine their completions, they could increase the number of stages to 8 or 9 with a 800-900 meter horizontal. Completion on these two wells began in the fourth quarter and Forest Oil plans to release preliminary test results by December 31<sup>st</sup>. Obviously, an announcement of a successful test (economic) will have a material impact on Altai's share price.
- Forest Oil had plans to drill and frac one or two horizontal wells in Becancour/Champlain (one on the north shore) on the Junex property with the results due by the end of the year as well although details of this activity are limited.
- At the Junex St. Antoine sur Richelieu No. 1 well in the Contrecour area (shallower play), Junex tested a fault bounded “sag” zone at 770 meters this summer and the geological and logging information related to the shale sections were given to Forest Oil. After analyzing the data provided by Junex, Forest Oil decided to exercise its option to perform work commitments on this 55,000 acre property adjacent to the southern boundary of Altai's property for a 60% interest, providing further positive indications of the shallow platform.

Talisman has also been active in the area on their JV property with Questerre and the following has been revealed:

- At the Gentilly #1 well this summer, Talisman re-entered the well and vertically fractured stimulated several intervals prospective for shale gas and conducted an extensive testing program. After 18 days, the well flowed more than 800,000 cubic feet per day on a sustained basis. This was from one set of stimulated perforations in the Utica Shale only. Based on these results, Talisman agreed to add another frac to the testing program in the Utica section. Additionally, two frac's of the Lorraine Shale have been conducted and are on initial flow-back and clean-up. The Lorraine Shale sits on top of the Utica Shale and can be up to 2,000 meters thick in certain areas where as the Utica Shale ranges between 100 and 300 meters in most places. Preliminary testing has shown that both the Utica and Lorraine shales are thick, porous and appear brittle and over-pressured, all of which are conducive to fracture stimulation. These additional test results are expected to be released at the end of November or December.
- In September, Talisman spudded the first (La Visitation) of three commitment wells (vertical) under its farm-in with Questerre testing Lorraine, Utica and Trenton Black River formations. The next one, St. David, was to have spud at the end of November with drilling completed by the end of the year. The third well will be drilled in St. Edouard testing several shale zones and will be completed by the first quarter of 2009.

Junex and Questerre are also drilling various Utica properties both in the shallow play to the north and the Utica play closer to the U.S. border in the south. Preliminary results of this drilling will be released in the months ahead.

## Altai Resources Recent Activity

Much of Altai's attention since Forest Oil's April 1<sup>st</sup> announcement had been focused on the acquisition of minority joint venture partner Petro St-Pierre's ("PSP") approximately 38% interest in the Utica acreage. In early October 2008, Altai completed the acquisition of 100% of the shares of PSP resulting in Altai owning 100% of the property by issuing 8.2 million Altai common shares and paying approximately \$350,000 cash to the PSP shareholders and assuming PSP's debts of approximately \$250,000.

Altai was able to make this deal due to several private placements done in the second quarter of 2008 that resulted in approximately \$6 million to Altai's treasury. Spratt was the largest institution to take part in the offerings acquiring up to 12% of the company's outstanding shares then. They continue to maintain this interest and remain one of Altai's largest shareholders. All told, institutions own approximately 26% of the outstanding shares with management and directors owning 20%. After paying all costs related to the PSP deal and other expenditures, Altai has a healthy cash balance of \$5.5 million remaining as of November 2008. With a cash burn rate of only \$15,000 per month for various administrative costs and no debt, cash concerns are not an issue at this time.

As outlined in the previous pages, a great deal of drilling activity has transpired around the periphery of Altai's 282,000 acres of 100% owned property and the 33,000 acre jv-ed property with Talisman. To a large extent, Altai enjoys the benefits of having others prove up the play without spending money on their own exploration activities.

Prior to the financial crisis reaching a climax, Altai had several unsolicited offers to enter into farm-in or jv deals for work commitments in certain cases many multiples higher than Altai's present market cap. Several of these solicitations were made by mid size companies with market caps between \$1 billion and \$15 billion showing the strong interest in Altai's Utica property. None of these deals were acted upon as Altai wanted to close the deal with PSP prior to negotiating any potential deal and they wanted time to determine their long term strategy for the play. Altai has not yet made any direct contacts with parties on their own initiative as they are giving the situation with the Forest Oil drilling time to play out before deciding on the right approach to take. With Forest Oil promising to release some early testing results prior to the end of the year, Altai management may have a better feel for the direction to take the company.

