

# **Orsu Metals Corporation**

Management's Discussion and Analysis of Results  
December 31, 2010 and 2009

(Figures in United States Dollars)

## Orsu Metals Corporation

### MD&A for the year ended December 31, 2010

---

#### CONTENTS

This Management's Discussion and Analysis ("MD&A") contains the following information:

Directors & Corporate Information	3
Introduction	4
Highlights	4
Core Assets	7
Executive Chairman's statement	8
Operational Review	9
Results Of Operations	24
Financial Review	26
Risks And Uncertainties	37
Forward-Looking Information	47
Controls And Procedures	48
Other Information	49

## Orsu Metals Corporation

MD&A for the year ended December 31, 2010

---

### DIRECTORS & CORPORATE INFORMATION

DR SERGEY V KURZIN, Executive Chairman  
DR ALEXANDER YAKUBCHUK, Director and Chief Operating Officer  
MARK CORRA, Non-Executive Director, Lead Independent Director  
MASSIMO CARELLO, Non-Executive Director  
TIMOTHY HANFORD, Non-Executive Director  
DAVID RHODES, Non-Executive Director (appointed December 7, 2010)

#### REGISTERED OFFICE

Craigmuir Chambers  
P.O. Box 71  
Road Town, Tortola  
BRITISH VIRGIN ISLANDS

#### HEAD OFFICE

1 Red Place  
London  
W1K 6PL  
UNITED KINGDOM  
Telephone: +44 (0) 20 7518 3999  
Facsimile: +44 (0) 20 7518 3998

#### KAZAKHSTAN

Flat 4  
Building 28  
Baiganina Street  
Almaty 050008  
REPUBLIC OF KAZAKHSTAN

#### KYRGYZSTAN

Office 1  
33 Razzakova Street  
Bishkek, 720040  
KYRGYZ REPUBLIC

#### SOLICITORS

Macleod Dixon LLP  
Toronto-Dominion Centre,  
TD Waterhouse Tower  
79 Wellington Street West  
Suite 2300, P.O. Box 128  
Toronto  
M5K 1H1  
CANADA

**WEBSITE:** [www.orsumetals.com](http://www.orsumetals.com)

**E-MAIL:** [info@orsumetals.com](mailto:info@orsumetals.com)

#### AUDITORS

PricewaterhouseCoopers LLP  
Chartered Accountants  
250 Howe Street, Suite 700  
Vancouver  
V6C 3S7  
CANADA

#### TRANSFER AGENT

Computershare Investor Services Inc.  
100 University Ave., Suite 800  
Toronto  
M5J 2Y1  
CANADA  
Tel: +1 800 564 6253 (toll free Canada and the USA)  
Telephone: +1 514 982 7555  
[www.computershare.com](http://www.computershare.com)

#### STOCK EXCHANGES

Toronto Stock Exchange, OSU  
(Stock is quoted in Canadian Dollars)  
AIM Market of the London Stock Exchange, OSU  
(Stock is quoted in British Pence)

# Orsu Metals Corporation

## MD&A for the year ended December 31, 2010

---

The effective date of this MD&A is March 22, 2011.

### INTRODUCTION

Orsu Metals Corporation (“Orsu” or the “Company”, and formerly European Minerals Corporation (“EMC”) prior to the acquisition of Lero Gold Corp. (“Lero”) on June 19, 2008) is a dual listed (TSX: OSU; AIM: OSU) London-based precious and base metals exploration and development company exploring gold, copper and molybdenum deposits in the Rudny Altai belt in the Republic of Kazakhstan (or “Kazakhstan”) and the Tien Shan gold belt in the Kyrgyz Republic (or “Kyrgyzstan”).

The Company’s principal and most advanced exploration project is the property comprising a 47.3km<sup>2</sup> licence area in eastern Kazakhstan containing the Karchiga volcanogenic massive sulphide (“VMS”) deposit (the “Karchiga Project”), which is part of the Rudny Altai polymetallic belt. The Company’s other principal exploration asset is its property in northwest Kyrgyzstan, which is comprised of four licence areas within the Tien Shan gold belt of north western Kyrgyzstan: the Taldybulak, Barkol, Korgontash and Kentash licences (collectively, the “Talas Project”). Approximately 100km to the south west of the Talas Project is the Akdjol-Tokhtazan licence area comprising the Akdjol and Tokhtazan licences (the “Akdjol-Tokhtazan Project”).

The Company also previously operated the Varvarinskoye gold-copper mine in the Urals belt in northern Kazakhstan (“Varvarinskoye” or the “Varvarinskoye Project”) until selling all of its interest and obligations in the Varvarinskoye Project to Open Joint Stock Company Polymetal (“Polymetal”) on October 30, 2009, pursuant to the terms of a sale and purchase agreement dated June 13, 2009 between the Company and Polymetal (the “SPA”).

This MD&A contains management’s assessment and analysis of the operating results and financial condition of Orsu and should be read in conjunction with the Consolidated Financial Statements for the year ended December 31, 2010 and related notes, which have been prepared in accordance with Canadian Generally Accepted Accounting Principles (“Canadian GAAP”). All amounts are reported in United States Dollars unless otherwise indicated. Canadian Dollars are referred to herein as CAD\$ and British Pounds Sterling are referred to as GBP£.

### HIGHLIGHTS

#### 2010 HIGHLIGHTS

- February 2010 – Gold Fields Limited, through its subsidiary Gold Fields Orogen Holding BVI Limited (“Gold Fields”), completed the “First Phase” of the Talas Project joint venture in the Kyrgyz Republic (the “Talas Joint Venture”), pursuant to which Gold Fields earned a 60% interest in the joint venture company, Kami Associates Limited (the “JV Company”), the Company’s subsidiary and the 100% owner of Talas Copper Gold LLC (“TCG”), the registered owner of the Talas licence area, by funding exploration expenditures of CAD\$10 million. Gold Fields subsequently notified the Company that it would not exercise the “Second Phase Option” to increase its interest in the JV Company from 60% to 70% through the funding of additional exploration expenditures. As a result, the “Earning Period” under the joint venture agreement dated December 3, 2008, as amended on August 14, 2009, between the Company, Gold Fields, Lero, TCG and the JV Company (the “JV Agreement”) was concluded and the Company retained a 40% interest in the JV Company, subject to the terms and conditions of the JV Agreement.
- February 2010 – the Ontario Superior Court of Justice approved the terms of an agreement (the “Settlement Agreement”) to settle the class action claim commenced against EMC and two of its officers in the Ontario Superior Court of Justice in June, 2008 (the “Claim”) for CAD\$2.2 million, to be shared equally between Orsu and its insurer. The settlement became effective on March 22, 2010 following the expiry of a 30-day appeal period with no appeals having been received by the Company. Individual class members had the right to opt out of the settlement during an opt-out period, which expired on June 7, 2010. No class members opted out and the settlement was finalised and, under the terms of the Settlement Agreement, the Claim was dismissed (see note “Class Action Claim” under “Risks and uncertainties”).
- March 2010 - Orsu announced updated National Instrument 43-101 (“NI 43-101”) mineral resource estimates for the Karchiga Project and for the Taldybulak copper-gold-molybdenum porphyry deposit (“Taldybulak”), which is part of the Talas Project.
- April 2010 – the Akdjol and Tokhtazan exploration licences, comprising the Akdjol-Tokhtazan Project, were extended by the Ministry of Natural Resources of the Kyrgyz Republic until December 31, 2012.
- April 2010 – the Company completed a public offering of units of securities (the “Units”), pursuant to which the Company sold 112,000,000 Units at a price of CAD\$0.25 per Unit for gross proceeds of CAD\$28,000,000 (the “Offering”). Each Unit consisted of one common share of the Company (a “Common Share”) and one-half of one common share purchase warrant, with each whole warrant being exercisable to acquire one Common Share at a price of CAD\$0.50 for a period of two years. Canaccord Genuity Corp. (then called Canaccord Financial Limited) (“Canaccord”) acted as sole manager and book runner for the Offering. The net

proceeds of the Offering have been, and are expected to continue to be, used towards the maintenance of the Company's interests in, and for the further exploration and the development of, the Company's mineral properties in Kazakhstan and Kyrgyzstan and for general corporate and working capital purposes. In addition, these funds may be used to pursue future growth opportunities (which may include acquiring one or more additional assets), if and when such opportunities arise.

- May 2010 – the Company entered into an agreement (the “Karchiga SPA”) to acquire the remaining 26.1% interest in its indirect subsidiary Eildon Enterprises Limited (“Eildon”), which is the owner of a 94.75% interest in GRK MLD LLC (“GRK”), for cash consideration of \$6,187,500 payable at the closing of the acquisition (the “Karchiga Acquisition”). The Karchiga Acquisition is subject to certain conditions, such as receipt of all necessary regulatory consents, including from the required authorities in Kazakhstan, which the Company has not yet received. Due to an ongoing reorganization within the government of Kazakhstan, the Company now anticipates completing the Karchiga Acquisition during the first half of 2011. Following the Karchiga Acquisition, the Company will indirectly own a 94.75% interest in GRK, the holder of the exploration and production contract, as amended, for the Karchiga Project.
- May 2010 – Micon International Co Limited (“Micon”) completed a preliminary assessment or scoping study for the Karchiga Project on behalf of the Company (the “Karchiga Scoping Study”). The base case scenario showed a discounted cash flow, over approximately 10 years, with a Net Present Value (“NPV”) of approximately \$138 million, after applying a discount rate of 10%, and an Internal Rate of Return (“IRR”) of 40.5% based on a flat copper price of \$3.00/lb. Please see “Operational Review – Karchiga Copper Project, Kazakhstan”.
- July 2010 – the Company received the results of metallurgical test work for Taldybulak. The Company believes the results of the tests indicate that a potentially sellable gold(Au)-copper(Cu)-molybdenum(Mo) concentrate grading 102g/t Au, 19%Cu and 1.30%Mo with respective recoveries of 85%, 88% and 89% can be produced from the Taldybulak sulphide ore material.
- July 2010 - the Company received the results of cyanide leach test work for samples from the Tokhtazan Prospect at the Akdjol-Tokhtazan Project. Two samples, representing the Northern and Southern mineralised areas of the Tokhtazan deposit, were analyzed using the cyanide bottle roll leaching and percolation column tests. The NaCN bottle roll test resulted in an 83.7% recovery from a -2mm fraction over 72 hours. Column tests representing the Northern and Southern mineralised areas of the Tokhtazan deposit revealed recovery ranging from 85.2 to 90% over 32 days. The Company believes that these results confirm the principal amenability of the Tokhtazan ores to heap leaching extraction of gold.
- September 2010 – Orsu commenced a definitive feasibility study for the Karchiga Project (the “Karchiga Definitive Feasibility Study”) with a view to potentially starting construction in early 2012. The Company had previously appointed SRK Consulting (UK) Ltd (“SRK”) as the lead consultant in connection with the Karchiga Definitive Feasibility Study to prepare a feasibility study report in accordance with NI 43-101 standards. Wardell Armstrong International Limited (“WAI”) was also engaged to prepare a Baseline Study and an Environmental and Social Impact Assessment study (the “ESIA”). Orsu also appointed Mr. Raymond Oates as Technical Director and made him responsible for the supervision of the Karchiga Definitive Feasibility Study and, thereafter, if warranted, the construction of a mine through to the commencement of production.
- September 2010 – the Company reported an exploration update and assay results on five initial diamond drill holes at the Akdjol Prospect at the Akdjol-Tokhtazan Project. The Akdjol Prospect was identified by Orsu as the first ever Kyrgyz gold-silver epithermal prospect and has yielded very encouraging assay results, such as a vertical intercept of 14.2m @ 5.32 g/t Au and 59.51 g/t Ag, including 6.7m @ 8.69 g/t Au and 86.96 g/t Ag from diamond drilling (average grades of 3.84 g/t Au and 49.4 g/t Ag from the four reported drill holes).
- September 2010 – following a 22,013 meter drilling programme completed in 2008 and 2009, Orsu announced that Gold Fields reported an updated mineral resource estimate relating to Taldybulak, effective June 30, 2010, in its 2010 Annual Report (the “Taldybulak Mineral Resource”) in accordance with the 2007 South African Code for the Reporting of Mineral Resources and Mineral Reserves (the “SAMREC Code”). Please see “Operational Review – Talas Copper-Gold-Molybdenum Project, Kyrgyzstan - Taldybulak Licence, Kyrgyzstan – 2010 Mineral Resource Estimates”.
- November 2010 – The Company announced the positive results of a scoping study for Taldybulak, completed by Mr. Rodney Smith (Bsc, MAusIMM, Principal Consultant - Metallurgy (and independent of Orsu) of Coffey Mining Pty Ltd (Perth, Australia) (“Coffey Mining”) on behalf of the Talas Joint Venture in accordance with the SAMREC Code (the “Taldybulak Scoping Study”). The work performed in connection with the Taldybulak Scoping Study formed the basis for the pit-constrained Taldybulak Mineral Resource as reported by Gold Fields in September 2010.
- December 2010 – the Company announced the completion of a 6,952 meter drilling programme as part of the Karchiga Definitive Feasibility Study.
- December 2010 – Mr. David John Rhodes was appointed as an additional non-executive director of the Company with immediate effect. Mr. Rhodes, aged 44, is currently the Managing Director of Endeavour

## **Orsu Metals Corporation**

### **MD&A for the year ended December 31, 2010**

---

Financial Limited and has experience in arranging and advising on natural resource project financing over a period of more than twenty five years.

- Late December 2010 - WAI completed a NI 43-101 compliant report (the "NI 43-101 Taldybulak Scoping Study Report") on behalf of Orsu relating to the results contained in the Taldybulak Scoping Study.

#### **POST YEAR END HIGHLIGHTS**

- January 2011 – the Company confirmed that, pursuant to the SPA, it had earned deferred consideration for 2010 of \$2.7 million and, of this amount, had received \$1.5 million, with the balance of \$1.2 million being rolled over and added (with interest accruing at a rate of 2.8% per annum) to any payment earned by the Company for 2011.
- February 2011 – the Company announced the assay results for its 2010 infill drilling programme in the North East lode at the Karchiga Project. Please see "Operational Review – Karchiga Copper Project, Kazakhstan".

## Orsu Metals Corporation

### MD&A for the year ended December 31, 2010

---

#### CORE ASSETS

Orsu's principal exploration projects include the following properties in Kazakhstan and Kyrgyzstan.

- **Karchiga Project, Kazakhstan** – The Karchiga Project is located in the extreme east of the Republic of Kazakhstan, within 40km of the Chinese border and within the Rudny Altai belt which is ranked in the top four VMS belts in the world.

In relation to the Karchiga Project, WAI was contracted by Orsu in early 2010 to complete an independent review and audit of Orsu's updated mineral resource estimate for the Karchiga Project, from which WAI completed its own mineral resource estimate. WAI's complete technical report titled "Updated Report on the Karchiga Property held by Orsu Metals Corporation, Kazakhstan", dated March 22, 2010 and prepared by M L Owen and L S Carroll (each of whom is a "qualified person" within the meaning of NI 43-101 and independent of Orsu) (the "Karchiga Technical Report"), can be viewed under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com). In May 2010, Micon completed the Karchiga Scoping Study, based upon the aforementioned WAI mineral resource estimates. Micon's complete technical report titled "Preliminary Assessment of the Karchiga Copper Project, East Kazakhstan Region, Kazakhstan", dated May 25, 2010 and prepared by L S Carroll, G W Harris, L Owen, J Steedman and D T Wells (each of whom is a "qualified person" within the meaning of NI 43-101 (and independent of Orsu), can be viewed under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com). In September 2010, the Company commenced the Karchiga Definitive Feasibility Study with a view to potentially starting construction in early 2012.

Further discussion about the Karchiga Project can be found on page 9 of this MD&A. Certain information contained in this MD&A regarding the Karchiga Project has been derived from, and additional information relating to the Karchiga Project can be found in, the Karchiga Scoping Study and the Karchiga Technical Report.

- **Talas Project, Kyrgyzstan** – The Talas Project is located within the Tien Shan gold belt in north western Kyrgyzstan, and is comprised of four licence areas: the Taldybulak, Kentash, Barkol and Korgontash licences. The Taldybulak gold-copper-molybdenum porphyry deposit is the primary exploration area within the Talas Project.

In relation to the Talas Project, WAI was contracted by Orsu in early 2010 to complete an independent audit and review of Orsu's updated mineral resource estimate in relation to the Talas Project, from which WAI completed its own mineral resource estimate. WAI's complete technical report titled "Updated Technical Report on the Taldybulak Property held by Orsu Metals Corporation, Kyrgyzstan", dated March 22, 2010 and prepared by J C Osmond and M L Owen (each of whom is a "qualified person" within the meaning of NI 43-101 and independent of Orsu) (the "Taldybulak Technical Report"), can be viewed under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com). In September 2010, Orsu announced the results of the Taldybulak Mineral Resource and in November 2010, Orsu announced the positive results of the Taldybulak Scoping Study. Orsu subsequently engaged WAI to convert the results of the Taldybulak Scoping Study to NI 43-101 standards and, as a result, WAI completed the NI 43-101 Taldybulak Scoping Study Report (entitled "Updated Technical Report on the Taldybulak Property, Kyrgyzstan, held by Orsu Metals Corporation", dated December 24, 2010 and prepared by J C Osmond and M L Owen). A copy of the NI 43-101 Taldybulak Scoping Study Report can be viewed under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

Further discussion about the Talas Project can be found on page 15 of this MD&A. Certain information contained in this MD&A regarding the Talas Project has been derived from, and additional information relating to the Talas Project can be found in, the Taldybulak Technical Report.

Orsu's other exploration project is comprised of the following:

- **Akdjol-Tokhtazan Project, Kyrgyzstan** - The Akdjol-Tokhtazan Project is located in the Jelal-Abad Oblast, western Kyrgyzstan and is comprised of two exploration licences, Akdjol and Tokhtazan.

Further discussion about the Akdjol-Tokhtazan Project can be found on page 21 of this MD&A.

#### QUALIFIED PERSON

Except for the technical information derived from the technical reports referred to in this MD&A, Dr. Alexander Yakubchuk, a "qualified person" (as such term is defined in NI 43-101), reviewed and approved the technical information in this MD&A. Dr. Yakubchuk verified the data disclosed in this MD&A in respect of exploration results, including sampling, analytical and test data, underlying such information, dated after July 31, 2010. Dr. Yakubchuk is a Director of Exploration and the Chief Operating Officer for Orsu. Technical information in this MD&A dated before July 31, 2010 and not otherwise derived from the technical reports referred to herein, had been reviewed and approved by Mr. Matthew Boyes (a "qualified person" as defined in NI 43-101) who was the Mineral Resource Manager for Orsu during the relevant time. Mr. Boyes is no longer employed by the Company.

**EXECUTIVE CHAIRMAN'S STATEMENT**

Having successfully disposed of the poorly performing Varvarinskoye Project together with its outstanding long-term debt and hedging obligations and having settled the Claim (inherited from the previous management) with no appeals or opt outs from class members, the Company has focussed during 2010 on aggressively continuing the exploration and development of its copper, gold and molybdenum exploration projects in Kyrgyzstan and Kazakhstan. The Company also continues to review potential new opportunities and acquisitions in the countries of the Former Soviet Union ("FSU") if and when such opportunities arise.

For the year ended December 31, 2010 the Company's net loss for continuing operations was \$9.7 million, compared with a \$10.6 million net loss for 2009. Exploration costs for 2010 were \$2.9 million, compared with \$1.6 million for 2009, reflecting the additional Karchiga Definitive Feasibility Study costs incurred during 2010. In addition, the Company incurred a further \$1 million of Talas Project costs (being Orsu's pro-rata share for 2010), such costs not having been incurred in previous years as Gold Fields was responsible for all exploration costs during the "First Phase" of the JV Agreement. The Company's general and administrative costs decreased by \$1.5 million year-on-year (a 33% reduction), reflecting a \$1 million reduction in staff costs and a \$0.5 million reduction in legal and professional charges.

The Company's net cash inflows for continuing operations for the year ended December 31, 2010 were \$16.2 million, after including net proceeds from the Offering of \$25.2 million (net cash outflows of \$9.0 million excluding the net proceeds from the Offering), compared with net cash outflows of \$8.9 million for 2009.

As a positive sign of increased investor confidence in the Company's strategy and prospects, in April 2010 the Company successfully raised net proceeds of \$25.2 million from the Offering, which provided essential funding for the maintenance of the Company's interests in, and for the further exploration and the development of, the Company's mineral properties in Kazakhstan and Kyrgyzstan and for general corporate and working capital purposes. In addition, these funds may be used to pursue future growth opportunities (which may include acquiring one or more additional assets) if and when such opportunities arise.

The positive results of the Karchiga Scoping Study and the commencement of the Karchiga Definitive Feasibility Study have made the Karchiga Project the Company's most advanced exploration project to date. The strength of this project was further confirmed by the positive assay results announced by the Company in February 2011 from the 2010 infill drilling programme in the North East lode at the Karchiga Project, completed as part of the Karchiga Definitive Feasibility Study. The Company is currently awaiting the receipt of all necessary regulatory consents, including from the required authorities in Kazakhstan, in order to increase its ownership interest in the Karchiga Project to 94.75%.

The Taldybulak Mineral Resource and Taldybulak Scoping Study announcements confirmed the strategic importance of the Talas Project to the Company's future growth. As a next step, Gold Fields, the operator for the Talas Project, is planning a 5,500 metre infill drilling programme which, when completed, will form the basis for an updated mineral resource for Taldybulak. These works are expected to form a foundation for the decision to proceed with the prefeasibility study for the Taldybulak deposit.

