

# **Orsu Metals Corporation**

(Formerly European Minerals Corporation)

Management's Discussion and Analysis of Results

June 30<sup>th</sup> 2008 and 2007

(in thousands of US Dollars)

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## **DIRECTORS, MANAGEMENT & CORPORATE INFORMATION**

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TAKHIRZHAN BARATOV, Executive Director, Central Asia

DR ALEXANDER YAKUBCHUK, Director of Exploration

MARK CORRA, Non-Executive Director, Lead Independent Director

WILLIAM KENNEDY, Non-Executive Director

MERFYN ROBERTS, Non-Executive Director

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(Stock is quoted in Canadian Dollars)  
Alternative Investment Market, OSU  
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## **INTRODUCTION**

Orsu Metals Corporation (“Orsu” or the “Company”, formerly European Minerals Corporation or “EMC”) is a dual listed (AIM: OSU, TSX: OSU) London-based base and precious metal mining, production, exploration and development company which is operating the Varvarinskoye open pit copper-gold mine in northern Kazakhstan and exploring gold deposits in the Tien Shan gold belt in the Kyrgyz Republic and Rudny Altai belt in the Republic of Kazakhstan.

The Orsu group was formed on June 19 2008 upon the completion of the acquisition by EMC of all of the outstanding securities of Lero Gold Corp. (“Lero”) in exchange for securities of EMC on a one-for-one basis (EMC issued 152,101,767 common shares). The Company’s shares began trading on the AIM market of the London Stock Exchange under its new name and new symbol “OSU” on July 4, 2008 and on the TSX from July 14, 2008.

The Company’s Varvarinskoye copper-gold mine in northern Kazakhstan is an operating asset producing gold and copper-gold concentrate. Commercial production levels (defined by the Company as the earlier of the stage when mining and milling activities are operating at 65% of design capacity for a sustained period of not less than 30 days, or June 30, 2008) had not been achieved by the end of June 2008. Accordingly the Company will commence recognising operating revenues and expenses for production activities effective July 1, 2008.

The Company is also in the process of exploring its other mineral properties (those held through Lero) but has not yet determined whether these properties contain mineral reserves that are economically recoverable. The recoverability of amounts shown for mineral properties and related deferred exploration expenditures are dependent upon the discovery of economically recoverable mineral reserves, confirmation of the Company’s interest in the underlying mineral claims, the Company’s ability to obtain the necessary financing to complete the development of the properties and upon future profitable production or proceeds from the disposition thereof.

The effective date of this MD&A is 18 August 2008 and the information contained herein is provided as at such date unless otherwise indicated.

## **QUARTER OPERATIONAL HIGHLIGHTS**

- Additional mineral resources reported at Varvarinskoye
- European Minerals Corporation completed the acquisition of Lero Gold Corp.
- European Minerals Corporation 2008 AGM
- European Minerals Corporation announced changes to the Board of Directors
- European Minerals Corporation changes name to Orsu Metals Corporation

## **POST QUARTER HIGHLIGHTS**

- Orsu Metals Corporation completes first sale of copper-gold concentrate from Varvarinskoye

## ACQUISITION OF LERO

On June 19, 2008 European Minerals Corporation announced the completion of the acquisition of a junior mining company that engages in the exploration and development of gold and base metal assets in Kyrgyzstan and Kazakhstan.

Consideration for the acquisition was as follows:

- EMC issued 152,101,767 common shares with a fair value of CAD\$1.03 per common share of Lero. The measurement of the common share component of the consideration is based on the closing share price of Orsu's common shares on the Toronto Stock Exchange.
- 6,575,000 stock options of Lero, each of which gave the holder the right to purchase a common share of Lero was exchanged for the same number of stock options of EMC, each of which gives the holder the right to acquire a common share of EMC on the same terms.
- 3,105,881 warrants of Lero, each of which gave the holder the right to purchase a common share of Lero was exchanged for the same number of warrants of EMC on the same terms.
- The acquisition of Lero has been accounted for as a purchase of assets. The purchase price allocation is based on preliminary estimated fair values at the date of acquisition and may be subject to change as the valuation process is completed. Such change maybe material.

## EXECUTIVE CHAIRMAN'S STATEMENT

I am very pleased to present Orsu Metal Corporation's management's discussion and analysis of the operating results and financial condition of the Company for the period ended June 30, 2008; our first report since the formation of the Company in June 2008.

Undoubtedly, 2008 will be seen by many as a critical turning point for the Company. By this, I mean the injection of required resources in the form of capital, higher technical expertise and management skills to advance the continued development of Varvarinskoye, as well as the integration into the Company of several advanced copper-gold exploration projects.

The directors of Orsu and I firmly believe the completed business combination agreement (the "Agreement") between European Minerals Corporation and Lero Gold Corporation was the most appropriate and timely solution to successfully progress with the development of Varvarinskoye. The Agreement has created a well-financed base and precious metal mining, development and exploration Company with an exciting growth profile focused on regional consolidation in the countries of the former Soviet Union ("FSU").