Altai is in the process of hiring an experienced executive with oil and gas exploration and production experience to assist in the development of the Utica Shale play. Maria Au is the current Secretary-Treasurer and is fluent in both English and Chinese. Several published reports have speculated that the Chinese may be interested in one or more of the North American shale plays at the current depressed prices.

## Summary

**In summary, with Altai having the smallest market cap (presently under \$25 million) yet the largest uncommitted (not farmed-out) contiguous land package in the heart of the St. Lawrence Lowlands Utica Shale Gas Fairway, it appears to be the most leveraged of the Four Horsemen to the success of the Utica Shale play. The current worldwide economic situation has resulted in the disruption of many energy related initiatives, yet those plays that offer the best economic returns will take priority over all others. We will have a better indication of the economics of the Utica play within the next 45 days.**

Note – please see the disclaimer at the end of this report.

## Appendix

Company Facts (as of November 2008):

Outstanding shares	49.4 million
Options	0.8
Warrants	<u>5.1</u>
Fully Diluted	55.3 million

Other Properties – (Note: No additional exploration work is contemplated at this time)

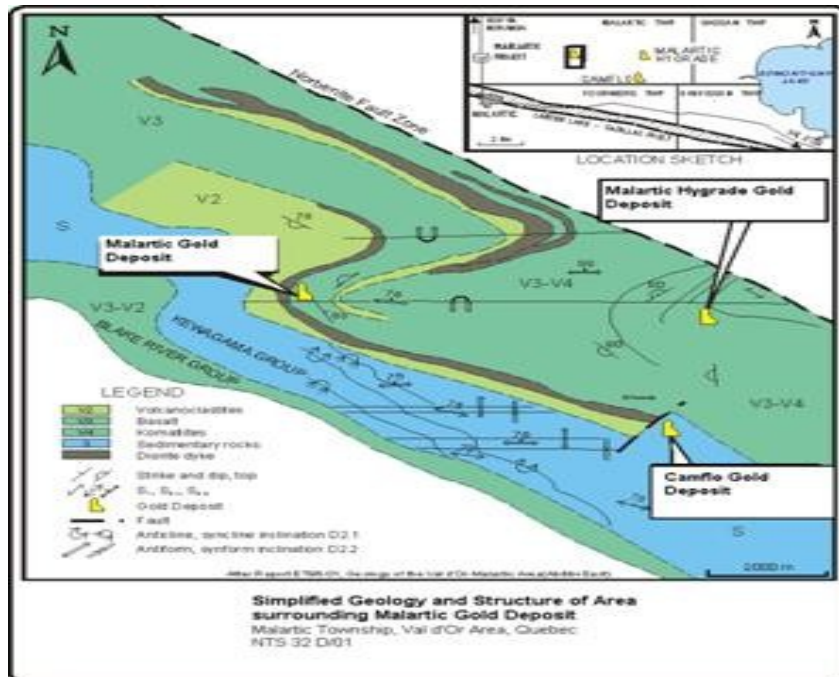
### Malartic Property – Gold, Val d’Or, Quebec

#### Ownership

Altai owns 50% interest in the Malartic property of 120 hectares (300 acres) along with project partner Globex Mining Enterprises Inc. (“Globex”), the property operator, which names the property as “Blackcliff gold property”.

#### Option

Effective September 2007, Altai and Globex optioned 100% interest in the 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 Altai and Globex. To date, C2C has paid Altai and Globex \$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. Altai and Globex will retain a 3% gross metal royalty on any mineral production from the property and a 10% net profits royalty. Upon the sixth anniversary, the Optionees must commence an annual advance royalty payment of \$50,000.



Altai also has sulphur, nickel-cobalt, and gold properties in the Philippines:



Map Showing Geographic Locations of Altai Resources Inc. projects and their relative position to known gold bearing areas of the Philippine Archipelago

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