In relation to the Company's discontinued operations (the Varvarinskoye Project), the deferred consideration earnings of \$2.7 million for 2010 are an important source of cash income, which the Company believes has a reasonable prospect of being supplemented in future years pursuant to the terms of the SPA (subject to the maximum amount receivable of \$12 million) given current gold and copper metal price trends and market forecasts of future metal prices. There were no other income or expenditure items for discontinued operations during the year ended December 31, 2010.

Once again, I would like to thank Orsu's staff, management, consultants and advisors for their hard work, dedication and drive during a positive year which has laid the important foundations for the Company's continued growth and success, as reflected in the Company's share price recovery since mid 2010.

**Dr Sergey V Kurzin**  
Executive Chairman  
March 22, 2011

**OPERATIONAL REVIEW**

The Company is exploring several advanced stage copper, gold and molybdenum deposits in the Rudny Altai metallogenic belt in Kazakhstan and in the Tien Shan metallogenic belt in Kyrgyzstan. These exploration projects are held by Orsu through its wholly-owned subsidiary, Lero, and its direct and indirect subsidiaries.

The Company has been using, and will continue to use, its current working capital resources, including the funds raised from the Offering, to satisfy the Company's commitments in respect of its mineral exploration properties as described below.

**KARCHIGA COPPER PROJECT, KAZAKHSTAN**

**Licence Information**

The Karchiga Project is the Company's most advanced project. The Karchiga Project is located in the extreme east of the Republic of Kazakhstan, within 40km of the Chinese border. The deposit at the Karchiga Project is situated within the north west striking, mid-Palaeozoic, Rudny Altai VMS belt, the host of numerous world class copper bearing VMS deposits, including the Leninogorsk (also known as Ridder-Sokolnoye), Zyryanovskoye, and Maleevskoye deposits. The Rudny Altai is ranked in the top four VMS belts of the world.

The Company's interest (through its indirect subsidiary, GRK) in the Karchiga Project is governed by an exploration and production contract (the "Karchiga Project Contract"), as amended by the Karchiga Amendments (as defined below), granted to GRK by the former Ministry of Energy and Mineral Resources of the Republic of Kazakhstan (the "Former MEMR") until February 28, 2024. Pursuant to the Karchiga Project Contract, GRK has been granted the right to explore and produce copper within the boundary of the contract area.

On April 20, 2010 the first amendment to the Karchiga Project Contract, registration No. 3565 – TPI (the "First Amendment") was executed and registered with the Ministry of Industry and New Technologies of Kazakhstan ("MINT") (the entity to which the Former MEMR's responsibilities in the regulation of the Kazakh mining industry have been transferred). The First Amendment includes: (i) an approved increase to the work program under the Karchiga Project Contract; and (ii) a delay in the obligation to return parts of the contract area until the expiration of the exploration period (the "Return Date").

On June 28, 2010 the second amendment to the Karchiga Project Contract, registration No. 3647 – TPI (the "Second Amendment", and the Second Amendment together with the First Amendment, the "Karchiga Amendments") was executed and registered with the MINT. The Second Amendment includes, among other things, an extension of each of the exploration period under the Karchiga Project Contract and the Return Date to February 28, 2012.

While each of the Karchiga Amendments was submitted to the Former MEMR by the relevant deadlines, their execution and registration by the MINT occurred after the applicable deadlines for doing so (as provided for in the Former MEMR's original approvals of such amendments). Reference should be made to the heading "Risks relating to the Karchiga Project Contract" under "Risks and Uncertainties" for a discussion of the potential implications of the delay in the execution and registration of the Karchiga Amendments.

All outstanding requirements under the Karchiga Project Contract, as amended, have been satisfied.

The expenditures and obligations of GRK relating to the Karchiga Project are outlined in Table 1.

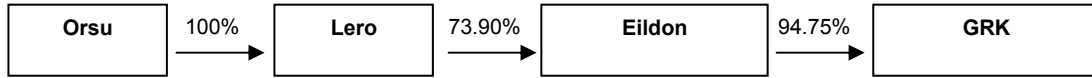
**Table 1: Karchiga Project Contract Expenditures (2007-2010) and Expenditure Obligations (2011-2012)**

<b>Year</b>	<b>Expenditures</b>
2007 (Actual expenditures)	\$807,000
2008 (Actual expenditures)	\$2,700,000
2009 (Actual expenditures)	\$1,000,000
2010 <sup>(1)</sup> (Actual expenditures)	\$2,528,000
2011 <sup>(1)</sup> (Expenditure obligations)	\$545,000
2012 <sup>(1)</sup> (Expenditure obligations)	\$80,000

<sup>(1)</sup> A condition of the Second Amendment is that the expenditure obligations of the Company on the Karchiga Project between 2010 and 2012 amounts to not less than \$850,000 and the Company incurred expenditures of \$2,528,000 during 2010.

**Karchiga SPA**

The Company's current interest in the Karchiga Project is shown below:



On May 20, 2010 the Company entered into the Karchiga SPA, which is subject to certain conditions, such as receipt of all necessary regulatory consents, including from the required authorities in Kazakhstan. Due to an ongoing reorganization within the government of Kazakhstan, the Company now anticipates completing the Karchiga Acquisition during the first half of 2011. Following the Karchiga Acquisition, the Company will indirectly own a 94.75% interest in the Karchiga Project.

**2010 Mineral Resource Estimates**

A NI 43-101 mineral resource estimate for the Karchiga Project was reported on March 22, 2010 in the Karchiga Technical Report, a copy of which has been filed under the Company's profile on SEDAR ([www.sedar.com](http://www.sedar.com)).

**Table 2: Karchiga Project Mineral Resource Estimates (WAI, March 22, 2010)**

WAI Indicated Mineral Resources for Karchiga Cu VMS Project						
Cut-off Cu (%)	Area	Type	Tonnes (Mt)	Grade Cu (%)	Metal Cu (t)	Metal Cu (Mlb)
0.3	Central + North East	Sulphide	8.05	1.93	154,958	342
0.5	Central + North East	Sulphide	7.56	2.02	153,000	337
0.3	Central	Oxide	1.09	1.25	13,545	30
0.5	Central	Oxide	0.93	1.39	12,868	28

WAI Inferred Mineral Resources for Karchiga Cu VMS Project*						
Cut-off Cu (%)	Area	Type	Tonnes (Mt)	Grade Cu (%)	Metal Cu (t)	Metal Cu (Mlb)
0.3	North East	Sulphide	1.83	1.60	29,260	65
0.5	North East	Sulphide	1.79	1.62	29,120	64

*\*All Inferred resources are quoted completely exclusive of the Indicated resources. Mineral resources are shown at a 0.3% Cu and 0.5% Cu as these are considered to be possible economic cut-off grades for this deposit; although, economic and mining studies are required to determine the actual cut-off grade. Mineral resources are reported without mining constraints other than the cut-off grade, no pit shell, mine design, or minimum mining width, which have been used to restrict the reported mineral resources.*

**Karchiga Scoping Study**

In May 2010, Micon completed, at the request of Orsu, the Karchiga Scoping Study. The Karchiga Scoping Study is based on the above Indicated and Inferred mineral resource estimates (March 22, 2010) prepared by WAI. The Karchiga Scoping Study (entitled "Preliminary Assessment of the Karchiga Copper Project, East Kazakhstan Region, Kazakhstan" and dated May 25, 2010) was prepared by Liv S Carroll (MIMMM CGeol FGS), Geraint Harris (MAusIMM), Mark L. Owen (CGeol EurGeol FGS), Jonathan Steedman (MAusIMM) and David T. Wells (MIMMM CEng), each of whom is a "qualified person" within the meaning of NI 43-101 (and independent of Orsu). A copy of the Karchiga Scoping Study can be viewed under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

The Karchiga Scoping Study, including pit optimization, contemplates mining a total of 7,580,389 tonnes grading 1.94% copper, containing 146,778 tonnes of copper metal. 86% of the tonnage totaling 6,487,556 tonnes with a grade of 1.97% copper is derived from Indicated mineral resources, and 14% of the tonnage totaling 1,092,833t with a grade of 1.71% copper is derived from Inferred mineral resources. At a nominal mining and processing rate of 750,000 tpa of mineralized feed, the project life is expected to exceed ten years. For the purposes of the Karchiga Scoping Study, all oxide material was considered to be waste and assigned no economic value.

The Karchiga Scoping Study results referred to below in this MD&A are based on 100% ownership of the Karchiga deposit.

The Karchiga Scoping Study base case economic analysis indicates a discounted cash flow, over approximately 10 years, NPV of approximately \$138 million and an IRR of 40.5% (refer to tables 3 & 4 below) based on a flat copper price of \$3.00/lb. The NPV and IRR figures have been calculated pre-tax and pre-finance cost Life Of Mine ("LOM"), assuming an initial capital cost of \$100.16 million and a discount rate of 10% per annum.

**Table 3: NPV<sup>10</sup> and IRR Sensitivity against Cu Price, MICON May 2010**

Cu Price		
Cu (\$/lb)	NPV <sub>10</sub> (\$ millions)	IRR (%)
2.40	59.2	24.2
2.60	85.6	29.9
2.80	112.1	35.3
<b>3.00 (Base Case)</b>	<b>138.5</b>	<b>40.5</b>
3.20	165.0	45.4
3.40	191.4	50.4
3.60	217.9	55.1

**Table 4: NPV<sub>10</sub> and IRR sensitivity against Capex, Opex and Revenue, MICON May 2010**

Variable Variance from Base Case (%)	Capex		Opex		Revenue	
	NPV <sub>10</sub> (\$ M)	IRR (%)	NPV <sub>10</sub> (\$ M)	IRR (%)	NPV <sub>10</sub> (\$ M)	IRR (%)
70%	164.7	58.8	191.4	51.6	21.3	15.4
80%	156.0	51.4	173.8	47.9	60.4	24.4
90%	147.2	45.4	156.2	44.2	99.5	32.7
<b>100%</b>	<b>138.5</b>	<b>40.5</b>	<b>138.5</b>	<b>40.5</b>	<b>138.5</b>	<b>40.5</b>
110%	129.8	36.4	120.9	36.8	177.6	47.9
120%	121.1	32.9	103.3	33.0	216.7	55.0
130%	112.4	29.9	85.7	29.2	255.8	61.8

\*Micon notes that the preliminary assessment is preliminary in nature and includes Inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorised as Ore Reserves under the guidelines of the Australian Joint Ore Reserve Committee, as amended in 2004 (JORC Code) or Mineral Reserves under the guidelines of the Canadian Institute of Mining, Metallurgy and Petroleum. As such, there is no certainty that the preliminary assessment will be realised. Mineral resources that are not Ore/Mineral Reserves do not have demonstrated economic viability.

\*\*NPV<sub>10</sub> refers to an NPV calculated at a discount factor of 10%.

A conventional processing route was chosen using relatively fine grinding and selective sulphide flotation to produce the final marketable concentrate product. The preliminary assessment forecasts a LOM average recovery of over 90%, resulting in a marketable concentrate with an average grade of 22% Cu containing 132,637t of copper. Further optimization studies will be required as part the Karchiga Definitive Feasibility Study.

Tables 5 and 6 show key cost parameters and LOM financial highlights for Karchiga operation at base case \$3.00/lb Cu.

**Table 5: LOM Operating Cost Summary**

Area	Unit Cost (\$/tonne of ore)
Mining	17.04
Processing	10.10
General and Administration	3.56
Total Cash Production Cost	30.70
Concentrate Transport	5.01
Mineral Extraction Tax	7.04
Property Tax	0.99
Total Operating Cost	43.75
<b>Total Operating Cost (\$/lb Cu)</b>	<b>1.13</b>

**Table 6: Base Case LOM Financial Highlights**

Criteria	Unit	Value
Net Revenue	\$ million	765.42
Net Smelter Return	%	87.3
Production Cost	\$/tonne of ore	30.70
Operating Cost	\$/tonne of ore	43.75
Operating Cost	\$/lb of Cu	1.13
Initial Capital Cost	\$ million	100.16
LOM Capital Cost	\$ million	102.63
Net Cash Flow	\$ million	340.34
NPV <sup>10</sup>	\$ million	138.53
IRR	%	40.5
<b>Initial Capital Payback</b>	<b>years</b>	<b>1.98</b>

**Karchiga Definitive Feasibility Study and Associated Exploration Programme**

In September 2010, SRK was commissioned to undertake the Karchiga Definitive Feasibility Study with an expected date for completion of September 2011. As part of the Karchiga Definitive Feasibility Study, WAI have been commissioned to prepare a Baseline Study and ESIA. In addition, other international and Kazakh companies are being engaged to carry out additional necessary studies which will form part of the Karchiga Definitive Feasibility Study. To satisfy Kazakh requirements the following additional studies, running in parallel with SRK, will also be performed:

- a locally commissioned Kazakh Feasibility Study for submission and approval with the Kazakh authorities (local Kazakh institute);
- local Environmental Baseline Study leading to preparation of a full OVOS (Kazakh equivalent to an ESIA); and
- additional metallurgical test work to be carried out by a local authority under the supervision of SRK and Orsu.

In order to satisfy the requirements for the Karchiga Definitive Feasibility Study, it has been necessary to perform in-fill resource drilling (aiming to convert Inferred mineral resources into Indicated mineral resources in the North East lode of the Karchiga deposit), geotechnical drilling for open pit design, metallurgical sample drilling and hydrological drilling for monitoring holes and pumping wells.

The drilling programme (Table 7) consisted of 72 holes totalling 6,952 meters. All drilling was completed by November 30, 2010.

**Table 7. Completed 2010 Drilling Programme**

Activity	Number of Holes	Metres
Infill Resource Drilling (for resource up-date)	40	3,876
Geotechnical core drilling (for open pit design)	8	1,310
Hydrological Drilling (for open pit slope angle design)	6	476
Monitoring Hydrological Drilling (for water sampling, ESIA)	6	467
Metallurgical Drilling (for additional metallurgical testwork)	12	823
<b>Total</b>	<b>72</b>	<b>6,952</b>

All assay results of the infill resource drilling programme were received by the Company by February 10, 2011. As a result, the information that follows relating thereto has not been derived from the above-mentioned technical reports. The Karchiga deposit consists of the Central and North East lodes and the 2010 infill drilling programme was focussed on up-grading the inferred mineral resources of the North East lode to the indicated category. The 2010 mineral resource estimate showed that the mineralisation in the North East lode was located within three shallow-dipping zones of massive and disseminated sulphide bodies. The 2010 infill drilling programme, however, demonstrated that there is continuity between these lenses and in fact they form a single lode with a strike length of approximately 1.0km.

Table 8 below shows average copper and gold grades for significant intercepts in the North East lode from the 2010 drilling programme:

**Table 8.** Summary of significant intercepts of the sulphide ore in the North East lode, showing average copper and gold grades per intercept at 0.3% Cu cutoff.

Hole ID	From	To	Drilled width, m	Cu, %	Au, g/t
KGDD10-118	70.8	71.7	0.9	5.95	0.42
and	74.0	76.0	2.8	0.38	0.10
and	81.0	84.0	3.0	0.76	0.09
and	89.2	89.6	0.4	8.48	0.96
KGDD10-119	48.0	56.3	7.6	1.40	0.16
KGDD10-120	89.7	95.6	5.9	2.06	0.14
KGDD10-121	11.5	33.2	15.4	0.35	0.03
KGDD10-122	104.80	106.4	1.6	3.79	0.61
KGDD10-123	79.1	90.9	8.5	3.28	0.22
and	96.8	97.9	1.1	6.83	0.57
KGDD10-124	61.0	64.2	3.2	0.93	0.09
and	66.8	67.8	1.0	0.67	0.06
KGDD10-125	102.2	103.0	0.8	0.82	0.06
and	107.0	109.2	2.2	1.46	0.07
KGDD10-126	5.3	21.2	15.7	2.55	0.61
KGDD10-127	5.6	18.8	13.2	2.10	0.60
KGDD10-129	84.2	88.8	5.3	2.55	0.24
and	94.5	98.0	3.5	2.34	0.22
KGDD10-130	94.45	100.0	5.55	2.45	0.21
KGDD10-131	31.0	32.0	1.0	0.39	0.1
and	34.62	38.7	4.08	0.35	0.14
KGDD10-132	81.0	82.0	1.0	0.98	0.43
and	87.0	89.0	2.0	0.74	0.07
and	98.0	100.0	2.0	0.46	0.10
KGDD10-133	115.9	116.9	1.0	2.66	0.35
and	119.0	120.05	1.05	3.78	0.43
and	124.2	124.7	0.5	6.18	0.96
KGDD10-135	70.1	72.1	2.0	0.47	0.09
and	74.7	77.7	3.0	2.42	0.24
KGDD10-136	61.9	66.8	4.9	2.34	0.25
and	83.9	84.8	0.9	1.59	0.27
KGDD10-137	84.25	88.25	4.0	2.35	0.18
KGDD10-138	76.25	79.15	2.9	0.79	0.08
KGDD10-139	44.85	48.9	4.05	5.43	0.91
and	61.13	67.63	6.5	1.05	0.27
KGDD10-140	80.8	86.46	5.66	1.80	0.18
and	89.4	91.3	1.9	3.8	0.74
KGDD10-143	75.46	76.64	1.18	7.59	0.46
and	80.9	89.5	8.6	4.99	0.39
KGDD10-144	107.82	109.5	1.68	4.19	0.18
KGDD10-145	90.6	93.7	3.1	1.44	0.18
and	99.7	101.4	1.7	1.67	0.29
KGDD10-147	59.3	61.5	2.2	0.60	1.24
KGDD10-150	88.9	94.7	5.8	0.99	0.14
and	97.6	98.1	0.5	6.41	1.2
KGDD10-151	102.0	103.9	1.9	3.43	0.14
SRK-GT10-8	8.3	14.8	6.5	2.44	0.18

# Estimated true widths vary from 70% to 100% of drilled width

Updated resource modeling incorporating this new infill resource drilling assay data is currently in progress and it is anticipated that, apart from updating and improving the mineral resource category of the inferred mineral resources in the North East lode to the indicated category, there is a possibility that the overall mineral resource tonnage will also be increased.

The Company commenced the hydrological field tests in November 2010. The results of the tests will be used to determine open pit slope angles. Hydrological holes, drilled at various locations around the site, are being monitored and used to test water quality and ground water flow modeling. The first round of ground water sampling for the ESIA was carried out in December 2010.

Metallurgical sample drilling has been completed and the core has been sampled. The metallurgical test work on both sulfide and oxide ore commenced in December 2010.

Two key issues to be investigated by SRK as part of the Karchiga Definitive Feasibility Study will be the use of high quality Chinese equipment in order to minimise the project capital costs and potential off-takers for the copper concentrate in both the People's Republic of China and the Republic of Kazakhstan. The Karchiga Project is favourably located approximately 220 km south east of the regional centre, Ust-Kamenogorsk, where Glencore International AG has commissioned its new smelter and approximately 40 km from the Chinese border to the east. The nearest copper mining operation in China at the Ashele VMS deposit, containing 1Mt of copper, is located approximately 85 km east-southeast from the Karchiga deposit.

The milestones for the Karchiga Project are expected to be:

- Q1 2011 – finalisation of the metallurgical flow sheet;
- Q2 2011 – updated NI 43-101 mineral resource, incorporating 2010 drilling results;
- Q2 2011 – start of detailed mine design;
- Q3 2011 – completion of the locally commissioned Kazakh Feasibility Study and submission for approval;
- Q4 2011 – review of the Karchiga Project financing options;
- October 2011 – completion of the Karchiga Definitive Feasibility Study;
- Q1 2012 – approval of the Kazakh Feasibility Study;
- Early 2012 – start of construction.

## **TALAS COPPER-GOLD-MOLYBDENUM PROJECT, KYRGYZSTAN**

### **Licence information**

The Talas Project is the Company's material property in Kyrgyzstan, and includes the Taldybulak, Kentash, Barkol and Korgontash licences. The Talas Project is located in the Tien Shan gold belt, host to some of the world's largest gold-copper-molybdenum porphyries, such as Kalmakyr and Dalnee in nearby Uzbekistan. The Talas exploration area is located in the Western Kyrgyz Range on the north slope of the Talas Valley, at elevations of 1,800-3,000m. It is located in the Talas Oblast, north western Kyrgyzstan. The region includes copper and gold deposits such as Jerooy, Andash, and Aktash. The Talas Project is accessible year round via the Bishkek-Talas road (270km from Bishkek). A rail head is located 140km by road from the deposit and several 10 to 500kV power grid lines pass within 10km of the deposit.

Table 9 summarizes the tenure of the licences in the Talas Project held by TCG.

**Table 9. Licences held by TGC LLC**

<b>Licence No</b>	<b>Name of Licence</b>	<b>Licence Holder</b>	<b>Area (km<sup>2</sup>)</b>	<b>Date Granted</b>	<b>Expiry Date</b>	<b>Extension Granted until</b>
АП-1005	Barkol	TCG	223	16/03/2007	31/12/2010	31/12/2013
AP-24	Taldybulak	TCG	42	14/06/2005	31/12/2010	31/12/2015
АП-23	Kentash	TCG	46	14/06/2005	31/12/2009	31/12/2012
АП-61	Korgontash	TCG	66	02/09/2005	31/12/2009	31/12/2012

For the avoidance of doubt:

1. The Taldybulak gold-copper-molybdenum porphyry deposit within the Taldybulak exploration licence area is a separate asset from the Taldybulak Levoberezhny gold deposit previously owned by Central Asia Gold Limited.
2. TCG, the registered owner of the Talas Project, is a separate company from Talas Gold Mining Company, which was the owner of the Jerooy Gold Project.
3. Of the Barkol licence area of 209.5 km<sup>2</sup>, 2 km<sup>2</sup> is covered by the Chonur licence which is not controlled by TCG.