The primary thrust of the company has and will continue to be bringing the Varvarinskoye copper-gold mine in Kazakhstan up to commercial production levels, whilst at the same time continuing with the aggressive development of its advanced copper-gold exploration projects in Kyrgyzstan and Kazakhstan. In addition, management will continue to review and pursue new and appropriate natural resource opportunities and acquisitions within the countries of the FSU.

Since the formation of the combined Company, I am extremely pleased with the progress the Orsu team has made at Varvarinskoye in such a short period of time. From its initial project review, the team has identified and implemented strategic improvements which have and will continue to considerably improve both the mining and processing of the Varvarinskoye ores. With the improved technical knowledge of the new management team, the arrival of additional and essential experts and equipment and the rejuvenation of an improved work ethic on site, I am confident that our team can meet the increased production targets they have set themselves.

Varvarinskoye is currently operating at approximately 65% capacity with management's plan to have production reach commercial level by the end of Q4 2008. Over the coming months, Orsu's Chief Operating Officer Randy Reichert and his technical team at Varvarinskoye intend to complete the design modifications in the plant and continue to ramp up to commercial production. Good progress has been made in increasing the tonnage through-put in the processing plant. On-site working conditions and improvements have helped to facilitate the ramp up process while high metallurgical performance continues to ensure both process streams continue to run steadily.

Regular shipments of gold doré to Metalor in Switzerland have been continuing with a total of 9,514 ounces having been sold, with a total value of over US\$7m. Batches of copper-gold concentrate totalling 5,000 tonnes were shipped, with an estimated contained value of over US\$9m.

The announcement of the increase to the measured and indicated mineral resource estimates, (situated below the lowest elevation of the current pit design), further enhances the value of the Varvarinskoye ore body.

During April 2008, NI 43-101 compliant mineral resource estimates were reported for the Karchiga VMS prospect in northeast Kazakhstan and the Taldybulak-Talas copper-gold porphyry deposit in northwest Kyrgyzstan. The Indicated categories are estimated to contain up to 1.6 million ounces of gold and 300 million pounds of copper in the Taldybulak-Talas deposit and in excess of 258 million pounds (117,000t) of high-grade copper metal in the Karchiga deposit, (see pages 17 and 24). Significant upside potential exists in Inferred resource categories and is currently subject of our attention. These results provide Orsu with a solid foundation to progress with a pre-feasibility study at Karchiga.

In November 2006, Gold Fields Exploration B.V. ("Gold Fields", an indirect wholly owned subsidiary of Gold Fields Limited) was granted an option to enter into a joint venture agreement with the Company under which Gold Fields has the right to:

1. earn up to a 60% interest in exploration licences on the Barkol, Kentash, Taldybulak and Korgontash tenements in the Talas Region by funding exploration expenditures of up to CAD\$10 million, and;
2. increase its interest in the project by a further 10% (to a total of 70%) by funding the expenditure of up to a further CAD\$10 million on a feasibility study. Thereafter, Gold Fields Exploration B.V. and Orsu will contribute to the project requirements on a pro-rata basis through to development, if appropriate.

As the world's fourth largest gold producer, we expect Gold Fields to provide considerable additional financial resources and technical expertise to the Talas exploration programme.

I am confident that Orsu is now in a prime position to deliver increased value to shareholders. Orsu's strategy will remain consistent: to create value by optimising our existing producing asset, completing our developing growth projects and take advantage of additional natural resources opportunities within the region of the FSU.

The business combination with Lero, together with Lero's pre-combination financing stabilised the enlarged group's financial position in the period leading to commercial production at Varvarinskoye. Orsu will benefit from the additional growth potential of the Lero assets and the significant experience of the Lero management team in the FSU, bringing immediate and long-term benefits to the Orsu shareholders.



**Dr Sergey V Kurzin**  
**Executive Chairman**  
**18 August 2008**

## OVERALL PERFORMANCE

During the three months ended June 30, 2008, the Company continued with the ramping up of the mining and processing of ores at Varvarinskoye, as well as the production of gold doré and copper concentrate.

On 11 June 2008, European Minerals Corporation announced that it has learned of a Statement of Claim (the "**Claim**") issued in the Ontario Superior Court of Justice (Court File No. 58422CP) against EMC and two of its officers. The Claim, which has not yet been served on any of the defendants, names a proposed representative plaintiff in a proposed class proceeding on behalf of persons who acquired securities of EMC during the period from May 16, 2007 until March 31, 2008. The Claim relates to the announcement by EMC on March 31, 2008 that it was reviewing its accounting for derivatives to ensure compliance with certain provisions of the CICA Handbook and that it anticipated that such review would result in a restatement of EMC's interim financial statements for the first three fiscal quarters of 2007. The financial statements were restated and were subsequently issued by EMC on April 11, 2008 and filed on SEDAR ([www.sedar.com](http://www.sedar.com)). The plaintiff is claiming general and special damages in the amount of CAD\$50 million and punitive damages in the amount of CAD\$5 million. Orsu believes that the Claim is without merit and intends to vigorously dispute the Claim if and when it is served. Within these financials, no provision has been made for the Claim. As far as the Directors of Orsu are aware and as of the effective date of this MD&A, the claim has not yet been certified as a class action.