The Taldybulak deposit is the main focus of exploration activity within the Taldybulak licence area that covers an area of 42km<sup>2</sup>. The Kentash licence is situated immediately east of Taldybulak and covers an area of 46km<sup>2</sup>.

## Orsu Metals Corporation

### MD&A for the year ended December 31, 2010

The Korgontash licence which covers an area of 66km<sup>2</sup> is located approximately 25km east of Taldybulak. The Barkol licence is located immediately west of the Taldybulak licence and covers an area of 223km<sup>2</sup>.

**Table 10. Talas Project Licence Expenditure Obligations**

Name of Licence	2010 \$000*	2011 \$000*	2012 \$000*	2013 \$000*	2014 \$000*	2015 \$000*
Barkol	255	164	245	81	N/A	N/A
Taldybulak	246	596	587	296	288	144
Kentash	29	22	14	N/A	N/A	N/A
Korgontash	60	55	9	N/A	N/A	N/A

\*Licence obligations are stipulated in the local currency (Kyrgyz SOM); the values quoted above in USD have been derived using an exchange rate of 1USD=47 SOM.

The Company met all of its Talas Project licence expenditure obligations for the year ended December 31, 2010.

#### Joint Venture with Gold Fields

Pursuant to the JV Agreement Gold Fields is the project operator for the Talas Project.

In February 2010, Gold Fields earned a 60% interest in the JV Company which is the direct holder of TCG, the registered owner of the Taldybulak, Barkol, Kentash and Korgontash licences, by funding exploration expenditure of CAD\$10 million on the Talas Project. The Company retained a 40% interest in the JV Company.

Under the terms of the JV Agreement, the Company and Gold Fields are required to fund on a pro-rata basis further project expenditures required to continue exploration activities, complete a feasibility study and complete the project development in accordance with programmes and budgets prepared by Gold Fields. Dilution provisions apply under the terms of the JV Agreement if either party decides not to contribute to expenditures in accordance with its pro-rata share.

Under the JV Agreement, following the completion of a bankable feasibility study relating to the Talas Project and if the board of directors of the JV Company so determines, Gold Fields is to act as the lead arranger to obtain any further project financing for development and mining operations, for which Gold Fields will receive a 1.5% arrangement fee.

#### TALDYBULAK LICENCE, KYRGYZSTAN

##### Licence information

In September 2006, Lero acquired 100% of the Taldybulak licence which hosts the Taldybulak gold-copper-molybdenum porphyry deposit. Taldybulak was discovered in 1976 from a regional geochemical survey and a subsequent trenching programme over gold-copper-silver-molybdenum anomalies which outlined an elliptical gold-copper mineralisation zone with dimensions of 1,200m by 700m. The anomalies were tested at depth where 10 out of 20 drill holes intersected gold-copper mineralisation. Two drill holes terminated in strong mineralisation at a depth of over 400m. Four holes were drilled to test additional targets, located 2km to 3km to the east of the prospect. No further work was conducted on the deposit until the late 1990's when British Commonwealth Minerals drilled 11 shallow reverse circulation holes near the centre of the deposit to test the oxide mineralization.

##### 2010 Mineral Resource Estimates

In March 2010, WAI completed the Taldybulak Technical Report. A NI 43-101 mineral resource estimate for Taldybulak was reported (see Table 11) in the Taldybulak Technical Report (entitled "Updated Report on the Taldybulak Property held by Orsu Metals Corporation, Kyrgyzstan", dated March 22, 2010 and prepared by J C Osmond and M L Owen), a copy of which is available under the Company's profile on SEDAR at www.sedar.com. The Indicated Mineral Resources reported at 0.3 g/t Au Cut-off are 141Mt @ 0.66 g/t Au, 0.17% Cu and 0.01% Mo and Inferred Mineral Resources reported at 0.3 g/t Au Cut-off are 153Mt @ 0.66 g/t Au, 0.15% Cu and 0.012% Mo. The "qualified persons" (as such term is defined in NI 43-101) responsible for these updated mineral resource estimates are M L Owen and J C Osmond (who are both employees of WAI and independent of Orsu).

**Table 11.** Taldybulak-Talas Gold-Copper Porphyry Project, Mineral Resource Estimate (WAI) March 22, 2010

WAI Indicated Mineral Resources across all domains (WAI March 22, 2010)							
Cut Off (Au g/t)	Tonnes (Mt)	Au (g/t)	Contained Au (Moz)	Cu (%)	Contained Cu (Mlb)	Mo (ppm)	Contained Mo (Mlb)
0.0	446	0.31	4.45	0.15	1474	81	80
0.3	141	0.66	2.99	0.17	527	96	30

WAI Inferred Mineral Resources across all domains (WAI March 22, 2010) *							
Cut Off (Au g/t)	Tonnes (Mt)	Au (g/t)	Contained Au (Moz)	Cu (%)	Contained Cu (Mlb)	Mo (ppm)	Contained Mo (Mlb)
0.0	384	0.35	4.32	0.13	1100	99	84
0.3	153	0.66	3.24	0.15	506	120	40

\*All inferred resources are reported exclusively of indicated mineral resources. Mineral resources are shown at a 0.0 g/t Au cut-off for comparison purposes only, Orsu does not expect the mineral resources to be economically extractable at this cut-off grade. Mineral resources are shown at a 0.3 g/t Au as this is a possible economic cut-off grade for this deposit; although, economic and mining studies are required to determine the actual cut-off grade. Mineral resources are reported without mining constraints other than the cut-off grade, no pit shell, mine design, or minimum mining width has been used to restrict the reported mineral resources.

All estimates are based upon a Kriged 20m by 20m by 10m block model which is constrained by geological and grade wireframes created in section from interpretation of all available drillhole and channel sampling data. A total of 36,988m of diamond drilling, 1,326m of reverse circulation drilling and 12,615m of surface trenching data was taken into consideration when constructing geological and grade boundaries, subsequently the surface trenching and reverse circulation drilling results were not utilised for the grade interpolation process. WAI carried out a full database verification and a geostatistical interpretation and modelling exercise during the model validation and audit.

The results of the above mineral resource estimation represent an increase, at 0.30g/t Au cut-off, in terms of contained Au ounces for the Indicated category of 1.38 Moz's or 86% increase, and in terms of contained Cu the increase was 226Mlb's or 57%.

On September 27, 2010, the Company announced that Gold Fields had reported the Taldybulak Mineral Resource (effective June 30, 2010) in its 2010 Annual Report in accordance with the SAMREC Code. The following information regarding the Taldybulak Mineral Resource is derived from Gold Fields' 2010 Annual Report.

The updated Taldybulak Mineral Resource (Table 12) consists of an indicated resource of 127 Mt, comprising 2.6 Moz gold at 0.64 g/t, 477 Mlb copper at 0.17%, and 29.4 Mlb molybdenum at 0.01%, and an inferred resource of 296 Mt, comprised of 3.71 Moz gold at 0.4 g/t, 1,098 Mlb copper at 0.17%, and 69.2 Mlb molybdenum at 0.01%. Orsu's attributable resource based on this constrained calculation is 51 Mt, comprising 1.04 Moz gold at 0.64 g/t, 191 Mlb copper at 0.17%, and 11.8 Mlb molybdenum at 0.01% in the indicated category and 118 Mt, comprising 1.48 Moz gold at 0.4 g/t, 439 Mlb copper at 0.17%, and 27.7 Mlb molybdenum at 0.01% in the inferred category.

Orsu Metals Corporation

MD&A for the year ended December 31, 2010

**Table 12. Taldybulak Mineral Resource according to SAMREC Code (effective June 30, 2010)**

Confidence classification	Quantity (Mt)	Equivalent grade (AuEq g/t)	Equivalent metal (AuEq Moz)	Gold grade (g/t)	Gold metal (Moz)	Copper grade (%)	Copper metal (Mlb)	Molybdenum grade (%)	Molybdenum metal (Mlb)
<i>Mineral Resource total for deposit (100%)</i>									
Indicated	127	1.04	4.23	0.64	2.60	0.17	477	0.01	29.4
Inferred	296	0.79	7.48	0.40	3.71	0.17	1,098	0.01	69.2
<i>Mineral Resource attributable to Gold Fields (60%)</i>									
Indicated	76	1.04	2.54	0.64	1.56	0.17	286	0.01	17.6
Inferred	178	0.79	4.49	0.40	2.23	0.17	659	0.01	41.5
<i>Mineral Resource attributable to Orsu (40%)</i>									
Indicated	51	1.04	1.69	0.64	1.04	0.17	191	0.01	11.8
Inferred	118	0.79	2.99	0.40	1.48	0.17	439	0.01	27.7
<b>Table notes:</b>									
The Taldybulak Mineral Resource is constrained within an optimized open pit shell parameters including: mining, processing and administration cost estimates; mining parameters; and process recoveries for gold, copper and molybdenum.									
The Taldybulak Mineral Resource estimate is reported without dilution, ore loss or process recovery factors, assuming 100% metallurgical recoveries for all metals. Commodity prices used in the Taldybulak Mineral Resource are \$1,150/oz gold, \$3.00/lb copper and \$15.00/lb molybdenum. Gold equivalent is calculated using commodity price weightings for gold, copper and molybdenum. AuEq Moz = Au Moz+(\$3.00/lb*Cu Mlb+ \$15.00*Mo Mlb)/\$1,150									
Some figures may not sum exactly due to rounding.									

The Taldybulak Mineral Resource is based on exploration activities and geological and mineral resource modeling completed on the Taldybulak deposit. The indicated and inferred mineral resource estimate according to the SAMREC Code for Taldybulak is based on the same methods as described in the Taldybulak Technical Report. The Taldybulak Mineral Resource according to the SAMREC Code is also based on reasonable prospects for eventual economic extraction of the mineral resource supported by a life-of-mine pit-shell based on mining and mineral processing assumptions.

The dataset used in the Taldybulak Mineral Resource is identical to the database used in the mineral resource estimate contained in the Taldybulak Technical Report. The Taldybulak Mineral Resource according to the SAMREC Code is reported using an optimised pit shell while the mineral resource estimated in the Taldybulak Technical Report is reported at a 0.3 g/t gold cut-off grade without any pit shell constraint. As a result, the mineral resource estimate in the Taldybulak Technical Report does not include substantial mineral resources with low gold grade (less than 0.3 g/t gold) but having elevated copper grade. Table 13 is included for comparison purposes and shows the effect of including the mineralised material outside the 0.3 g/t gold cut-off grade shell to produce the open pit constrained SAMREC Code mineral resource.

**Table 13. Comparison of SAMREC Code and NI 43-101 mineral resources for Taldybulak.**

Mineral Code	Confidence classification	Quantity (Mt)	Gold grade (g/t)	Gold metal (Moz)	Copper grade (%)	Copper metal (Mlb)	Molybdenum grade (%)	Molybdenum metal (Mlb)
NI 43-101	Indicated	141	0.66	2.99	0.17	527	0.01	30
	Inferred	153	0.66	3.24	0.15	506	0.01	40
SAMREC Code	Indicated	127	0.64	2.6	0.17	477	0.01	29.4
	Inferred	296	0.4	3.71	0.17	1,098	0.01	69.2
<b>Table notes:</b>								
NI 43-101 mineral resource figures are from the Company's March 22, 2010 press release, reported within the 0.3 g/t gold shell. Molybdenum grades have been converted to percentage units from parts per million.								
The SAMREC Code figures are reported inclusive both inside and outside the 0.3 g/t gold shell, constrained by 0.1% Cu and open pit shells.								

Aside from minor technical differences in the approach to estimation and confidence classification the major difference between the NI 43-101 and SAMREC Code mineral resource disclosure is the inclusion of substantial copper mineral resources outside of a 0.3 g/t gold shell.

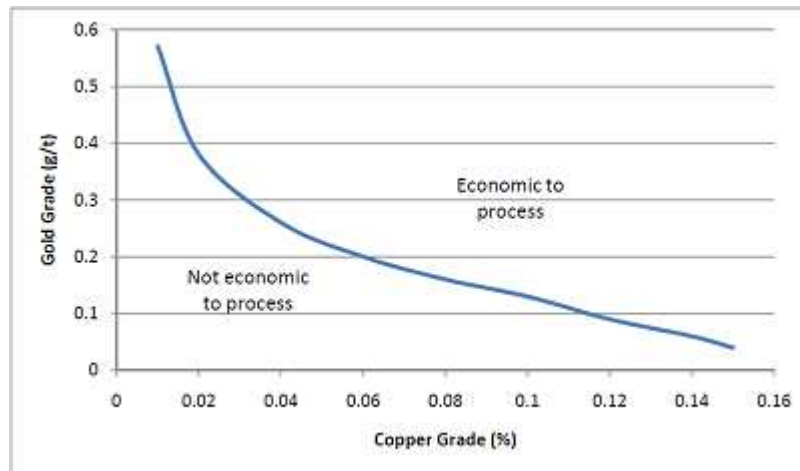
**2010 Taldybulak Scoping Study**

In November 2010, Orsu announced the positive results of the Taldybulak Scoping Study prepared by Coffey Mining in accordance with the SAMREC Code based on the Taldybulak Mineral Resource. Orsu subsequently engaged WAI to convert the results of the Taldybulak Scoping Study to NI 43-101 standards and, as a result, WAI completed the NI 43-101 Taldybulak Scoping Study Report entitled “Updated Technical Report on the Taldybulak Property held by Orsu Metals Corporation, Kyrgyzstan”, dated December 24, 2010 and prepared by J C Osmond and M L Owen (each of whom is a “qualified person” under NI 43-101 and independent of Orsu), a copy of which can be viewed under the Company’s profile on SEDAR at [www.sedar.com](http://www.sedar.com).

The Taldybulak Mineral Resource was calculated using metal prices of \$1,150/oz Au and \$3.00/lb Cu and \$15/lb Mo (“Resource Price Case”). Although the actual pit-constrained Taldybulak Mineral Resource is 127Mt of ore in the indicated category and 296 Mt of ore in the inferred category, the Taldybulak Scoping Study is based on a re-modeling of the open pit using metal prices of \$1,000/oz Au, \$2.49/lb Cu, and \$15/lb Mo (the “Base Price Case”).

Preliminary metallurgical test work (as reported by Orsu in its press release dated July 21, 2010) indicated that the recovery of gold, copper and molybdenum should be possible using a conventional comminution and flotation process. Based on metallurgical test work results, a conceptual process flow sheet has been developed consisting of crushing, grinding and bulk flotation to produce a gold-copper-molybdenum concentrate. The concentrate would then undergo a further flotation stage to produce both a copper-gold concentrate and a molybdenum concentrate. In this scenario, some copper must be present in order to recover any other elements; therefore, any Standard Mining Unit (“SMU”) containing some gold but zero copper would not be profitable to treat. Due to the polymetallic nature of the Taldybulak ores, material that is profitable to treat is not simply based on a single element cut-off grade. Due to the minor contribution from molybdenum, an average molybdenum grade of 0.011% molybdenum is assumed. The copper grade that is economic to treat excluding gold credits is approximately 0.16% Cu.

**Taldybulak economic cutoff grades based on molybdenum grade of 0.011% and metal prices of \$1,150/oz gold, \$3.00/lb copper and \$15.00 molybdenum:**



In addition to production of copper-gold and molybdenum concentrates, gravity gold recovery is 15%, which warrants a gravity separation circuit prior to bulk flotation for any coarse gold that may be present to produce Dore bars on site.

Evaluation of the potential to treat oxide material from the deposit is being investigated. However at this time no value has been attributed to the oxides. Transition material has been incorporated into the mining schedule with reduced recoveries based on test work conducted in 2008.

Mining and processing parameters and the Base Price Case, as long term commodity price assumptions, were used to select a maximum discounted (7.5%) cash flow open pit shell. Key design criteria have been established for a 15 Mtpa processing plant facility (Table 14). The key design criteria assumptions and proposed metallurgical performance are generally based on the processing of sulphide ore, except where transition ore characteristics are known.

Both indicated and inferred mineral resources have been used for mining and processing optimisation in the Taldybulak Scoping Study; no mineral reserves have been estimated or reported for Taldybulak. An open pit mining scenario based on 20mEastx20mNorthx10m vertical SMU with a processing rate of 15 Mtpa of ore has been assumed.

## Orsu Metals Corporation

### MD&A for the year ended December 31, 2010

The Taldybulak Scoping Study establishes key design criteria for an open pit mine scenario with a 15 million tonnes per annum (“Mtpa”) processing facility for average annual recovery of 242,000 oz gold and 137,600 dry metric tonnes (“dmt”) of copper concentrate and 1,880 dmt of molybdenum concentrate via conventional comminution and flotation process flow sheets at estimated initial capital expenditures of approximately \$516 million.

**Table 14. Key Design Criteria Summary**

Parameter	Unit	Criteria
Annual throughput	Mtpa	15.0
Crushing plant availability	%	70
Crushing plant operation	hrs/day and days/week	17 and 7
Processing plant availability	%	92
Processing plant operation	hrs/day and days/week	24 and 7
P80 grind size	µm	75
Ore feed grade	g/t Au	0.60
	% Cu	0.20
	% Mo	0.01
Metal recovery	% Au*	81.4
	% Cu	88.0
	% Mo	53.2
Gravity gold recovery	% Au	15
Annual concentrate production	dmt Cu concentrate	137,600
	dmt Mo concentrate	1,880
Annual gold production	oz Au	242,000
<b>Table notes:</b>		
* Inclusive of gravity gold recovery.		
This table represents design criteria for the process design work. Actual figures for metallurgical recovery will depend on head grade.		

The average annual production from Taldybulak is estimated to be more than 242,000 oz gold, 26,000 tonnes of copper and 900 tonnes of molybdenum. The initial CAPEX is estimated at \$516 million. At the Resource Price Case the pre-tax NPV7.5 is estimated to be approximately \$815 million; with 24.7% pre-tax IRR. The Life of Mine is estimated to be 17 years, with 6 years payback period from start of construction based on the Resource Price Case.

Table 15 shows a price sensitivity analysis of four alternative metal price scenarios for open-pit mining at Taldybulak, using 254 Mt of ore, optimised to an open pit defined by the Base Price Case. Consequently, the change in metal prices incorporated in the sensitivity to the cash flow does not fully reflect the impact the change in metal prices would have on the project as the optimised pit shell were not adjusted. Preliminary indications are that the project economics would be enhanced with a larger pit; however, this was a high-level evaluation and plant throughput, tailings storage, capital cost and unit operating costs were not optimized and updated to account for the increase in tonnage.

Orsu Metals Corporation

MD&A for the year ended December 31, 2010

**Table 15. Sensitivity Analysis Results**

Parameter	Unit	Base Price Case	3-Year Average Price Case*	Resource Price Case	Spot Price Case*
Gold price	US\$/oz	1,000	976	1,150	1,319
Copper price	US\$/lb	2.49	2.92	3.00	3.67
Molybdenum price	US\$/lb	15.00	20.46	15.00	14.95
Average annual throughput	Mtpa	15	15	15	15
Waste : Ore Ratio		1.29	1.29	1.29	1.29
Gold grade	g/t Au	0.52	0.52	0.52	0.52
Gold metal recovered	Moz Au	3.401	3.401	3.401	3.401
Copper grade	%	0.18	0.18	0.18	0.18
Copper metal recovered	kt Cu	391	391	391	391
Molybdenum grade	%	0.011	0.011	0.011	0.011
Molybdenum metal recovered	kt Mo	13.9	13.9	13.9	13.9
Gold grade equivalent	g/t Au	0.95	1.05	0.94	0.95
Average annual production	koz Au	242	242	242	242
	kt Cu	26.2	26.2	26.2	26.2
	t Mo	900	900	900	900
	koz Au equivalent	353	389	356	361
LOM recoverable ounces	Moz Au equivalent	6.01	6.62	6.05	6.14
Average cash cost	US\$/oz Au equivalent	445	404	443	436
Total cash costs	US\$/oz Au equivalent	621	571	624	622
Initial Capex	US\$ M	516	516	516	516
Ongoing Capex	US\$ M	275.2	275.2	275.2	275.2
Years of production	Years	17	17	17	17
0% pre-tax NPV	US\$ M	1,257.7	1,647.8	2,125.8	3,181.1
7.5% pre-tax NPV (base case)	US\$ M	384.4	571.8	814.7	1,337.3
Pre-tax IRR	%	16.3	20.1	24.7	34.1
Payback period (from start of 2-year-long construction)	Years	9	8	6	5
<b>Table notes:</b>					
The cashflow model accounts for royalties, but does not account for taxes.					
Some figures may not sum exactly due to rounding.					
* 3 year average price and spot price from Bloomberg Data as of 1 <sup>st</sup> October 2010					
Gold equivalent is calculated for each case separately using commodity price weightings for gold, copper and molybdenum in this Table. 'koz Au equivalent' = 'koz Au' + ('Copper price US\$/lb' * 'ktCu' * 2,200 + 'Molybdenum price US\$/lb' * 'tMo' * 2,200) / 'Gold price US\$/oz'; 'Moz Au equivalent' = 'Gold metal recovered Moz Au' + ('Copper price US\$/lb' * 'Copper metal recovered ktCu' * 2,200 + 'Molybdenum price US\$/lb' * 'Molybdenum metal recovered ktMo' * 2,200) / 'Gold price US\$/oz'					

The Taldybulak Scoping Study and the NI 43-101 Taldybulak Scoping Study Report are preliminary estimates of the technical and economic viability of Taldybulak and do not contemplate the full spectrum of engineering, economic and regulatory factors, which would be required prior to making a production decision. Estimates provided in the Taldybulak Scoping Study and the NI 43-101 Taldybulak Scoping Study Report are subject to change as additional work is completed on the project.

The Taldybulak Scoping Study and the NI 43-101 Taldybulak Scoping Study Report are preliminary in nature, and include inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves. There is no certainty that the conclusions in the Taldybulak Scoping Study and the NI 43-101 Taldybulak Scoping Study

Report will be realized. Mineral resources that are not mineral reserves do not have demonstrated economic viability.

**Exploration Programme**

For the Talas Project, Orsu and Gold Fields approved a 2010 exploration programme and expenditure budget of \$2.45 million. As per the terms of the JV Agreement, the Company funded its 40% pro rata share of approximately \$979,000. The majority of the licence expenditures are incurred in connection with environmental, social, metallurgical and resource studies, as well as ground magnetic survey at the Taldybulak licence.

Gold Fields, the operator for the Talas Project, is planning an infill drilling in the western area of the Taldybulak deposit with 5,500m of HQ size diamond drilling. The objective of the proposed infill programme is to better delineate the known extents on the mineralisation and to gain a more detailed understanding of the spatial variability of the Au and Cu grades by closing the overall spacing of the drill holes down to 40m by 40m in one part of the Taldybulak deposit. The 2011 exploration programme will also cover further metallurgical test work and a detailed geotechnical study of the hanging wall and footwall rock material immediately adjacent to the deposit, as well as more detailed investigation of the tailings facilities, environmental monitoring and other related studies.

Upon completion of the 5,500 m drilling programme, the Company expects to update a mineral resource for Taldybulak. These works are expected to form a foundation for the decision to proceed with the prefeasibility study for the Taldybulak deposit.

**AKDJOL-TOKHTAZAN PROJECT, KYRGYZSTAN**

**Licence Information**

The Akdjol-Tokhtazan Project contains the Akdjol (108km<sup>2</sup>) and Tokhtazan (4km<sup>2</sup>) exploration licences, both of which are held by Oriel in Kyrgyzstan LLC, in which the Company holds a 100% interest. In April 2010, the Akdjol and Tokhtazan licences were extended by the Ministry of Natural Resources of the Kyrgyz Republic until December 31, 2012. Access to the project is via the main Bishkek-Osh bitumen road for 400 km, then 14km on a gravel road.

The expenditure obligations on the Tokhtazan and Akdjol licences are shown below.

**Table 16. Tokhtazan and Akdjol licence obligations (2010-2012)**

Year	Tokhtazan Licence Obligations	Akdjol Licence Obligations
2010	\$212,000	\$106,000
2011	\$160,000	\$151,000
2012	\$142,000	\$142,000

*\*Licence obligations are stipulated in the local currency (Kyrgyz SOM); the values quoted above in USD have been derived using an exchange rate of 1USD=47 SOM.*

The Company met all of its Tokhtazan and Akdjol licence expenditure obligations for the year ended December 31, 2010.

**2010 Exploration Programme**

During 2009 and 2010 the Company's scout exploration activity on the Akdjol Prospect included grab samples, 14 trenches, and eleven diamond drill holes at the Akdjol Prospect. Located some 3 km northwest from the Tokhtazan Prospect, the initial field assessment of the Akdjol Prospect by Orsu in 2009 indicated that its mineralization consists of mineralized banded quartz veins. Grab samples collected by Orsu in 2009 returned assays ranging between 1g/t and 119 g/t Au, with high silver grades (ranging between 7.7 g/t and 500 g/t Ag). The Company proceeded to review the existing geological model of the entire Akdjol-Tokhtazan Project that interpreted the previously mapped Early Permian granite porphyry bodies intruded into both the Silurian metamorphic basement and the overlying Carboniferous clastic sequence to host, and to be a source of, intrusion-related gold mineralization. The revision showed that the intrusives constitute numerous sills with classic porphyry textures and may be interpreted as sub volcanic bodies of the deeply eroded Early Permian volcanic edifice. This recognition as well as occurrence of the mineralized veins in the Carboniferous sedimentary rocks, with some typical morphological and mineralogical characteristics of the veins, suggests the reinterpretation of the Akdjol Prospect as an epithermal gold-silver system rather than an intrusion-related gold system, as proposed in historical reports.

In 2009, the Company completed 784m of trenching in 14 trenches at the Akdjol Prospect. Trenching indicated that the quartz veins at the Akdjol Prospect extend for 700m in a north-northwest direction at a width varying from 1m to 9.3m. The veins are 6m to 10m thick, but they are enveloped by an alteration halo with disseminated pyrite mineralization, pinching and swelling depending on the hosting lithologies. Both the veins and the envelope are mineralized, revealing up to 36m of mineralized intercepts above 0.5 g/t Au cutoff.

The dipole-dipole induced polarization survey (“DD-IP”) conducted by Orsu identified a chargeability anomaly encompassing the entire 700m length of the exposed veins. The geophysical anomaly extends for an additional 1,000m south, where it is mostly covered by overburden alluvial material over its entire length, but historical Soviet trenches revealed mineralized intercepts some 1000m south of the Akdjol Prospect. The mapping of the exposed part in trenches recognized the higher grade Main Stockwork zone, which is accompanied by a lower grade stratabound Conglomerate zone, located some 40m to 50m in the hanging wall of the Main Stockwork zone to the west, and several veins joining these two main zones (the Diagonal zone). Table 17 shows the assay results for the Orsu trenching programme.

**Table 17. Significant Mineral Intersections from Akdjol Prospect Trenching Works (0.5 g/t Au cutoff)**

Trench ID	Orezone	From (m)	To (m)	Intercept (m)	Au g/t	Ag g/t
AKTR09-01	Diagonal	8	10	2	14.03	66.1
	Main Stockwork	31	55	24	1.7	14.2
<i>Incl</i>	Main Stockwork	46	53	7	4.09	33.4
AKTR09-02	Diagonal	25	34	9	1.44	12.6
	Diagonal	58	61	3	1.51	23.6
	Main Stockwork	67	68	1	5.37	82.5
	Main Stockwork	78	80	2	1.12	14.9
AKTR09-03	Conglomerate	12	19	7	1.52	51.6
	Diagonal	53	55	2	1.02	15.9
	Main Stockwork	60	96	36	2.1	23.9
<i>Incl</i>	Main Stockwork	63	73	10	3.58	29.7
AKTR09-07	Main Stockwork	7	10	3	5.09	71.0
	Main Stockwork	15	15.5	0.5	0.87	30.8
	Main Stockwork	17	20	3	4.68	36.2
	Main Stockwork	23	28	5	1.63	72.7
AKTR09-04	Conglomerate	41	42	1	1.1	19.9
	Main Stockwork	81	86	5	1.21	13.3
	Main Stockwork	104	107	3	3.32	52.4
AKTR09-08	Conglomerate	46	51	5	0.54	13.3
	Main Stockwork	68	71.5	3.5	7.55	42.97
	Main Stockwork	78	79	1	1.93	10.7
AKTR09-09	Main Stockwork	3	5	2	2.85	32.0
AKTR09-05	Conglomerate	22	23.5	1.5	0.92	3.4
	Main Stockwork	26.7	36	<b>9.3</b>	<b>6.33</b>	<b>58.3</b>
AKTR09-06	Main Stockwork	6	12	6	2.8	23.75
AKTR09-14	Main Stockwork	0	6	6	0.95	7.9
AKTR09-12	Main Stockwork	1	5	4	6.15	25.75
	Main Stockwork	41	48	7	3.15	23.8

The trenched sample widths are considered to be a combination of horizontal and oblique width of the outcropping mineralization, representing 75% to 100% of the true width.

To test the true thickness and the style of mineralization down dip, the Company completed 1,515m of drilling with 11 diamond drill holes in 2010. Table 18 shows assay results for mineralized drill intercepts in the central part of the Akdjol Prospect. Hole AKDD10-04, drilled in the central part of the mineralized system, returned so far the best vertical intercept of 14.2m @ 5.32 g/t Au and 59.51 g/t Ag from 150.6 to 164.8m, including 6.7m @ 8.69 g/t Au and 86.96 g/t Ag from 151.7m to 158.4 m. Taking into account the surface intercept of 9.3m in the trench

AKTR09-05 as well as the intercepts in drill hole AKDD10-02 and Soviet adit, occurring in the same cross-section, this drill result confirmed the downdip continuation of the Main Stockwork veins at the Akdjol Prospect for 220m (previously 110m).

**Table 18. Significant Mineral Intersections (0.5g/t Au cutoff) within the Akdjol Prospect**

ID	Total depth (m)	Comment	Orezone	From (m)	To (m)	Length (m)	Au g/t	Ag g/t
<b>AKDD10-04</b>	205	Vertical hole	Main Stockwork	145.5	147	1.5	0.53	25.3
			Main Stockwork	<b>150.6</b>	<b>164.8</b>	<b>14.2</b>	<b>5.32</b>	<b>59.51</b>
<i>incl</i>			Main Stockwork	<b>151.7</b>	<b>158.4</b>	<b>6.7</b>	<b>8.69</b>	<b>86.96</b>
<b>AKDD10-02</b>	82	Angled hole – 55 degrees; Hole stopped in the Soviet adit	Main Stockwork	79.1	82	2.9	4.07	110.39
<b>AKDD10-03</b>	189	Vertical hole	Main Stockwork	158.0	168.2	11.2	2.40	30.56
<i>incl</i>			Main Stockwork	<b>165.0</b>	<b>168.2</b>	<b>3.2</b>	<b>5.44</b>	<b>40.87</b>
<b>AKDD10-05</b>	120	Angled hole – 60 degrees	Main Stockwork	101.0	103.4	2.4	3.5	26.58
<i>and</i>		Angled hole – 60 degrees	Main Stockwork	108.1	110.2	2.1	1.61	23.32

Estimated true widths vary from 65% to 100% of drilled width in vertical and angled holes, respectively.

As part of the 2010 exploration programme Orsu completed 42.35 km of DDIP and 66.075 km of ground magnetics at Akdjol and adjacent prospects. At Tokhtazan, ground magnetics covered 37.5 km. The analysis of the drilling results and their integration with the results of the geophysical survey will form the basis for the 2011 exploration programme.

**Orsu Metals Corporation**

**MD&A for the year ended December 31, 2010**

**RESULTS OF OPERATIONS (SELECTED ANNUAL INFORMATION)**

(Prepared in accordance with Canadian GAAP)

**FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008**

Expressed in US\$000s except where indicated	<b>2010 (audited)</b>	2009 (audited)	2008 (audited) (note1)
Loss from continuing operations	<b>(9,714)</b>	(10,612)	(104,434)
Deferred consideration income from discontinued operations	<b>5,092</b>	-	-
Loss from discontinued operations	-	(51,160)	(218,178)
Net gain on disposal of discontinued operations	-	160,812	-
<b>Net (loss)/ income and comprehensive (loss)/ income for the year</b>	<b>(4,622)</b>	99,040	(322,612)
Sales revenues (included within the results of discontinued operations)	-	71,790	42,619
<b>(Loss)/ income per common share (note 2)</b>			
Loss per common share from continuing operations	<b>\$(0.08)</b>	\$(0.23)	\$(2.71)
Net (loss)/ income per common share (including discontinued operations)	<b>\$(0.04)</b>	\$2.17	\$(8.36)
Weighted average number of common shares – basic and diluted (in thousands)	<b>125,170</b>	45,696	38,598
Total assets	<b>51,158</b>	34,165	106,657
Total long-term debt related to discontinued operations	-	-	53,751
Shareholders' equity/ (deficit)	<b>47,272</b>	24,833	(108,762)

Note 1: The financial information for 2008 was restated following the reclassification of the Varvarinskoye Project as a discontinued operation in June 2009.

Note 2: Per share information has been retroactively restated to give effect to the 10 for 1 share consolidation which occurred in November, 2009.

**Orsu Metals Corporation**

**MD&A for the year ended December 31, 2010**

**RESULTS OF OPERATIONS (SELECTED QUARTERLY INFORMATION)**

(Prepared in accordance with Canadian GAAP)

**SUMMARY OF THE QUARTERLY RESULTS FOR 2010**

Expressed in US\$000s except where indicated	December 31 2010 (unaudited)	September 30 2010 (unaudited)	June 30 2010 (unaudited)	March 31 2010 (unaudited)
Loss from continuing operations	(2,609)	(2,452)	(3,042)	(1,611)
Deferred consideration income	5,092	-	-	-
<b>Income / (loss) and comprehensive income/ (loss) for the period</b>	<b>2,483</b>	<b>(2,452)</b>	<b>(3,042)</b>	<b>(1,611)</b>
<b>Income / (loss) per common share (in US\$/share) (see note 1)</b>				
Loss per common share from continuing operations	\$(0.02)	\$(0.02)	\$(0.04)	\$(0.04)
Income/ (loss) per common share (including discontinued operations)	\$0.02	\$(0.02)	\$(0.04)	\$(0.04)
Weighted average number of common shares – basic and diluted (in thousands)	157,696	157,696	73,170	45,696

**SUMMARY OF THE QUARTERLY RESULTS FOR 2009**

Expressed in US\$000s except where indicated	December 31 2009 (unaudited)	September 30 2009 (unaudited)	June 30 2009 (unaudited)	March 31 2009 (unaudited)
Loss from continuing operations	(1,871)	(2,661)	(3,050)	(3,030)
(Loss)/ profit from discontinued operations	(10,584)	(21,076)	5,755	(25,255)
Net gain on disposal of discontinued operations	160,812	-	-	-
<b>Income/ (loss) and comprehensive income/ (loss) for the period</b>	<b>148,357</b>	<b>(23,737)</b>	<b>2,705</b>	<b>(28,285)</b>
Sales revenues (included within results of discontinued operations)	6,867	22,632	32,495	9,796
<b>(Loss)/ income per common share (in US\$/share) (note 1)</b>				
Loss per common share from continuing operations	\$(0.04)	\$(0.06)	\$(0.07)	\$(0.07)
Income/ (loss) per common share (including discontinued operations)	\$3.25	\$(0.52)	\$0.06	\$(0.62)
Weighted average number of common shares – basic and diluted (in thousands)	45,696	45,696	45,696	45,696

Note 1: Per share information has been retroactively restated to give effect to the 10 for 1 share consolidation which occurred in November, 2009.

**FINANCIAL REVIEW**

For the year ended December 31, 2010 the Company recorded a loss of \$4.6 million made up of a loss from continuing operations of \$9.7 million, offset by deferred consideration income of \$5.1 million.

As at December 31, 2009, the Company held a 100% interest in the Talas Project and had included the carrying value of the Talas Project exploration properties within its "Exploration Properties" assets. In January 2010, Gold Fields earned a 60% interest in the JV Company and, as a result, as at December 31, 2010, the Company derecognized the previously consolidated assets and liabilities and recorded its equity interest in the Talas Joint Venture at fair value under the heading of "Equity investment in the Talas Joint Venture" (see "Equity investment in the Talas Joint Venture" below). Under this accounting method, the Company has expensed its pro-rata share of the Talas Joint Venture losses for 2010.

In April, 2010, the Company completed the Offering, pursuant to which the Company sold 112,000,000 Units at a price of CAD\$0.25 per Unit and raised net proceeds of \$25.2 million.

In September 2010, the Company commenced the Karchiga Definitive Feasibility Study which is expected to be completed by October 2011 with a budgeted expenditure of \$4.7 million. In order to satisfy the requirements for the Karchiga Definitive Feasibility Study, it was necessary for the Company to perform in-fill resource drilling, geotechnical drilling for an open pit design, metallurgical sample drilling and hydrological drilling, all of which were completed by November, 2010 and the costs of which are included within the aforementioned budgeted expenditure of \$4.7 million. As at the date of this MD&A, the Company is awaiting the necessary regulatory approval in order to complete the Karchiga Acquisition for a purchase price of \$6,187,500 (further information on the Karchiga Project can be found in the "Operational Review - Karchiga Project, Kazakhstan"). The Company expects to fund the costs of the Karchiga Definitive Feasibility Study and the Karchiga Acquisition from its available cash reserves.

As at December 31, 2010, the Company recognised a deferred consideration receivable asset relating to the Varvarinskoye Project with an estimated fair value of \$5.1 million (2009, nominal value) and has included this amount as income in its financial results for 2010, described as "Deferred consideration income from discontinued operations" (for further details refer to "Discontinued Operations" below). There were no other income or expenditure items relating to discontinued operations during the year ended December 31, 2010.

**RESULTS FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008**

Following the disposal of the Varvarinskoye Project in October 2009, the Company has no sales revenues. All sales revenues reported in prior years relate to discontinued operations. For further information relating to discontinued operations refer to "Discontinued Operations" below.

In relation to continuing operations, the loss for 2010 was \$9.7 million compared to a loss for 2009 of \$10.6 million and a loss of \$104.4 million for 2008. The loss for 2008 included a \$84.4 million charge for the post-tax impairment write down of the Lero mineral properties, which, if excluded, results in an underlying loss for 2008 of \$20 million.

The loss for 2010 from continuing operations of \$9.7 million, reflected administrative costs of \$4.5 million (compared with \$6 million for the year ended December 31, 2009), exploration costs of \$2.9 million (compared with \$1.6 million for the year ended December 31, 2009), a stock-based compensation charge of \$1.8 million (compared with a charge of \$2.0 million for the year ended December 31, 2009) and the Company's share of the Talas Joint Venture losses of \$1.0 million (compared to nil for the year ended December 31, 2009), partially offset by net foreign exchange gains of \$0.4 million (compared with a net foreign exchange gain of \$0.1 million for the year ended December 31, 2009) and by net interest income of \$0.1 million (compared with nil for the year ended December 31, 2009). During the year ended December 31, 2009, the Company incurred further one-off expenditures for head office staff termination costs of \$0.1 million and \$1.0 million in settlement of the Claim (see "Class Action Claim" under "Risks and uncertainties" for further details).

The \$1.5 million year-on-year decrease in the Company's administrative costs was due primarily to lower staff costs of \$1.0 million and a \$0.5 million reduction in legal and professional charges, reflecting the additional legal, professional and other advisory fees incurred in 2009 in relation to the then ongoing Varvarinskoye Project re-financing and subsequent disposal negotiations.

Exploration costs for the year ended December 31, 2010 of \$2.9 million were \$1.3 million higher than the previous year, due to a year-on-year increase of \$1.4 million in the funding of the Karchiga Project due to the commencement of the Karchiga Definitive Feasibility Study and associated drilling work and a year-on-year decrease in exploration expenditure of \$0.1 million for the Akdjol-Tokhtazan Project.

The 2010 stock-based compensation charge of \$1.8 million consists of a \$0.4 million charge for options which had fully vested by December 31, 2010 and a \$1.4 million allocated charge for 13,800,000 options that were granted between April and December 2010 which will vest between October 2010 and December 2012. The charge for the year ended December 31, 2009 of \$2.0 million related to options granted in July 2008 and vested between December 2008 and June 30, 2010. No options were granted during the year ended December 31, 2009.

**MD&A for the year ended December 31, 2010**

---

For the year ended December 31, 2010 the Company expensed \$1.0 million relating to its 40% pro-rata share of the Talas Joint Venture. For the same period in 2009, the Talas Joint Venture had been fully funded by Gold Fields and, for this reason, had no impact on the results of the Company for that period.

Foreign exchange gains were \$0.4 million for the year ended December 31, 2010. This was primarily due to a \$0.6 million exchange gain on the re-translation of future income tax liabilities on the Company's mineral properties as at December 31, 2010 (nil for the year ended December 31, 2009). In addition, the Company incurred a foreign exchange loss of \$1.2 million following the re-translation of the gross proceeds of the Offering of CAD\$28.0 million into US Dollars as at June 30, 2010, offset by subsequent foreign exchange gains of \$0.2 million from the conversion of CAD\$12.2 million to \$11.7 million and gains of \$0.2 million from the conversion of CAD\$3.8 million to GBP£2.5 million and further gains of \$0.6 million arising from the re-translation of the Company's Canadian Dollar and British Pound Sterling cash assets into US Dollars as at December 31, 2010.

Comparative year-on-year foreign exchange gains and losses went from a net loss of \$0.7 million for 2008 to a net gain of \$0.1 million for 2009 and net a gain of \$0.4 million for 2010. During this period both the Kyrgyz Som and Kazakh Tenge currencies weakened against the US Dollar and the Company was primarily exposed to exchange losses from the translation of its Kyrgyz and Kazakh net assets to US Dollars. However, in 2009 and 2010 these exchange losses were negated by foreign exchange gain adjustments. During 2009, the Kazakh Tenge was officially devalued by the Kazakhstan Government to an official rate of 150 Tenge to the US Dollar (from 120 Tenge to the US Dollar) resulting in an exchange gain from the translation of the Company's Kazakh Tenge operating costs during 2009. The foreign exchange movements during 2010 were predominantly driven by the re-translation of the Offering proceeds, the re-translation of the Company's future income liabilities for its mineral properties and currency conversions, as referred to above.

For 2008, the loss from continuing operations of \$20 million (excluding post-tax impairment write down charges of \$84.4 million for the Lero mineral properties) was \$9.4 million higher than the loss for 2009. The main items accounting for this difference were: higher head office non-operational staff costs in 2008 of \$4.2 million, one-off staff termination costs incurred in 2008 of \$3.8 million (relating primarily to changes in senior management in connection with the Company's acquisition of Lero), a higher stock-based compensation charge of \$1.0 million due to lower vesting charges (due to employees leaving the Company), exploration expenditure being \$0.5 million higher in 2008 compared to 2009, foreign exchange losses \$0.8 million higher in 2008 compared to 2009 and net interest expense of \$0.1 million in 2008. In 2009, the Company incurred a one-off cost in settlement of the Claim for \$1.0 million, which partially negates the reduced losses compared to 2008.

Losses during 2008 for continuing operations were significantly higher than subsequent years (2008 loss of \$20 million, 2009 loss of \$10.6 million and 2010 loss of \$9.7 million) due to higher non operational headcount during 2008, significant legal and professional costs incurred during 2008 in relation to the acquisition of Lero and related staff termination and redundancy costs. During 2010, the Company did not incur any further legal and professional costs relating to the Varvarinskoye Project and no further staff termination costs, resulting in lower head office costs compared to 2009 and 2008. Partially offsetting these cost reductions, however, were increases in the 2010 exploration expenditures for the Karchiga Project and the Talas Project.

The Company's cash flows, cash and cash equivalents as at December 31, 2010 were \$19.6 million compared to \$3.4 million as at December 31, 2009, representing an increase of \$16.2 million. The increase was due primarily to the receipt of the net proceeds of the Offering of \$25.2 million and royalty income in respect of the Company's investment in the Tasbulat Oil Corporation of \$0.2 million, offset by Orsu's pro-rata funding for the Talas Project of \$1 million, exploration expenditure of \$2.8 million and corporate expenditure of \$5.4 million.

The decrease in cash and cash equivalents during the year ended December 31, 2009 of \$2.8 million was due primarily to head office non-operational salary costs and legal and professional costs incurred in respect of the Varvarinskoye Project re-financing and subsequent disposal negotiations totalling \$7 million, staff termination staff costs of \$0.1 million, the settlement of the Claim for \$1 million and capital expenditure of \$0.3 million. This was partially offset by income from the disposal of the Varvarinskoye Project of \$5.1 million (net of disposal costs) and royalty income in respect of the Company's investment in the Tasbulat Oil Corporation of \$0.5 million.

**QUARTERLY RESULTS FOR 2010 AND 2009**

In relation to continuing operations, the loss for the fourth quarter of 2010 was \$2.6 million compared with a loss of \$1.9 million for the fourth quarter of 2009, which included a \$1 million credit to net earnings for the retrospective reimbursement by Gold Fields of Talas Project administration costs previously expensed by the Company. In respect of discontinued operations, the Company recorded income of \$5.1 million for the fourth quarter of 2010, arising from the recognition of the Varvarinskoye deferred consideration receivable asset (previously held at nominal value), compared with a \$150.2 million net gain for the fourth quarter of 2009, arising from the disposal of the Varvarinskoye Project.

Generally, the quarterly losses for 2010 for continuing operations have been lower than the quarterly losses for 2009 due to lower staff costs, administrative costs and share based compensation charges partially offset by

## Orsu Metals Corporation

### MD&A for the year ended December 31, 2010

---

higher exploration expenditures. The Company reduced non operational headcount during the fourth quarter of 2009 by approximately 60% in the London office and 90% in its overseas representative offices, as well as reduced the salaries of senior management. Legal and professional fees were also lower during the fourth quarter of 2010 compared to 2009, due to the completion of the refinancing negotiations relating to the Varvarinskoye Project and the completion of the sale of the Varvarinskoye Project on October 30, 2009.

Exploration expenditures increased quarter on quarter during 2010 compared to 2009 due to the Company increasing its funding for the Karchiga Project following the commencement of the Karchiga Definitive Feasibility Study and additional drilling relating thereto during the second half of 2010.

During 2010 the Company expensed its 40% share of the Talas Joint Venture operating losses (during 2009, the Talas Joint Venture had been fully funded by Gold Fields and, for this reason, had no impact on the results of the Company).

#### FINANCIAL POSITION AS AT DECEMBER 31, 2010 AND DECEMBER 31, 2009

As at December 31, 2010, the Company held net assets of \$47.3 million, compared with \$24.8 million as at December 31, 2009, representing an increase of \$22.5 million, due mainly to a \$16.2 million increase in cash and cash equivalents (for an explanation, please refer to the discussion above regarding cash movements under the heading "Results for the years ended December 31, 2010, 2009 and 2008") and the recording of the \$5.1 million Varvarinskoye deferred consideration receivable asset (please refer to "Discontinued Operations" below for further information).

As at December 31, 2009, the Company held a 100% interest in the Talas Project and had included the carrying value of the Talas Project exploration properties of \$10.2 million within its "Exploration Properties" assets. As at December 31, 2010, the Company derecognized the previously consolidated assets and liabilities and recorded its equity interest in the Talas Joint Venture at fair value under the heading of "Equity investment in the Talas Joint Venture" (see "Equity investment in the Talas Joint Venture" below).

#### EQUITY INVESTMENT IN THE TALAS JOINT VENTURE

As at December 31, 2009, through its ownership of the JV Company, the 100% owner of TCG and the registered owner of the Talas Project, the Company held a 100% interest in the Talas Joint Venture and fully consolidated the results of the Talas Joint Venture in the financial statements of the Company as at that date.

Pursuant to the terms of the JV Agreement, Gold Fields, as the project operator, completed the "First Phase" of the Talas Joint Venture in January 2010, pursuant to which Gold Fields earned a 60% interest in JV Company by funding exploration expenditures of CAD\$10 million and, in doing so, earned the ability to unilaterally control the operational, financial and investment decisions of the JV Company. As a result, on the date of the Company's loss in control, the Company derecognised the assets and liabilities of both the JV Company and TCG at their carrying amounts and recognised them as an investment, the fair value of which was determined to be their carrying amounts and, as such, no gain or loss was recognised as at December 31, 2010. Subsequent to the Company's loss of control and as at December 31, 2010, per CICA 1602, the Company has accounted for the Talas Joint Venture under the equity method in the Company's financial statements.

A summary of the carrying value of the Company's equity investment in the Talas Joint Venture as at December 31, 2010 (net of a \$3.1 million future income tax adjustment to the fair value of equity investment as at January 1, 2010) is set out below:

	<b>\$000s</b>
Fair value of equity investment as at January 1, 2010	10,240
Funding provided by the Company during the year	951
Less: Company's 40% share of operating losses for the year	(970)
Fair value of equity investment as at December 31, 2010	<u>10,221</u>

#### LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2010 the Company's main source of liquidity was unrestricted cash of \$19.6 million, compared with \$3.4 million as at December 31, 2009. As a result of the completion by the Company of the Offering, pursuant to which net proceeds of \$25.2 million were raised, the Company's liquidity has been significantly improved.

The Company measures its consolidated working capital as comprising free cash, accounts receivable, prepayments and other receivables, less accounts payable and accrued liabilities. As at December 31, 2010, the Company's consolidated working capital was \$21.5 million (compared with a consolidated working capital of \$2.8 million as at December 31, 2009), which, in the Company's view, is sufficient to satisfy its working capital needs for, as a minimum, the next twelve months.

## Orsu Metals Corporation

### MD&A for the year ended December 31, 2010

The Company's working capital needs include the maintenance of the Company's interests in, and the further exploration and the development of, the Company's mineral properties in Kazakhstan and Kyrgyzstan (minimum licence expenditure obligations of approximately \$1.7 million for 2011), the completion of the Karchiga Definitive Feasibility Study (budgeted expenditures of approximately \$2.5 million for 2011), the completion of the Karchiga Acquisition (cash purchase price of approximately \$6.2 million), the funding of general corporate expenses (budgeted expenditures of approximately \$4.6 million for 2011) and the contribution towards the pursuit of future growth opportunities (which may include acquiring one or more additional assets), if and when such opportunities arise.

The Company holds the majority of its surplus cash in interest-bearing bank deposit accounts in CAD\$, GBP£ and US\$ currencies and manages such deposits in light of its forecast cash needs and available market interest rates. The majority of the Company's expenditures are in United States Dollars, Canadian Dollars, Kazakh Tenge, Kyrgyz Som and British Pounds Sterling. The Company's liquidity may, therefore, be adversely affected by, amongst other things, the ability of the Company to accurately forecast its operating cash needs in the aforementioned currencies, the Company's ability to convert its cash funds from Canadian Dollars into the other aforementioned currencies, as may be impacted by unfavorable movements in the Canadian Dollar exchange rate relative to the aforementioned currencies and the Company's ability to earn interest on its cash deposits. Further information regarding the Company's liquidity risk, currency risk and interest rate risk may be found in the Company's financial statements for the period ended December 31, 2010.

While the Company's present liquidity has improved due to the completion by the Company of the Offering, the advancement, exploration and development of the Company's properties, including continuing exploration and development projects, and the construction of mining facilities and commencement of mining operations, if any, will require substantial additional financing in the future. To the extent that such funding is required in the future, the Company expects that it would try to raise such funding through equity financing if and when required. Whilst the Company has been successful in raising equity financing in the past, the Company's ability to raise additional equity financing may be affected by numerous factors beyond the Company's control, including, but not limited to, adverse market conditions and/or commodity price changes and economic downturn and those other factors that are listed under "Risks and Uncertainties" in this MD&A.

#### COMMITMENTS

The following table summarises the Company's future commitments as at December 31, 2010, as disclosed in the Company's financial statements under Canadian GAAP:

	2011	2012	2013	2014	2015 +	Total
	\$000	\$000	\$000	\$000	\$000	\$000
<b>Lease obligations</b>	258	344	344	344	691	1,981

The Company's lease obligations are for its London head office property rents, payable under a lease agreement expiring in 2016. The rent payable is subject to an ongoing review in 2011, which may affect the future lease obligations from February 2011 onwards.

#### DISCONTINUED OPERATIONS

On October 30, 2009 the Company completed the sale of the Varvarinskoye Project to Polymetal and, in accordance with Canadian GAAP CICA 3475, has reported all revenues and operating results associated with the Varvarinskoye Project operations as discontinued operations in the financial statements of the Company for the years ended December 31, 2010, 2009 and 2008.

Following the disposition of the Varvarinskoye Project, the Company's operations no longer include commercial production and the Company has focused its resources on its exploration properties and projects in Kyrgyzstan and Kazakhstan, which include the Karchiga Project and the Talas Project.

#### Deferred consideration (Derivative Financial Instrument)

In relation to the Company's discontinued operations, the Company has the ability to earn deferred consideration, the fair value of which is partly dependent on future copper and gold metal prices and, for this reason, is classified as a derivative instrument and has been disclosed as a "deferred consideration receivable" asset and "deferred consideration income" in the Company's financial statements for the year ending December 31, 2010 (see below for further details). A description of the risks associated with this financial instrument is contained in the 'Risks and Uncertainties' section of this MD&A under the heading of "Risks and Uncertainties Relating to the Varvarinskoye Deferred Consideration Receivable (Derivative Financial Instrument)".

#### *Deferred consideration income*

Pursuant to the SPA the Company has the ability to earn deferred consideration up to a maximum of \$12 million. As at December 31, 2010 the Company estimated the fair value of the deferred consideration receivable to be \$5.1 million (as at December 31, 2009, nominal value) and the full amount has been included as income within the net loss as reported in the Company's financial statements for the year ended December 31, 2010.

The deferred consideration earnings are calculated annually for each calendar year from January 1, 2010 (each year referred to as a Deferred Consideration Period or "DCP") in accordance with the formula and related provisions set out in the SPA and is contingent upon the average gold and copper metal price levels during each DCP compared to gold and copper metal benchmark prices of \$1,130 per ounce for gold and \$6,527 per tonne for copper, effective as at the date of a hedging program entered into by Polymetal. For the 2010 DCP the total deferred consideration earned by the Company of \$2.7 million was based on an average actual daily A.M. gold price, as published by the London Bullion Market Association ("LBMA") of \$1,227 per ounce and an average actual daily copper grade A official price, as published by the London Metal Exchange ("LME"), of \$7,538 per tonne.

*Deferred consideration receivable*

The Company has recognized a deferred consideration receivable asset of \$5.1 million in its financial statements for the year ended December 31, 2010, representing the net present value of the Company's estimated future deferred consideration earnings, based upon the Company's forecast of future gold and copper metal prices and adjusted for counterparty credit risk (see above for further information). The Company's forecast gold price range was from \$1,067 per ounce to \$1,285 per ounce and forecast copper price range was from \$6,292 per tonne to \$8,318 per tonne.

Pursuant to the SPA, the maximum amount of any deferred consideration earnings payable to the Company in any one year is limited to \$1.5 million. Any amounts earned but unpaid are carried forward to future years, together with accrued interest at LIBOR + 2%.

Of the \$5.1 million deferred consideration receivable asset as at December 31, 2010, the Company received \$1.5 million in cash in January 2011 (as the capped payment for the 2010 DCP earnings), which it recorded as a current deferred consideration receivable in its financial statements for the year ended December 31, 2010 and classified the balance of \$3.6 million as a long term deferred consideration receivable asset.

**TRANSACTIONS WITH RELATED PARTIES**

Mr. Massimo Carello, a member of the board of directors of the Company, is also a director of Canaccord. In connection with providing its services as sole manager and book runner for the Offering, Canaccord received a fee equal to CAD\$1,680,000, reimbursement for expenses of the Offering related to legal and other professional services in the amount of CAD\$303,094 and was granted 6.7 million non-transferable warrants (each, a "Broker Warrant") for a period of two years following the closing date of the Offering. The fees paid, reimbursements made and Broker Warrants granted to Canaccord were in the normal course of business and measured at the exchange amount, which is the amount agreed by both parties.

No other transactions with related parties transactions occurred during the year ended December 31, 2010.

**CONVERGENCE WITH INTERNATIONAL FINANCIAL REPORTING**

In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011 with earlier adoption permitted. Accordingly, the conversion to IFRS will be applicable to the Company's reporting no later than in the first quarter of 2011, with restatement of comparative information presented.

The conversion to IFRS will impact the Company's accounting policies, information technology and data systems, internal control over financial reporting, and disclosure controls and procedures. The transition may also impact business activities, such as foreign currency, certain contractual arrangements and compensation arrangements. The Company has designated the appropriate resources to the transition to develop an effective plan and will continue to assess resource and training requirements as the transition progresses.

**KEY STEPS TO IFRS CONVERSION**

The four phases of the Company's conversion plan are: scoping and planning, detailed assessment, operations implementation and post implementation.

- The planning and scoping phase involved establishing a project management effort, mobilizing organizational support for the conversion plan, identifying major areas affected, and developing an implementation plan and communication strategy;
- The detailed assessment phase quantified the impact on Orsu's financial statements, accounting policies, and accounting disclosures and identified the business processes and resources affected;
- The operations implementation phase includes the preparation of draft financial statements and design of business, reporting and system processes to support the compilation of IFRS compliant financial data for the opening balance sheet at January 1, 2010;

- Ongoing training, testing of the internal control environment and updated processes for disclosure controls and procedures will continue. Post implementation will include sustainable IFRS compliant financial data and processes for fiscal 2011 and beyond.

#### **IFRS CONVERSION PROGRESS**

As at December 31, 2010 the Company had completed the planning and scoping phase and the detailed assessment phase of its IFRS conversion plan, enabling the Company to identify the key differences between Canadian GAAP and IFRS that could potentially impact the Company's financial statements. The key areas of impact are:

- A. First time adoption of IFRS – potential differences between the current disclosures in the Company's financial statements prepared under Canadian GAAP to IFRS and significant exemptions the Company has elected for upon adoption of IFRS;
- B. Detailed assessment of high impact areas – where potentially a significant amount of implementation effort and complexity may be required by the Company and there may be a significant impact on the financial statements and,
- C. Detailed assessment of potentially low impact areas - where potentially the amount of implementation effort and complexity may not be significant and there may only be minor impact on the financial statements.

#### **A. First time adoption of IFRS**

IFRS 1 - "First Time Adoption of International Financial Reporting Standards ("IFRS 1") requires the Company to apply IFRS effective at the end of its first IFRS reporting period retrospectively, which will be the financial statements as at March 31, 2011, with specific mandatory exemptions and a limited number of optional exemptions (see below for further details).

IFRS introduces a number of changes to the format and disclosure of financial statements, some of which are mandatory and will have an impact on the presentation of the Company's financial statements. The underlying principle of IFRS 1 disclosures is that the Company explain how the transition from Canadian GAAP to IFRS has affected its financial position. IFRS 1 will impact the presentation of the Company's financial statements as at March 31, 2011, as the following items will be specifically included:

- a reconciliation of equity previously reported under Canadian GAAP to equity under IFRS at January 1, 2010 and December 31, 2010 for the first IFRS financial statements;
- a reconciliation of the total comprehensive income and equity previously reported under Canadian GAAP to IFRS at January 1, 2010 and December 31, 2010;
- more extensive disclosures for transactions that will be considered to be Related Party transactions under IFRS than under Canadian GAAP. These disclosures include:
  - relationships between parent and subsidiary companies;
  - key management personnel compensation in total and for each of the following categories:
    - Short term employee benefits;
    - Post employment benefits;
    - Other long term benefits;
    - Termination benefits, and
    - Share based payments
- more extensive disclosure relating to assets per Operating Segments (whereas currently under Canadian GAAP the Company reports on segmental basis).

#### **'Business combinations' IFRS 1 optional exemption to be applied by the Company:**

##### *Current Canadian GAAP accounting policy*

During 2008, the Company completed the acquisition of Lero. The acquisition was accounted for under Canadian GAAP using the purchase method whereby assets and liabilities acquired are recorded at their fair values as of the date of the acquisition. Any excess of the purchase price over such fair value is recorded as goodwill. Any excess of fair value over the purchase price is not recorded. No goodwill was identified as part of the acquisition; however goodwill may arise in the future from new acquisitions. Under Canadian GAAP, goodwill is not amortized.

##### *IFRS 1 optional exemption to be applied*

IFRS 1 gives an optional exemption that allows an entity to carry forward its previous Canadian GAAP accounting for business combinations prior to the transition date.

Going forward, a new business combinations standard (IFRS 3(R)) will be applicable on future business combinations and will significantly change accounting for acquisitions, as follows:

- transaction costs will be expensed as incurred;
- assets and liabilities will be recorded at full fair value, rather than at the value of the consideration paid; and

- an step acquisitions, the assets and liabilities owned prior to the acquisition of a majority interest will be re-valued at the date of acquisition.

**B. Detailed assessment of high impact areas**

During the fourth quarter of 2010, the Company completed the detailed assessment phase during which:

- the Company completed a component evaluation ("CE"), which quantified the impact on the financial statements, accounting policies and accounting disclosures;
- the Company prepared a transitional balance sheet as at January 1, 2010 following the completion of the CE; and,
- the Company prepared final draft shell annual and interim 2010 IFRS consolidated financial statements.

The CE identified specific accounting issues for which the Company quantified the impact on the financial statements relating to the following items:

**a) Share purchase warrants awards**

*Current Canadian GAAP accounting policy*

The Company issues share purchase warrants to consultants from time to time. Under Canadian GAAP, all share purchase warrants issued have a fair value calculated at the date of issue and, net of issue costs, are treated as equity instruments.

*IFRS accounting policy from January 1, 2011*

Under IAS 18, IFRS requires that warrants denominated in a currency other than the functional currency of the issuer be considered as derivative instruments, any related issue costs be expensed and at each reporting period the fair value of the outstanding share purchase warrants be re-calculated. Furthermore, under IFRS all derivative instruments are classified as liabilities unless they are issued pro rata to all existing shareholders, in which case they would be classified as equity. Accordingly, upon adoption of IFRS:

- all the outstanding warrants of the Company, previously classified under equity in the financial statements will be re-classified to liabilities;
- the fair value of the Company's outstanding warrants as at January 1, 2010 will be re-calculated using the Black-Scholes model and an adjustment to reserves;
- all issue costs that were previously capitalised under Canadian GAAP as part of warrants will be reversed and adjusted to reserves; and
- at all future financial reporting periods, the Company will re-calculate the fair value of outstanding warrants using the Black-Scholes model and put the adjustment to the statement of operations.

*Impact of IFRS accounting policy*

The Company has re-stated and re-classified share purchase warrants on its balance sheet as at January 1, 2010 in line with the IFRS guidance above. Furthermore, the Company re-calculated the fair value of warrants as at March 31, 2010 and will continue to do so going forward at each reporting period.

**b) Share Options Granted**

*Current Canadian GAAP accounting policy*

The Company grants share options to employees, directors and consultants on an ongoing basis. The eligibility is dependent on staff classification and performance. The Company calculates the fair value of the total number of options at the date of the grant. The vesting conditions are solely time-based and are accounted for using graded vesting.

*IFRS accounting policy from January 1, 2011*

With the transition from Canadian GAAP the Company identified that:

- each instalment of options that vest are treated as a separate share option grants because each is assumed to have a different vesting period and hence the fair value of each instalment will differ;
- forfeitures of options granted are required to be estimated at the time of the grant to eliminate distortion of remuneration expenses recognised during the period;
- equity instruments issued to employees are required to be measured on the grant date; and
- where options are issued to non-employees of the Company, the fair value must be measured by assessing the value of service provided.

*Impact of IFRS accounting policy*

The Company re-calculated the fair value of options outstanding as at January 1, 2010 based on each instalment that vested and estimated the forfeiture life of options.

**c) Foreign Currency Translation**

*Current Canadian GAAP accounting policy*

The Company's functional and reporting currency is US dollars. Canadian GAAP uses the concept of integrated and self-sustaining foreign operations. None of the Company's operations are accounted for as self-sustaining operations. The Company's non-monetary assets and liabilities are translated at historic exchange rates in effect at the date of the transaction giving rise to the item and revenues and expenditures are translated at average exchange rates. Differences arising from these foreign currency translations are recorded as income or loss in the "Consolidated Statement of Operations" as "Foreign exchange (losses)/ gains".

*IFRS accounting policy from January 1, 2011*

IFRS uses a functional currency concept (currency of the primary economic environment in which the entity operates) to determine the method of measuring foreign currency translation. Under IFRS, where the activities of a foreign operation that is a branch of the reporting entity are carried out as an extension of the reporting entity, rather than being carried out with any significant degree of autonomy, the foreign branch's functional currency is the same as that of the reporting entity. However IFRS 1 allows companies to reset their existing cumulative translation account balance to zero at the date of transition.

*Impact of IFRS accounting policy*

The Company evaluated the functional currency of each of its subsidiaries under the IFRS guidelines and concluded that the functional currency of each is US\$. The Company will continue with a functional and reporting currency for each of US dollars.

**d) Income Taxes**

*Current Canadian GAAP accounting policy*

As at December 31, 2010, the Company has future income tax liabilities of \$6.8 million and no recognised future income tax assets. Future income taxes are calculated using the asset and liability method with the majority of future income tax liabilities arising from a past business combination, specifically the acquisition of Lero in 2008.

*IFRS accounting policy from January 1, 2011*

Under IFRS:

- all deferred tax assets and liabilities are classified as non-current in nature;
- future income tax assets are recognised to the extent that it is probable that the benefit will be realised;
- the recognition of future income tax assets or liabilities that arise from the initial recognition of assets or liabilities, other than in a business combination, is prohibited; and
- there is no exemption as in Canadian GAAP for deferred taxes in respect of foreign exchange differences.

*Impact of IFRS accounting policy*

Within the restated balance sheet as at January 1, 2010, the Company will have to reverse the \$6.8 million of future income tax liabilities. Going forward the Company will have to consider whether any future deferred tax liabilities arise from the non-monetary assets and liabilities. This is because if a foreign entity's taxable profit or tax loss (and, hence, the tax base of its non-monetary assets and liabilities) is determined in a foreign currency, changes in exchange rates give rise to temporary differences because the carrying amounts of the non-monetary assets and liabilities of the foreign branch that are translated into the reporting entity's currency at the historical rate differ from their tax bases that are translated at exchange rates prevailing as at the reporting date. A deferred tax asset (subject to the recognition test) or a deferred liability should be recognised on such temporary differences. Future deferred tax assets will be evaluated and if realization is not considered more likely than not, a valuation allowance will be provided for.

**e) Impairment (long-lived assets, intangibles and goodwill)**

*Current Canadian GAAP accounting policy*

In evaluating the Company's long-lived assets for recoverability under Canadian GAAP, the Company uses a two step impairment test. Estimates of after-tax undiscounted future cash flows of the individual operations are used to estimate the recoverable amount and this is compared with carrying amount. Where the recoverable amount is less than the carrying value an impairment charge is recognised for the amount by which the carrying value exceeds the fair value.

*IFRS accounting policy from January 1, 2011*

The Company will assess impairments using revised criteria, as follows:

- IFRS requires the use of a one-step impairment test (impairment testing is performed using discounted cash flows) rather than the two-step test under Canadian GAAP (using undiscounted cash flow as a trigger to identify potential impairment loss).
- IFRS requires reversal of impairment losses (excluding goodwill) where previous adverse circumstances have changed; this is prohibited under Canadian GAAP.
- Impairment testing should be performed at the asset level for long-lived assets and intangible assets. Where the recoverable amount cannot be estimated for individual assets, it should be estimated as a part of a Cash Generating Unit.
- Impairment testing under IFRS is performed using two new valuation methods – value in use and fair value less cost to sell.

*Impact of IFRS accounting policy*

- The Company will be required annually from December 31, 2011 to consider any factors of impairment mineral properties and then perform analyses for impairment.

**C. Detailed assessment of potentially low impact areas**

**a) Property, plant and equipment**

The Company's property, plant and equipment are recorded at cost less accumulated amortization.

*Under IFRS:*

- IFRS 1 allows companies to elect the fair value as the deemed cost of an individual asset at the date of transition.
- IFRS requires a componentization approach, separately identifying and measuring significant individual components of assets which have different useful lives. Significant components will be depreciated based on their individual useful lives.

**b) Financial Instruments**

Financial and derivative instruments, including embedded derivatives, are recorded at fair values on the Company's balance sheet, with gains and losses in each period included in other comprehensive income or net income. Fair values are determined using valuation techniques. These techniques use assumptions based on market conditions existing at the balance sheet date.

*Under IFRS:*

- IFRS does not provide specific transitional rules for embedded derivatives.
- IFRS has a different derivative definition as compared to existing Canadian GAAP. This difference may have a significant impact on the number of recognized embedded derivatives.

**c) Exploration and evaluation costs**

The Company currently expenses all mineral evaluation costs until a project is deemed economically viable, at which point all exploration and evaluation costs are capitalised until such time as an economic ore body is defined or the project is abandoned. As at December, 31 2010, the Company had \$12.9 million capitalised relating to mineral properties on the balance sheet.

*Under IFRS:*

- The Company needs to determine a policy which specifies which expenditures are recognised as exploration and evaluation assets and apply these consistently.
- Initial measurement of exploration expenditures is at cost but subsequent measurement can be based on a fair value.
- Exploration assets can be classified as tangible or intangible but must be applied consistently

The Company needs to determine an accounting policy for allocating exploration and evaluation assets to cash generating units.

**OPERATIONS IMPLEMENTATION PHASE**

The Company plans to proceed with the operations implementation phase of the conversion plan during the remainder of 2011, which will require:

- completion of the 2010 annual and interim consolidated financial statement IFRS comparatives; and,
- preparation of Q1 2010 consolidated financial statements under IFRS which will include three balance sheets: the transitional balance sheet, the prior year-end balance sheet and the first quarter-end balance sheet.

**POST IMPLEMENTATION AND ONGOING REVIEW**

Post implementation, the Company expects that it will:

- consider the impact of the transition to IFRS on its internal control processes, information technology controls, tax and other areas; and
- have the transitional balance sheet included and audited within the Q1 2011 interim IFRS consolidated financial statements.

**ACCOUNTING POLICY DEVELOPMENTS**

*Business combinations*

In January 2009, the CICA issued Handbook Section 1582, Business Combinations, which replaces Section 1581, Business Combinations, and provides the equivalent to IFRS 3, Business Combinations (January 2008). The new Section expands the definition of a business subject to an acquisition and establishes significant new guidance on the measurement of consideration given, and the recognition and measurement of assets acquired

and liabilities assumed in a business combination. The new Section requires that all business acquisitions be measured at the full fair value of the acquired entity at the acquisition date even if the business combination is achieved in stages, or if less than 100 percent of the equity interest in the acquiree is owned at the acquisition date.

The measurement of equity consideration given in a business combination will no longer be based on the average of the fair value of the shares a few days before and after the day the terms and conditions have been agreed to and the acquisition announced, but rather at the acquisition date. Subsequent changes in fair value of contingent consideration classified as a liability will be recognized in earnings and not as an adjustment to the purchase price. Restructuring and other direct costs of a business combination are no longer considered part of the acquisition accounting.

Instead, such costs will be expensed as incurred, unless they constitute the costs associated with issuing debt or equity securities. The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier adoption is permitted. The Company has decided to early adopt this standard effective January 1, 2010 and this did not have an impact on the financial statements.

*Consolidated financial statements and non-controlling interests*

In January 2009, the CICA issued Handbook Section 1601, Consolidated Financial Statements, and Handbook Section 1602, Non-Controlling Interests, which together replace Section 1600, Consolidated Financial Statements. These two Sections are the equivalent to the corresponding provisions of International Accounting Standard 27, Consolidated and Separate Financial Statements (January 2008). Section 1602 applies to the accounting for non-controlling interests and transactions with non-controlling interest holders in consolidated financial statements. The new Sections require that, for each business combination, the acquirer measure any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. The new Sections also require non-controlling interest to be presented as a separate component of shareholders' equity.

Under Section 1602, non-controlling interest in income is not deducted in arriving at consolidated net income or other comprehensive income. Rather, net income and each component of other comprehensive income are allocated to the controlling and non-controlling interests based on relative ownership interests. These Sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011, and should be adopted concurrently with Section 1582. The Company has elected to early adopt these standards effective January 1, 2010. The adoption of this standard did have an impact on the Company's consolidated financial statements in accounting for its equity investment in the Talas Joint Venture.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The following critical accounting policies and estimates are relevant to the presentation of the Company's financial results as at December 31, 2010:

**Use of estimates**

Management makes estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates are used for certain items such as deferred consideration amounts receivable, mineral resource quantities, and stock based compensation and contingencies.

**Cash and cash equivalents**

Cash and cash equivalent balances include cash and short-term cash deposits with banks that have an original maturity date of 90 days or less. Cash equivalents have been designated as held-for-trading and are reported on the balance sheet at fair value with changes in their fair value reported in the statement of operations.

**Mineral property and development costs**

Mineral property and development costs represent capitalized expenditures related to the acquisition, exploration and development of mineral properties and related plant and equipment.

Exploration and associated costs relating to properties for which there is no evidence of economically recoverable mineralization are expensed in the period incurred. Exploration costs relating to properties for which economically recoverable reserves are believed to exist are deferred until the project to which they relate is sold, abandoned, placed into production or becomes impaired.

The Company reviews and evaluates its mineral property and development assets for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment is considered to exist if the total future undiscounted cash flows are less than the carrying amount of the assets.

## Orsu Metals Corporation

### MD&A for the year ended December 31, 2010

---

Estimated future undiscounted cash flows are prepared taking into account estimated future production levels, commodity prices, operating costs, capital costs, reclamation and closure costs.

Where estimates of future net cash flows are not available and where other conditions suggest impairment, management assesses whether the carrying value can be recovered. If impairment is identified, the carrying value of the property is written down to its estimated fair value.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, according to industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Such properties may be subject to prior undetected agreements or transfers and title may be affected by such defects.

#### **Property, plant and equipment**

Property, plant and equipment are recorded at cost. Repairs and maintenance expenditures are charged to operations. Major improvements and replacements that extend the useful life of an asset are capitalized.

Office, furniture and equipment are amortized on a straight line basis over 4 to 10 years.

#### **Investments**

The Company accounts for its investments in companies over which it has significant influence using the equity basis of accounting whereby the investments are initially recorded at fair value and subsequently adjusted to recognise the Company's share of earnings or losses on the investee companies.

#### **Income taxes**

The Company follows the liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes. Future income tax assets are evaluated and where the Company considers that these are unlikely to be realised, a valuation allowance is provided.

#### **Deferred consideration receivable (Derivative Financial Instrument)**

In relation to the Company's discontinued operations (the Varvarinskoye Project) the Company has the ability to earn deferred consideration, the fair value of which is partly dependent on future copper and gold metal prices, and, for this reason, is classified as a derivative instrument. The fair value of the deferred consideration receivable is measured at each balance sheet date, classified between current and long term, and is calculated as the discounted net present value of expected future deferred consideration cash flows taking into account the counterparty credit risk. The fair value of the derivative instrument is adjusted at each balance date and represents the amount that the Company estimates that it will receive from the counterparty in effect at the balance sheet date, with changes in fair value recorded in the determination of net income for the year.

#### **Incentive stock option plan**

The Company uses the fair value method for accounting for stock-based awards to employees and non-employees. Under the fair value method, compensation expenses attributed to the direct award of stock to employees are measured at the fair value of the award at the grant date, using an option pricing model, and are recognized over the vesting period of the award. Compensation expenses for non-employees are measured on the earlier of the date at which the counter party's performance is complete, the date the performance commitment is reached, or the date at which equity instruments are granted if they are fully vested and non-forfeitable. If and when the stock options are ultimately exercised, the applicable amounts of additional paid-in capital and contributed surplus are credited to share capital.

#### **Earnings/ (loss) per share**

Earnings/ (loss) per common share are calculated based on the weighted average number of common shares issued and outstanding during the year. Diluted earnings / (loss) per common share are calculated using the treasury stock method for outstanding stock options and warrants. Under the treasury stock method, incremental common shares issuable upon the exercise of stock options and warrants are excluded from the computation if their effect is anti-dilutive. In periods in which a loss is incurred the calculation would be anti-dilutive, in which case the basic and diluted loss per share are the same.

## RISKS AND UNCERTAINTIES

Readers of this MD&A should give careful consideration to the information included in this document and the Company's consolidated financial statements and notes. The following describes some of the risks that could affect Orsu.

Such risks include risks associated with the estimate of mineral resources and conclusions contained in scoping studies; risks related to exploration and development operations; risk of changes to applicable government regulations relating to the mining industry or to their application or shifts in political conditions in foreign countries; risks of changes to environmental legislation; risks associated with the political and legal environment in Kazakhstan and Kyrgyzstan; risks associated with doing business in Kazakhstan and Kyrgyzstan; risks associated with the acquisition and retention of title to mineral properties; risks associated with non-compliance with environmental and regulatory requirements; fluctuations in the price of gold or copper or molybdenum and foreign currency fluctuations; risks related to obtaining required financing and operating permits on a timely basis; risks relating to global economics and financial markets; and the inability to economically or fully insure against certain risks. The Company is also subject to a number of risk factors due to the nature of the resource business in which it is engaged. The Company seeks to counter these risks as much as possible by selecting exploration and development areas on the basis of their recognised geological, production and potential to host economic returns.

### Risks relating to the Karchiga Project Contract

Due to a delay in the execution and registration of the Karchiga Amendments relating to the Karchiga Project, there is a risk that GRK technically conducted its activities during 2009 and 2010 (up to the dates of the execution and registration of the Karchiga Amendments) in breach of the Karchiga Project Contract and in violation of Kazakhstan laws. As of the date hereof, GRK has not received any notification letter from the Competent Authority that GRK conducted its activities in violation of either the Karchiga Project Contract or Kazakhstan laws. Every significant violation by GRK of its obligations under the Karchiga Project Contract may cause the suspension or termination of the Karchiga Project Contract. The materiality of any given violation is not established under Kazakhstan law and, as a result, is determined at the discretion of the Competent Authority (as defined below).

"Competent Authority" means the state agency (or agencies), which is (or are) designated by the Government of Kazakhstan and acts on behalf of the State to exercise rights related to the execution and performance of contracts. Until recently, the Competent Authority was the Former MEMR which was dissolved on March 12, 2010. On the same date, the Ministry of Industry and Trade of the Republic of Kazakhstan was re-organized into the MINT. These changes involved, among other things the transfer of the Former MEMR's functions and authorities in the mining industry to MINT, which is currently designated as the Competent Authority.

### The Government of Kazakhstan's pre-emptive rights, waiver and consent of the Competent Authority

Article 12 of Kazakhstan's Law No. 291-IV "On Subsoil and Subsoil Use" dated June 24, 2010 (the "Subsoil Law") (for detailed information on the Subsoil Law please see "*Recent Changes in Kazakhstan Subsoil Law and Regulatory Authorities*" below) provides the State of Kazakhstan with a statutory pre-emptive right, exercisable in the event that the Company attempts to sell or otherwise transfer any shares or other equity interest in (i) a legal entity holding a Kazakh subsoil use right or (ii) a legal entity which may directly or indirectly make decisions and/or exert influence on decisions adopted by a Kazakh subsoil user if the main activity thereof is connected to subsoil use in Kazakhstan, to purchase such shares or equity interests on terms no less beneficial than those offered to the proposed purchasers. The Competent Authority in subsoil has the right to terminate a subsoil use contract if a transaction takes place in breach of the requirements of Article 12 of the Subsoil Law. Under Article 12 of the Subsoil Law, the pre-emptive right applies both to Kazakh and overseas entities, including their offshore transactions outside of Kazakhstan.

Also, under Article 36 of the Subsoil Law, any transfer of subsoil use rights to any third party, in whole or in part, may be made only with the prior consent of the Competent Authority. The consent of the Competent Authority is valid for a period of six months from the date it is provided. If the transaction is not completed within such six month period, the seller must apply to the Competent Authority to extend the consent for an additional six month period or to obtain a new consent. A transfer of subsoil use rights may occur in a number of different manners, including by way of assignment, in whole or in part, of subsoil use rights under a subsoil contract; the disposition of shares in a subsoil user; a contribution to the charter capital of a newly established legal entity; a transfer of subsoil use rights as part of a transfer of a property complex; the alienation of subsoil use rights under bankruptcy proceedings in the event of a subsoil user's bankruptcy; and a pledge of subsoil use rights. A failure to obtain either the State's waiver of its pre-emptive right or the consent of the Competent Authority would invalidate a transaction. In addition, the Subsoil Law requires a purchaser to notify the Competent Authority of the transfer of subsoil use rights within five business days of the completion of the transfer. A failure to do so will constitute grounds to invalidate a transfer.

Under the Subsoil Law, the prior consent of the Competent Authority is required for the initial and additional issuance and placement of shares from the Company's or any of its subsidiaries' treasury. Such consent is not required for any subsequent trading of such shares, including, in the case of the Common Shares, trading

through the facilities of the TSX and AIM, provided that the initial placement of such shares was approved by the Competent Authority.

The State of Kazakhstan, acting through the Competent Authority, has the unilateral right to terminate a subsoil use contract for a violation of its pre-emptive right. Accordingly, the State of Kazakhstan may be able to enforce extra-territorial breaches of its pre-emptive right by terminating the underlying subsoil use contract in the event of any such breach. In the event that the State of Kazakhstan exercises its pre-emptive rights in respect of any transfer of subsoil use rights or related equity interests within, to or from the Company, such exercise may have a material adverse effect on the Company, its financial condition and results of operations.

The Company has in the past obtained waivers which were required for the issuance from treasury and/or the transfer of shares of its subsidiaries. However, the Company has not obtained a waiver in respect of the initial placement of Common Shares which are currently being traded on the TSX and AIM. The Company has applied for a waiver of the application of the State of Kazakhstan's pre-emptive right with respect to the current trading of the Common Shares on the TSX and AIM. Such waiver was granted on October 25, 2010 and permits placement, sale or exchange of 241,851,581 Common Shares. As the Company, acting in good faith, disclosed in the waiver application to the Competent Authority the information on such past placements, the Company believes that the waiver covers the initial placement of such Common Shares as well. The Company believes there is a remote risk that the Competent Authority will challenge such past placements by terminating the Company's subsoil use contract. The Company is not aware of any instance of the State of Kazakhstan having terminated a subsoil use contract of any legal entity which indirectly, through its subsidiaries, holds a Kazakh subsoil use right as a result of the shares of such entity having been traded on a stock exchange or other public market in breach of the Subsoil Law.

#### **Risks Relating to the Kyrgyz Republic**

##### *Uncertain Political Environment in the Kyrgyz Republic*

The Kyrgyz Republic has a short history as an independent nation and there is potential for social, political, economic, legal, and fiscal instability.

In particular, from April to June, 2010 the Kyrgyz Republic experienced political instability and civil unrest. On April 7, 2010, a change in government took place with opposition leaders forming an interim government and the former president leaving the country. The interim government took over the powers of the president, parliament and the central government and dissolved the Kyrgyz parliament, and stated that it would remain in power until a new constitution had been adopted and new parliamentary elections held. On June 27, 2010, a referendum was held and 90.55% of the voters supported the new constitution and the election of Ms. Roza Otunbaeva as the President of the country. The new constitution provides that the Kyrgyz Republic shall become a parliamentary republic, rather than a presidential republic. On October 10, 2010, the parliamentary elections were held and the elections results were announced in November 2010. Five leading political parties won seats at the Parliament and three parties, Ata-Zhurt, the Social Democratic Party of Kyrgyzstan, and the Respublica Party, formed a governmental coalition on December 16, 2010 led by the Prime Minister, Almazbek Atambaev, and a new structure and members for the cabinet of ministers were approved by the parliament. Whether these, or further, changes in the government will have a material adverse effect upon the Company's business, operations or any of the licences held in the Kyrgyz Republic is unknown at this time.

Future political or social instability or civil unrest in the Kyrgyz Republic, including the Talas region, could, in addition to affecting the political, social and/or economic stability of the Kyrgyz Republic, adversely affect the ongoing exploration and development of the Talas Project and/or the Akdjol-Tokhtazan Project or even the loss of the Company's interest in such properties, which, in the case of the Talas Project, could have a material adverse effect upon the Company, its financial condition and results of operations.

Other risks associated with the Company's business in the Kyrgyz Republic include the possibility of: local currency devaluation; exchange controls or restrictions on availability of hard currency; transportation regulations; changes in taxes, royalty and bonus rates, import and export tariffs and withholding taxes on distributions to foreign investors; nationalization, condemnation, or expropriation of property; dependency upon good relations with the Kyrgyz Republic's neighbours to ensure the Kyrgyz Republic's ability to export; and interruption or blockage of gold or copper exports. The occurrence of one or more of the foregoing could have a material adverse effect on the Company. As at the date of this MD&A, it is uncertain whether the current evolving political and social changes in the Kyrgyz Republic will have a direct or indirect material adverse effect upon the Company or its business or financial condition.

##### *Uncertain legal environment in Kyrgyzstan*

The legislation of the Kyrgyz Republic is unstable and is regularly amended and modified. The following risks create uncertainties to businesses in the Kyrgyz Republic: conflicting and uncoordinated laws, regulations and decrees; inconsistent application of laws and regulation; alleged bribery and corruption and non-transparency within governmental bodies; alleged non-independent judicial system; certain limitations related to foreign citizens; changes in the tax regime; discrepancies and confusion surrounding the powers of different governmental agencies; and excessive discretion. It should be noted that after the change of government in April

2010, the interim government adopted decrees on nationalization of various properties and introduced external management to certain companies, which are stated to be owned by the family and close circle of friends of the former president, Kurmanbek Bakiev. However, on April 26, 2010, the new interim government adopted decree No. 23 "On protection of investments", which guaranteed to local and foreign investors protection of investments, a fair and equal legal regime and fulfillment of the international obligations of the Kyrgyz Republic.

**Risks related to the Karchiga Scoping Study, Taldybulak Scoping Study and NI 43-101 Taldybulak Scoping Study Report**

The Karchiga Scoping Study, Taldybulak Scoping Study, and NI 43-101 Taldybulak Scoping Study Report are preliminary in nature and, along with indicated mineral resources, include inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorised as mineral reserves, and there can be no assurance that the preliminary assessments based on the respective mineral resources set out in the Karchiga Scoping Study, Taldybulak Scoping Study and NI 43-101 Taldybulak Scoping Study Report will be realised. The results depend on inputs that are subject to a number of known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those presented in this MD&A.

**Risks related to the Karchiga Definitive Feasibility Study**

The Company believes that the assumptions it has made in estimating the costs, work programme and timing associated with the completion of the Karchiga Definitive Feasibility Study are reasonable and that it has taken all reasonable steps to select reputable and financially stable contractors; however, there are a number of known and unknown risks, uncertainties and other factors that may cause the actual costs and completion date of the Karchiga Definitive Feasibility Study to differ from the Company's expectations contained herein or in the Company's other publicly filed documents. Any unexpected delays or additional costs relating to the Karchiga Definitive Feasibility Study, and the impact thereof upon the timing of the commencement of construction at the Karchiga Project, could have a material adverse effect upon the Company, its financial condition and results of operations.

Also, there can be no assurance that the final results of the Karchiga Definitive Feasibility Study will be sufficiently positive to allow the Company to proceed with construction at the Karchiga Project. This may have a material adverse effect upon the valuation of the Karchiga Project in the Company's financial statements and its overall financial condition.

**Risks Relating to Kazakhstan**

*Uncertain Political Environment in Kazakhstan*

Kazakhstan was a constituent republic of the former Soviet Union. In 1991, Kazakhstan declared its independence from the Soviet Union. At the time of its independence, it became a member of the Commonwealth of Independent States. Because Kazakhstan has a short history of political stability as an independent nation, there is potential for social, political, economic, legal, and fiscal instability. These risks include: local currency devaluation; exchange controls or restrictions on availability of hard currency; transportation regulations; changes with respect to taxes, royalty rates, import and export tariffs and withholding taxes on distributions to foreign investors; nationalization, condemnation, or expropriation of property; and interruption or blockage of gold or copper exports. All of these factors could have a material adverse effect on the Company's business and financial condition. In addition, since the dissolution of the Soviet Union, a number of other former Soviet republics have experienced periods of political instability, civil unrest, military action or incidents of violence. Kazakhstan has not experienced any such unrest and, to date, this regional instability has not affected Kazakhstan or the Company's operations in Kazakhstan. However, future political instability, civil unrest or continued violence in the region could affect the political or economic stability of Kazakhstan, and could have an adverse effect on the Company's business, financial condition, results of operations or prospects.

The early election of the President of Kazakhstan is scheduled for April 3, 2011. This event may affect the political and/or economic stability in Kazakhstan and, accordingly, could have an adverse effect on the Company's business, its financial condition and results of operations.

*Adverse Economic Conditions in Kazakhstan*

Since its independence from the Soviet Union in December 1991, Kazakhstan has been undergoing a rapid and uneven transition to a market oriented economy. It has experienced severe economic problems since independence, including shortages in the supply of goods and services, unemployment and non-payment of wages, shortages, failures and other problems with utilities, transportation, communication and other infrastructure. In addition, stability in other countries, such as Russia, may materially affect the condition of the Kazakhstan economy. The Company cannot be assured that the economic measures taken by the Kazakhstan government will be effective in improving economic conditions in Kazakhstan or that the process of transition to a market oriented economy will be successful. These conditions could have a material adverse effect on the Company's business and financial condition.

*Uncertain Legal Environment in Kazakhstan*

The current legal environment in Kazakhstan is characterized by ambiguous and inconsistent legislation, gaps where legislation is not yet available, and uncertainty in application due to frequent policy shifts and lack of administrative and judicial experience. Kazakh laws often provide general statements of principles rather than a specific guide to operations and government officials may be delegated or exercise broad authority to determine matters of significance to the operations and business of the Company. Such authority may be exercised in an unpredictable way and effective appeal processes may not be available. In addition, breaches of Kazakh law, especially in the areas of taxation, may involve severe penalties and consequences regarded as disproportionate to the offence.

It is often difficult to obtain all necessary information about required permits, approvals and licences as there is no comprehensive index or system for accessing all relevant legislation or administrative regulations. Additionally, officials often interpret regulations in an arbitrary or unpredictable way. It is also likely that the laws will change and such changes could be retrospective in form and effect.

There can be no assurance that the Company has complied with all applicable laws or obtained all necessary approvals in Kazakhstan. There can be no assurance that laws, orders, rules, regulations and other Kazakh legislation currently relating to the Company will not be altered, in whole or in part, or that a Kazakh court or other authority will not interpret existing Kazakh legislation, whether retroactively or otherwise, in such a way that would have an adverse impact on the Company. While there are some civil protections available against the retroactive effects of legislation, it may often be difficult to rely on or enforce such protections. The Company's failure to comply with any of these laws or obtain all of the necessary approvals could hinder the Company's ability to continue with its intended exploration work programme as planned and within the timescales previously planned and, if any breach is significant or remains unremedied for a prolonged period of time, the breach could threaten the Company's ability to retain its title to its exploration licences and so affect the Company's future prospects.

In general, there remains uncertainty as to the extent to which Kazakh parties and entities, particularly governmental agencies, will respect the contractual and other rights of the non-Kazakh parties with which they deal and also as to the extent to which the "rule of law" has taken hold and will be upheld in Kazakhstan. Procedures for the protection of rights, such as the taking of security, the enforcement of claims and proceedings for injunctive relief or to obtain damages, are still relatively undeveloped in Kazakhstan. Accordingly, there may be greater difficulty and uncertainty in respect of the Company's ability to protect and enforce its legislated and contractual rights. There can be no assurance that this will not have a material adverse effect upon the Company's business and financial condition.

*Recent Changes in Kazakh Subsoil Use Law and Regulatory Authorities*

The Subsoil Law was adopted on June 24, 2010 and became effective on July 7, 2010. The Subsoil Law replaced (i) the Law of the Republic of Kazakhstan "On Subsoil and Subsoil Use" dated January 27, 1996 and (ii) the Law of the Republic of Kazakhstan "On Petroleum" dated June 28, 1995 (the "Old Subsoil Laws"). The Old Subsoil Laws established two regulatory formalities which had to be obtained when selling and purchasing subsoil use rights and/or selling shares in companies owning or controlling subsoil use companies in Kazakhstan. These formalities included (i) approval of the Competent Authority and (ii) the state waiver of the statutory pre-emptive right. The Subsoil Law retains these two approvals and specifies the transactions which are subject to such approvals.

As the text of the Subsoil Law became publicly available relatively recently, any potential impact it may have on the Company and the Company's business operations in Kazakhstan is currently unknown. However, any changes to the laws governing the Company and its business operations could have a material adverse effect on the business and financial condition of the Company.

In addition, on March 12, 2010 the Former MEMR was dissolved and on this same date, the Ministry of Industry and Trade of the Republic of Kazakhstan was re-organized into the MINT. These changes involved, among other things, the transfer of the Former MEMR's functions and authorities in the mining industry to MINT. Under the Subsoil Law, MINT will now be the principal regulatory and competent authority for the mining industry. In addition to MINT, the Subsoil Law names other committees and commissions that are involved in the regulation of various aspects of subsoil use operations. However, the Subsoil Law is not yet entirely clear as to which role each of these committees and commissions will play.

*Kazakhstan Tax Legislation*

The taxation system in Kazakhstan as a market oriented economy is at an early stage of development. Tax legislation is evolving and is subject to different and changing interpretations as well as inconsistent enforcement at both the local and state levels. The uncertainty and the evolution of tax laws creates a risk of excessive payment of tax by companies operating in Kazakhstan, which could have a material adverse effect on the Company's financial condition and results of operations.

All legal entities carrying on activities in Kazakhstan must be registered with the tax inspectorate. Taxes in Kazakhstan include an income tax, an excess profits tax, a mineral extraction tax, a value added tax, a withholding tax, an excise tax, a tax on securities transactions, a land tax, a property tax, and a transport tax, as well as required contributions to social funds, fees for licences and customs fees and duties.

Additional payments, such as signing bonuses, commercial discovery bonuses, production bonuses, royalties and excess profits taxes, may be required from gold and copper producers. A signing bonus is a one-time payment for the rights to explore, develop and produce resources. A commercial discovery bonus is a one-time payment and is payable once a discovery of commercial value is made in the licenced or contracted territory. An excess profits tax is also payable by gold and copper producers when their profits are in excess of a specified rate of return as set forth in the contract for the specific project. The amount of these special payments are negotiated on a project-by-project basis and are typically set forth in subsoil use contracts concluded between the operator and the Kazakhstan government.

#### **Regulatory Approvals**

The operations of Orsu and the exploration, development and subsoil use rights which have been obtained by the Company require numerous approvals, consents, licences, permits and registrations from various regulatory authorities, governmental and otherwise, and/or renewals or extensions thereof (including, but not limited to, the approval by the Competent Authority of the Company's application for a waiver of the Competent Authority's pre-emptive right with respect to the Karchiga Project. No assurance can be given that approvals, consents, licences, permits and registrations currently held by Orsu or which are obtained in the future will not be withdrawn, revoked or subject to change, with or without notice, or that they will not be renewed or extended as required. As well, additional project specific consents, permits, registrations and/or governmental decrees may be required. Furthermore, as Kazakhstan and Kyrgyzstan have somewhat bureaucratic administrative systems, there may be delays in obtaining, renewing or extending such approvals, consents, licences, permits and registrations. There is no assurance that Orsu will be able to obtain, maintain, renew or extend all necessary approvals, consents, licences, permits and registrations that may be required and/or that all consents, licences, permits and registrations specific to the Company's exploration projects will be forthcoming in order to enable Orsu to explore and develop the properties on which it has exploration, development and subsoil use rights or to commence construction or operation of mining facilities that economically justify the costs involved. All such factors may have material adverse effects on Orsu's business and financial condition.

#### **Additional Equity Financing**

The advancement, exploration and development of the Company's properties, including continuing exploration and development projects, and the construction of mining facilities and commencement of mining operations, if any, will require substantial additional financing in the future. Failure to obtain sufficient financing in the future will result in a delay or indefinite postponement of the advancement, exploration, development or commercial production on any or all of the Company's properties or even a loss of a property interest. Additional equity financing may not be available when needed or, if available, the terms of such financing might not be favourable to the Company and might involve substantial dilution to existing shareholders. While the Company has been successful in raising such financing in the past, the Company's ability to raise additional financing may be affected by numerous factors beyond the Company's control, including, but not limited to, adverse market conditions and/or commodity price changes and economic downturn and those other factors listed under this "Risk and Uncertainties" section of this MD&A. Failure to raise capital when needed would have a material adverse effect on the Company's business, financial condition and results of operations.

#### **Gold Fields Joint Venture**

Under the terms of the JV Agreement, dilution provisions apply if either party decides not to contribute to approved, budgeted expenditure in accordance with its pro-rata share. As a result, if the Company is unable to fund its pro-rata share of project expenditure, the Company's interest in the JV Company, and therefore the Talas Project, will be reduced according to the dilution provisions of the JV Agreement. This will reduce the Company's share of any potential future revenues and profits generated by the Talas Project if and when the exploration stage is satisfactorily completed and the project becomes an operating asset.

Although the Company expects that it will contribute to expenditures in accordance with its pro-rata share, no assurance can be given in this respect and as a result, the Company's interest in the Talas Project may be diluted from the present 40% if the Company is unable to make its pro-rata contribution to the Talas Project at any time in the future. If the Company's interest is reduced to 10% or less, then such interest will be substituted for a 2% net smelter returns royalty.

#### **Risks and Uncertainties Relating to the SPA and the Sale of the Varvarinskoye Project**

Pursuant to the terms of the SPA, the Company has given Polymetal certain customary warranties regarding title, its ability to sell Three K and the business of JSCV. These warranties are subject to certain limitations, including specified time periods within which claims relating to such warranties can be brought and individual and aggregate claims thresholds and liability caps which are customary for a transaction of this nature. The

Company has also given indemnities relating to certain potential tax liabilities and liabilities connected to JSC Kenzhem.

In the event that Polymetal pursues a claim against Orsu for a breach of any of these warranties, or Orsu is required to meet its obligations under the indemnities provided to Polymetal, Orsu will be exposed to unexpected and potentially material cash outflows from its limited cash resources, which could have a material adverse effect on the Company's financial condition and results of operations.

**Risks and Uncertainties Relating to the Varvarinskoye Deferred Consideration Receivable (Derivative Financial Instrument)**

In relation to the Company's discontinued operations the Company has the ability to earn deferred consideration the fair value of which is partly dependent on future copper and gold metal prices and, for this reason, is classified as a derivative instrument in the Company's financial statements as at December 31, 2010. Despite the initial cash consideration of \$8 million (received by Orsu upon the completion of the disposal of the Varvarinskoye Project) and the cash payment to Orsu of \$1.5 million (received by Orsu in January 2011) in relation to the deferred consideration earnings for 2010, there remains significant uncertainty in relation to Orsu's future receipt of any further deferred consideration (up to a maximum remaining entitlement of \$9.3 million (in addition to an outstanding \$1.2 million earned in 2010)) and the carrying value of the deferred consideration receivable in the Company's financial statements.

Deferred consideration proceeds are based upon and affected by the hedging program entered into by Polymetal, future gold and copper metal prices and the future cash flows of the Varvarinskoye Project, if any, and these key factors are not under the control or influence of Orsu. The fair value of the deferred consideration receivable in the Company's financial statements as at December 31, 2010 is calculated as the discounted net present value of expected future deferred consideration cash flows and takes into account, amongst other things, the Company's estimates of future gold and copper metal prices, the future cash flows of the Varvarinskoye Project and the counterparty (Polymetal) credit risk. An adverse change in any such estimates of the Company could have a material adverse effect upon the Company's valuation of the deferred consideration receivable in the Company's financial statements and its overall financial condition.

**Estimates of Mineral Resources**

The mineral resource estimates published from time to time by the Company (including those referred to in this MD&A) are estimates only and no assurance can be given that any particular level of recovery of gold or other minerals from mineral resources will in fact be realized or that an identified mineral deposit will ever qualify as a commercially mineable (or viable) ore body which can be economically exploited. Additionally, no assurance can be given that the anticipated tonnages and grades will be achieved or that the indicated level of recovery will be realized. Estimates of mineral resources can also be affected by such factors as environmental permitting regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations and work interruptions. In addition, the grade of ore ultimately mined may differ dramatically from that indicated by results of drilling, sampling and other similar examinations. Short term factors relating to mineral resources, such as the need for orderly development of ore bodies or the processing of new or different grades, may also have an adverse effect on mining operations and on the results of operations. Material changes in mineral resources, grades, stripping ratios or recovery rates may affect the economic viability of projects. Mineral resources are reported as general indicators of mine life. Mineral resources should not be interpreted as assurances of mine life or of the profitability of current or future operations. There is a degree of uncertainty attributable to the calculation and estimation of mineral resources and corresponding grades being mined or dedicated to future production. Until ore is actually mined and processed, mineral resources and grades must be considered as estimates only. In addition, the quantity of mineral resources may vary depending on mineral prices. Any material change in mineral resources, grades or stripping ratios will affect the economic viability of the Company's projects.

**Subsoil use rights**

In Kyrgyzstan and Kazakhstan, all subsoil reserves belong to the State. Non-compliance with mining legislation and subsoil use contracts may lead to regulatory challenges and subsequently the loss of access to mineral resources. Subsoil use rights that are granted to the Company may conceivably be suspended or terminated if the Company does not satisfy its licencing or contractual obligations, which include periodic payment of royalties to the governments and the satisfaction of mining, environmental and health and safety requirements. The Company's management makes every effort to ensure compliance with all mining legislation, the terms of subsoil use contracts and any approved work programmes. Please see "The Government of Kazakhstan's pre-emptive rights, waiver and consent of the Competent Authority" and "Risks relating to the Karchiga Project Contract".

**Asset Impairment**

In accordance with Canadian GAAP (CICA 3063, "Impairment of Long-Lived Assets"), the Company considers those events or circumstances which may indicate that a long-lived asset's carrying amount may not be recoverable, in which case the carrying value of long-lived assets is tested for impairment.

At the date of this MD&A the Company believes that no impairment indicators are present and there are no indicators that the carrying values of its mineral properties may not be recoverable. Although management of the Company believes that the estimates and judgments applied in such impairment assessments are reasonable, such assessments are subject to significant uncertainties and judgments. If long-term estimates including those made for commodity prices, recoverable metal and share prices were to change significantly, additional impairment charges may be required in future periods, and such charges could have a material adverse effect upon the Company's financial condition.

**Credit Risk**

Credit risk is the risk of financial loss to the Company if counterparties are unable to fulfil their respective commitments to the Company. The Company's exposure to credit risk relates to its cash and cash equivalent assets and its deferred consideration receivable. The Company's cash and short term deposits are all held at banks with a minimum credit rating (as defined by recognized credit agencies) of "A-1" and, as such, the Company believes that these banks do not have significant exposure to credit risk. However, there are a number of known and unknown risks, uncertainties and other factors that may give rise to an increase in the Company's exposure to credit risk and which could have a material adverse effect upon the Company's financial condition. See also "Risks and Uncertainties Relating to the Varvarinskoye Deferred Consideration Receivable (Derivative Financial Instrument)" above.

**Speculative Nature of Mineral Exploration**

The exploration and development of mineral deposits involves significant financial risks over a prolonged period of time, which a combination of careful evaluation, experience and knowledge may not eliminate. Few properties that are explored are ultimately developed into economically viable operating mines. Major expenditure on Orsu's exploration properties may be required in constructing mining and processing facilities at a site, and it is possible that even preliminary due diligence will show adverse results, leading to the abandonment of projects. It is impossible to ensure that preliminary feasibility studies or full feasibility studies on Orsu's projects or the current or proposed exploration programmes on any of the properties in which Orsu has exploration rights will result in any profitable commercial mining operation. Orsu cannot give any assurance that its current and future exploration activities will result in the discovery of mineral deposits containing mineral reserves.

Whether a precious metal or a base metal deposit will be commercially viable will depend on a number of factors, some of which are the particular attributes of the deposit (such as its size and grade), proximity to infrastructure, financing costs and governmental regulations (including regulations relating to prices, taxes, royalties, infrastructure, land use, importing and exporting of precious metals or base metals concentrates, exchange controls and environmental protection). The combination of these factors may have a material adverse effect on Orsu's business and financial condition.

**Class Action Claim**

Pursuant to the Claim, general and special damages in the amount of CAD\$50,000,000 and punitive damages in the amount of CAD\$5,000,000 were claimed against Orsu. Orsu entered into the court-approved Settlement Agreement, which became effective on March 22, 2010. Individual class members had the right to opt out of the settlement during an opt-out period, which expired on June 7, 2010. The Company was notified that no class members opted out of the settlement. The settlement is now final.

However, the enforceability of the Settlement Agreement against class members who are not residents of Ontario will be subject to the various jurisdictional laws of the respective jurisdictions in which such class members are located or where they bring any legal action. In any class action involving potential class members in other jurisdictions, there is always the possibility that some of those class members may still be able to pursue individual claims and seek recovery in the courts of their respective jurisdictions. While the Company does not anticipate that any individual claims by such class members would be significant, there can be no assurance that any such claims, if made and were to be successful, would not have a material adverse effect on Orsu's financial condition. However, no such challenges to the settlement have been launched to this point.

**Precious Metal and Base Metal Prices**

The profitability of any precious or base metal mining operation in which Orsu may have an interest will be significantly affected by changes in the market price of precious and base metals. Precious and base metal prices fluctuate on a daily basis and are affected by numerous factors beyond Orsu's control. The level of interest rates, the rate of inflation, world supply of precious and base metals and stability of exchange rates can all cause significant fluctuations in precious and base metal prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems and political developments. The price of precious and base metals has historically fluctuated widely and future price declines could cause commercial production to be uneconomical and such fluctuations could have a material adverse effect on Orsu's business and financial condition.

**Currency Risk**

The Company's asset values and any future earnings and cash flows will be influenced by a wide variety of currencies due to the geographic diversity of the Company's areas of operation. The relative value of currencies can fluctuate widely and could have a material and adverse impact on the Company's asset values, costs, earnings and cash flows.

**Foreign Operations**

The Company's material properties are located in Kazakhstan and Kyrgyzstan and, as such, a substantial portion of the Company's business is exposed to various degrees of political, economic and other risks and uncertainties. The Company's operations and investments may be affected by local political and economic developments, including expropriation, nationalisation, invalidation of government orders, permits or agreements pertaining to property rights, political unrest, labour disputes, limitations on repatriation of earnings, limitations on mineral exports, limitations on foreign ownership, inability to obtain or delays in obtaining necessary mining permits, opposition to mining from local, environmental or other non-governmental organizations, government participation, royalties, duties, rates of exchange, high rates of inflation, price controls, exchange controls, currency fluctuations, taxation and changes in laws, regulations or policies. Some of the Company's current and potential operations are located in or near communities that may now, or in the future, regard such an operation as having a detrimental effect on their economic and social circumstances. Should this occur, it may have a material adverse impact on the viability of an operation. In addition, such an event may adversely affect the Company's ability to enter into new operations in the country.

**Compliance with Laws**

Orsu's operations are subject to various laws and regulations in numerous jurisdictions around the world. The costs associated with compliance with such laws and regulations may cause substantial delays and require significant capital outlays, which may have a material adverse effect on Orsu's business, financial condition and prospects.

**Global Economic and Financial Markets**

Market events and conditions, such as the disruption in the Canadian, U.S. and international credit markets and other financial systems and the deterioration of Canadian, U.S. and global economic conditions that was experienced during 2008 and 2009, could, among other things, impede access to capital or increase the cost of capital, which would have an adverse effect on the Company's ability to fund its working capital and other capital requirements. Notwithstanding various actions by numerous states and/or governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions have in the recent past caused the broader credit markets to deteriorate and stock markets to decline. In addition, general economic indicators also deteriorated, including declined consumer sentiment, increased unemployment and declined economic growth and uncertainty about corporate earnings. These unprecedented disruptions in the credit and financial markets have had a significant material adverse impact on a number of financial institutions and have limited access to capital and credit for many companies, particularly resource exploration and development companies such as the Company. These or future disruptions could, among other things, make it more difficult for the Company to obtain, or increase its cost of obtaining, capital and financing for its operations. The Company's access to additional capital may not be available on terms acceptable to the Company or at all.

**Market Price of Common Shares**

Worldwide securities markets have in the recent past experienced a high level of price and volume volatility and market prices of securities of many companies, particularly those considered exploration or development stage companies, have experienced unprecedented declines in prices which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. The share prices of many natural resources companies have experienced an unprecedented decline in value and there has been a significant decline in the number of buyers willing to purchase such securities. As a consequence, market forces may render it difficult or impossible for the Company to secure purchasers to purchase its securities at a price which will not lead to severe dilution to existing shareholders, or at all. In addition, shareholders may realize less than the original amount invested on disposals of their Common Shares during periods of such market price decline.

**Competition**

The mineral exploration and mining business is competitive in all of its phases. The Company competes with numerous other companies and individuals, including competitors with greater financial, technical and other resources than Orsu, in the search for and acquisition of exploration and development rights on attractive mineral properties. Orsu's ability to acquire exploration and development rights on properties in the future will depend not only on its ability to develop the properties on which it currently has exploration and development rights, but also on its ability to select and acquire exploration and development rights on suitable properties. There is no assurance that Orsu will compete successfully in acquiring exploration and development rights on such properties and such inability could have a material adverse effect on Orsu's business and financial condition.

**Insurance Risk**

Orsu faces all of the hazards and risks normally incidental to exploration and development activities, any of which could result in damage to life or property, environmental damage and possible legal liability for any or all such damage caused. Orsu's activities may be subject to prolonged disruptions due to weather conditions depending on the location of operations in which Orsu has interests. Orsu may incur a liability to third parties (in excess of any insurance coverage) arising from damage or injury. Currently, Orsu believes it has the necessary insurance policies in place that it needs to develop its exploration projects. There are also risks against which Orsu cannot insure or against which it may elect not to insure because of high premium costs.

The potential costs that could be associated with any liabilities not covered by insurance which may be, but are not, taken out or are in excess of insurance coverage actually taken out may cause substantial delays and require significant capital outlays, adversely affecting Orsu's earning and competitive position in the future and, potentially, its financial position.

**Risks Relating to the Company's Conversion from Canadian GAAP to IFRS**

The Company's conversion to IFRS will be applicable to the reporting of the Company's financial statements by no later than the first quarter of 2011, with the restatement of comparative information presented. The conversion to IFRS will impact the Company's accounting policies, information technology and data systems, internal control over financial reporting, and disclosure controls and procedures. The transition may also impact business activities, such as foreign currency, certain contractual arrangements and compensation arrangements.

Whilst the Company believes that it has designated the appropriate resources to the IFRS transition and has developed an effective transition plan incorporating, amongst other things, a detailed assessment of the areas which may significantly impact on the Company's financial statements (see the section "Convergence With International Financial Reporting" in this MD&A), the Company will need to continually address and review its IFRS transition planning and execution as the transition progresses in light of the Company's changing circumstances, if any, and in light of ongoing pronouncements and guidance issued by the Canadian Accounting Standards Board. The Company may, in light of such changes or developments, adjust its transition plan and may reassess the low and high areas of impact on the Company's financial statements.

**Key Personnel**

Orsu relies on a limited number of key employees, consultants and members of senior management and there is no assurance that Orsu will be able to retain such key employees, consultants or other senior management. The loss of one or more of such key employees, consultants or members of senior management, if not replaced, could have a material adverse effect on Orsu's business and prospects. The Company does not maintain key employee insurance on any of its employees, consultants or members of senior management.

**Health, safety and environment**

Orsu operates in an industry which is subject to numerous health, safety and environmental laws and regulations as well as community expectations. Evolving regulatory standards and expectations can result in increased litigation and/or increased costs, all of which can have a material and adverse effect on future earnings and cash flows. The Company complies with or exceeds the requirements of all applicable environmental laws and regulations and, in jurisdictions where these are absent or inadequate, applies cost-effective technologies and management practices to ensure the protection of the environment as well as worker and community health. The Company works to make environmental management a high corporate priority and the integration of environmental policies, programmes and practices an essential element of management.

The Company cannot, however, predict what environmental legislation or regulations will be enacted in the future or how existing or future laws or regulators will be administered or enforced. Compliance with more stringent laws or regulations, or more vigorous enforcement policies of any regulatory agency, could in the future require material expenditures by the Company for the installation and operation of systems and equipment for remedial measures, any or all of which could have a material adverse effect on the Company's business and financial condition.

**Exchange rates**

The Company's asset values and any future earnings and cash flows will be influenced by a wide variety of currencies due to the geographic diversity of the Company's areas of operation. The relative value of currencies can fluctuate widely and could have a material and adverse impact on the Company's asset values, costs, earnings and cash flows.

**Foreign Subsidiaries**

The Company is a foreign corporation and conducts operations through foreign subsidiaries and all of its assets are held in these subsidiaries. Accordingly, any limitation on the transfer of cash or other assets between the Company and its subsidiaries, or among its subsidiaries, could restrict the Company's ability to fund its operations efficiently. Any such limitations, or the perception that such limitations may exist in the future, could have an adverse impact upon the Company's business and financial condition.

**Defects in Title**

The Company has investigated its rights to explore and exploit and develop its projects and, to the best of its knowledge, those rights are in good standing; however, no assurance can be given that such rights will not be revoked, or significantly altered, to the detriment of the Company.

**Difficulty in Enforcing Judgments**

As a result of all of the Company's assets being located in a foreign jurisdiction, there will likely be difficulties in enforcing against the Company judgments obtained in Canadian courts predicated upon the civil liability provisions of applicable Canadian securities legislation for a misrepresentation contained in this MD&A or otherwise.

**Limitations on Foreign Control, Operation and Management of Exploration and Mining Companies**

There are currently no restrictions on the foreign control, operation and management of exploration and mining companies in Kazakhstan and Kyrgyzstan. However, there can be no assurance that legal requirements as to the foreign control, operation and management of such companies in such jurisdictions will not change and any such change could have a material adverse effect on Orsu's ability to conduct its operations and business interests as previously planned.

**Conflicts of Interest**

Certain of the directors and officers of Orsu are directors or officers of, or have significant holdings in, other mineral resource companies. Such other companies may compete with Orsu for the acquisition of mineral property rights.

**Other Tax Related Risks**

*Canadian Departure Taxes*

In 2005, Orsu was continued to the British Virgin Islands and, as a result, ceased to be a resident of Canada for purposes of the Income Tax Act (Canada) (the "Tax Act"). A corporation that ceases to be a resident of Canada for Canadian tax purposes may be liable to pay certain "departure" taxes under the Tax Act and applicable provincial or territorial legislation. Orsu believes that no such taxes were payable, as the Company had submitted tax returns and received "nil" tax assessments from the Canada Revenue Agency (the "CRA") for all periods during which the Company was a resident for the purposes of the Tax Act. However, as Orsu has not yet received a final determination in relation to its "departure", there remains a risk that the CRA or a provincial or territorial taxing authority could assert that departure taxes were payable on the basis that the fair market value (or cost) of Orsu's property was greater (or less) than that determined by Orsu or the paid-up capital of its Common Shares was less than that determined by Orsu. If the CRA and/or provincial or territorial taxing authority were successful, this could have a material adverse effect on Orsu's financial condition.

*Utilization of Tax Losses and Tax Reliefs*

The Company has accumulated substantial tax losses as at December 31, 2010 (as disclosed in note 8(b) of the Company's financial statements for the year ended December 31, 2010). Whilst the Company has satisfied all relevant deadlines and provisions for the timely and accurate reporting of the Company's transactions and resulting tax losses to the tax authorities in the relevant taxation jurisdictions, the availability and utilization of such tax losses by the Company in the future cannot be predicted with certainty due to potentially unforeseen changes in the nature of the Company's operations, unforeseen delays in the commencement of the Company's operating profits, if any, and unforeseen and adverse changes in the tax legislation of the Kyrgyz Republic or the Republic of Kazakhstan.

**FORWARD-LOOKING INFORMATION**

This MD&A contains or refers to forward-looking information. All information, other than information regarding historical fact that addresses activities, events or developments that the Company believes, expects or anticipates will or may occur in the future is forward-looking information. Such forward-looking information includes, without limitation: the continued and future maintenance, exploration and development of the Company's properties, including the proposed work programs, anticipated milestones and the timing related thereto; development and operational plans and objectives; the Company's ability to satisfy its future expenditure obligations on mineral properties in which it has an interest; mineral resource estimates and the Company's expectations with respect to updates and upgrades thereto; estimated project economics, cash flow, costs, expenditures, and sources of funding; the sufficiency of the Company's current working capital for the next twelve months and estimates relating thereto; the completion of the Karchiga Acquisition and the timing related thereto; the estimated LOM, NPV and IRR for, and forecasts relating to tonnages and amounts to be mined from, and average recoveries and grades at, the Karchiga Project and/or Taldybulak as well as the other forecasts, estimates and expectations relating to the Karchiga Scoping Study, NI 43-101 Taldybulak Scoping Study Report and Taldybulak Scoping Study set out above in "Operational Review"; future prices and trends relating to copper, gold and molybdenum; the Company's expectations regarding its receipt of further test results relating to drilling at the Karchiga Project, the completion of the Karchiga Definitive Feasibility Study (including the expected timing for same) and the potential start and completion of construction and production at the Karchiga Project and the timing related to same; the Company's belief that the results from the test and assay work conducted at the Akdjol-Tokhtazan Project confirm, respectively, the principal amenability of the Tokhtazan ores to heap leaching extraction of gold and encouraging results generally; the future political and legal regime in Kyrgyzstan; the regulatory environment in Kazakhstan relating to the mining industry; the expected use of the net proceeds from the Offering; the Company's expectations and beliefs with respect to the waiver of the State's pre-emptive right with respect to the Karchiga Project and the initial placements of the Common Shares being covered thereby; the Company's plans with respect to the conversion to IFRS and the adoption and/or implementation of changes to accounting policies and the impact of same on the Company's financial statements; the Company's beliefs with respect to the amount and receipt of deferred consideration that may be payable to the Company by Polymetal in connection with the Varvarinskoye Project Disposition; the significance of any individual claims by non-Ontario residents with respect to the Claim; and the Company's future growth (including new opportunities and acquisitions) and its ability to raise new funding.

The forward-looking information in this MD&A reflects the current expectations, assumptions or beliefs of the Company based on information currently available to the Company. With respect to forward-looking information contained in this MD&A, the Company has made assumptions regarding, among other things, the Company's ability to generate sufficient funds from capital markets to meet its future expected obligations and planned activities, the Company's business (including the continued exploration and development of its properties and the methods to be employed with respect to same), the estimation of mineral resources (as set out above under "Operational Review"), the parameters and assumptions employed in the Karchiga Scoping Study, NI 43-101 Taldybulak Scoping Study Report and the Taldybulak Scoping Study, the economy and the mineral exploration industry in general, the political environments and the regulatory frameworks in Kazakhstan and Kyrgyzstan with respect to, among other things, the mining industry generally, royalties, taxes, environmental matters and the Company's ability to obtain, maintain, renew and/or extend required permits, licences, authorisations and/or approvals from the appropriate regulatory authorities (including with respect to (i) the State's waiver of its pre-emptive right relating to the Karchiga Project and (ii) that the Company and or/the counterparties to the Karchiga SPA will satisfy or obtain a waiver of any conditions imposed by applicable regulatory authorities necessary in order to complete the Karchiga Acquisition), that the waiver granted by the Competent Authority covers any pre-emptive right that the Competent Authority has in respect of any previous placements, the satisfaction or waiver, as applicable, of the conditions precedent to the completion of the Karchiga Acquisition by the Company or the counterparties to the Karchiga SPA, future capital costs and cash flow discounts, anticipated mining and processing rates, the treatment of oxide materials as waste with respect to the Karchiga Project, the Company's ability to continue to obtain qualified staff and equipment in a timely and cost-efficient manner and to engage international and Kazakh companies to carry out additional studies for the Karchiga Definitive Feasibility Study and to obtain Kazakh Feasibility Study approval, the treatment of the Varvarinskoye Project as discontinued operations, assumptions relating to the Company's critical accounting policies, that the Company has identified all of the key issues to be investigated in connection with the Karchiga Definitive Feasibility Study, and has also assumed that no unusual geological or technical problems occur, and that equipment works as anticipated, no material adverse change in the price of copper, gold or molybdenum occurs and no significant events occur outside of the Company's normal course of business.

Forward-looking information is subject to a number of risks and uncertainties that may cause the actual results of the Company to differ materially from those discussed in the forward-looking information, and even if such actual results are realised or substantially realised, there can be no assurance that they will have the expected consequences to, or effects on, the Company. Factors that could cause actual results or events to differ materially from current expectations include, but are not limited to: risks normally incidental to exploration and development of mineral properties; uncertainties in the interpretation of results from drilling and metallurgical test work; the possibility that future exploration, development or mining results will not be consistent with

expectations; uncertainty of mineral resources estimates; uncertainty of capital and operating costs, production and economic returns; uncertainties relating to the estimates and assumptions used, and risks in the methodologies employed, in the Karchiga Scoping Study, the NI 43-101 Taldybulak Scoping Study Report and/or the Taldybulak Scoping Study and that the completion of additional work on the Karchiga Project and/or Taldybulak, as the case may be, could result in changes to the estimates contained in the Karchiga Scoping Study, the NI 43-101 Taldybulak Scoping Study Report and/or the Taldybulak Scoping Study, as applicable; the Company's inability to obtain, maintain, renew and/or extend required licences, permits, authorizations and/or approvals from the appropriate regulatory authorities and other risks relating to the regulatory frameworks in Kazakhstan and Kyrgyzstan (including the failure to obtain the State's waiver of its pre-emptive right relating to the Karchiga Project); adverse changes in the political environments in Kazakhstan and Kyrgyzstan and the laws governing the Company, its subsidiaries and their respective business activities; a failure or delay in the satisfaction, or receipt of a waiver, as applicable, of any conditions imposed by applicable regulatory authorities in order to proceed with the completion of the Karchiga Acquisition and/or under the Karchiga SPA or the failure to complete the Karchiga Acquisition for any other reason; capital and operating costs varying significantly from estimates; inflation; changes in exchange and interest rates; adverse changes in commodity prices; the inability of the Company to obtain required financing; adverse changes with respect to the Talas Joint Venture; adverse general market conditions; lack of availability at a reasonable cost or at all, of equipment or labour; inability to attract and retain key management and personnel; the possibility of non-resident class members commencing individual claims in connection with the Claim; the Company's inability to delineate additional mineral resources and delineate mineral reserves; reductions in, or no, future cash flows at Varvarinskoye; and future unforeseen liabilities and other factors including, but not limited to, those listed under "Risk and Uncertainties" in this MD&A.

Any mineral resource figures referred to in this MD&A are estimates and no assurances can be given that the indicated levels of minerals will be produced. Such estimates are expressions of judgment based on knowledge, mining experience, analysis of drilling results and industry practices. Valid estimates made at a given time may significantly change when new information becomes available. While the Company believes that the mineral resource estimates in respect of its properties are well established, by their nature mineral resource estimates are imprecise and depend, to a certain extent, upon statistical inferences which may ultimately prove unreliable. If such mineral resource estimates are inaccurate or are reduced in the future, this could have a material adverse impact on the Company. Due to the uncertainty that may be attached to inferred mineral resources, it cannot be assumed that all or any part of an inferred mineral resource will be upgraded to an indicated or measured mineral resource as a result of continued exploration. Mineral resources that are not mineral reserves do not have demonstrated economic viability. The Karchiga Scoping Study, the NI 43-101 Taldybulak Scoping Study Report and/or the Taldybulak Scoping Study are preliminary in nature, and include inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves. There is no certainty that the conclusions of the Karchiga Scoping Study, the NI 43-101 Taldybulak Scoping Study Report and/or the Taldybulak Scoping Study will be realized.

Any forward-looking information speaks only as of the date on which it is made and, except as may be required by applicable securities laws, the Company disclaims any intent or obligation to update any forward-looking information, whether as a result of new information, future events or results or otherwise. Although the Company believes that the assumptions inherent in the forward-looking information are reasonable, forward-looking information is not a guarantee of future performance and accordingly undue reliance should not be put on such information due to the inherent uncertainty therein.

## **CONTROLS AND PROCEDURES**

### **Disclosure Controls and Procedures**

The Company's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company is reported within the time periods specified under securities laws and ensure that information is communicated to management of Orsu, including the Chief Operating Officer (acting as Chief Executive Officer) and Chief Financial Officer, to allow timely decisions regarding required disclosure. The Company has performed an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings). Based on that evaluation, the Chief Operating Officer (acting as Chief Executive Officer) and the Chief Financial Officer of Orsu have concluded that the design and operation of the Company's disclosure controls and procedures were effective as at the date of this MD&A.

### **Internal Controls Over Financial Reporting ("ICFR")**

The Chief Operating Officer (acting as Chief Executive Officer) and Chief Financial Officer of Orsu are responsible for establishing and maintaining adequate ICFR to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. The Chief Operating Officer (acting as Chief Executive Officer) and Chief Financial Officer of Orsu directed the assessment of the design and operating effectiveness of the Company's ICFR as at the date of this MD&A and based on that assessment determined that the Company's ICFR, no matter how well designed, has inherent limitations. Therefore, the ICFR can only provide

reasonable assurance with respect to financial statement preparation and may not prevent all misstatements, errors or fraud.

**Material weakness relating to design and operation of ICFR**

During the assessment of the design and operating effectiveness of the Company's ICFR, it was noted that, due to the limited number of financial staff at some of the Company's locations, it was not feasible to achieve complete segregation of duties with respect to all internal control functions and processes. This failure to achieve complete segregation of duties combined with the decentralised nature of the Company's operations increases the risk of misstatement. This risk is proactively managed and mitigated through regular internal reporting of financial transactions, maximum use of system-generated transaction audit reports, stringent staff selection policies and employer references and by the Chief Financial Officer regularly visiting and reviewing the activities of the Company's overseas finance departments.

While management of the Company has put in place certain plans and procedures to mitigate the risk of a material misstatement in the Company's financial reporting, a system of internal controls can provide only reasonable, not absolute, assurance that the objectives of the control system are met, no matter how well conceived or operated. There were no changes made to the Company's ICFR during the year ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

**OTHER INFORMATION**

**Additional information:**

Additional information relating to the Company, including the Company's Annual Information Form dated March 22, 2011, may be accessed through SEDAR on the internet at [www.sedar.com](http://www.sedar.com).

**Disclosure of Outstanding Share Data**

The following table sets forth information concerning the outstanding securities of the Company as at March 22, 2011:

<b>Outstanding Securities</b>	<b>Number in issue</b>
Common Shares	157,696,049
Old share purchase options <sup>(1)</sup>	4,075,000
New share purchase options <sup>(2)</sup>	14,375,000
Old share purchase warrants <sup>(3)</sup>	8,602,150
New share purchase warrants <sup>(4)</sup>	62,720,000

**Notes:**

1. For share purchase options granted prior to November 24, 2009, up to 407,500 Common Shares are issuable upon the exercise of such share purchase options.
2. Share purchase options granted after November 24, 2009. Up to 14,375,000 Common Shares are issuable on exercise of such share purchase options.
3. For share purchase warrants granted prior to November 24, 2009, up to 860,215 Common Shares (subject to any further adjustments) are issuable upon the exercise of the share purchase warrants.
4. Share purchase warrants granted after November 24, 2009. Up to 62,720,000 Common Shares are issuable on exercise of such share purchase warrants.

**END**