On 9 May 2008, European Minerals Corporation announced an increase in the gold and copper mineral resources at Varvarinskoye. The revised mineral resource estimates increase the previously announced estimated measured and indicated mineral resources by approximately 26 million tonnes of ore (at 1.24g/t gold and 0.32% copper), containing approximately one million ounces of gold and 157 million pounds of copper.

On 13 May 2008, EMC and Lero announced the signing of a definitive business combination agreement. In addition, EMC and Lero completed the US\$25 million interim loan from Lero to EMC which allowed EMC to repay the US\$5 million bridge loan from Endeavour Mining Capital Corp and provided essential short-term working capital.

On 19 June 2008, EMC announced the completion of the business combination with Lero, pursuant to which EMC acquired all of the outstanding securities of Lero in exchange for securities of EMC. (see press release dated 19 June 2008 available under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com)).

On 23 June 2008, European Minerals Corporation announced the appointment of Mr Takhirzhan Baratov to the EMC Board.

On 24 June 2008, European Minerals Corporation held its 2008 Annual General Meeting in London at which, amongst other matters, shareholders approved the Company's name change to Orsu Metals Corporation and Dr Sergey V Kurzin and Dr Alexander Yakubchuk were elected to the Board of EMC. Dr Kurzin was appointed Executive Chairman.

On 4 July 2008, European Minerals Corporation announced that it changed its name to Orsu Metals Corporation. The Company's shares and listed warrants are now trading on the Toronto Stock Exchange and the AIM market of the London Stock Exchange under its new name and new symbol "OSU".

On 8 July 2008, Orsu Metals Corporation announces Board and Committee appointments.

On 10 July 2008, Orsu Metals Corporation announces completion of first sale of copper-gold concentrate from Varvarinskoye.

## RESULTS OF OPERATIONS

(Prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"))

### FOR THE QUARTER ENDED JUNE 30, 2008 AND SUMMARY OF QUARTERLY RESULTS

<i>Expressed in thousands Of U.S. dollars except where indicated</i>	<b>June 30, 2008</b>	<b>March 31, 2008</b>	<b>December 31, 2007</b>	<b>September 30, 2007</b>
Interest income	52	204	218	429
Unrealised derivative (losses)/gains	(567)	(22,265)	(32,523)	(34,779)
Realised derivative (losses)/gains	(5,081)	(6,200)	-	-
Investor relations	(191)	(93)	(85)	(172)
Administration	(6,602)	(1,221)	(2,351)	(1,243)
Legal and professional fees	(1,257)	(189)	(144)	(211)
Stock based compensation	(109)	(138)	48	(517)
Interest (expense) / income	818	(1,255)	-	-
Foreign exchange loss / (gains)	541	(926)	288	723
Mineral property, exploration & evaluation	(492)	(432)	(350)	(74)
Future income tax	(41)	-	-	-
<b>Net (loss) for the period</b>	<b>(12,929)</b>	<b>(32,515)</b>	<b>(33,044)</b>	<b>(35,744)</b>
Basic and diluted loss per share	\$(0.04)	\$(0.11)	\$(0.12)	\$(0.13)
Weighted average number of shares Outstanding – Basic	313,829	303,329	285,975	279,674
Total assets	464,374	264,579	271,167	227,717
Total long-term debt	52,289	51,700	50,120	44,293
Shareholder's equity	165,851	16,921	48,193	58,136

**RESULTS OF OPERATIONS**

(Prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"))

**FOR THE QUARTER ENDED JUNE 30, 2008 AND SUMMARY OF QUARTERLY RESULTS**

<i>Expressed in thousands Of U.S. dollars except where indicated</i>	<b>June 30, 2007</b>	<b>March 31, 2007</b>	<b>December 31, 2006</b>	<b>September 30, 2006</b>
Interest income	463	231	421	636
Unrealised derivative (losses)/gains	5,554	(9,232)	-	-
Realised derivative (losses)/gains	-	-	-	-
Investor relations	(141)	(58)	(37)	(50)
Administration	(1,474)	(1,143)	(767)	(835)
Legal and professional fees	(153)	(135)	(143)	(32)
Stock based compensation	(2,232)	(218)	(952)	(2,809)
Write off of property, plant & equipment	-	-	(1,001)	-
Foreign exchange loss / (gains)	(201)	(90)	(1,193)	(322)
Mineral property, exploration & evaluation	(69)	(210)	(105)	(644)
<b>Net (loss) / profit for the period</b>	<b>1,747</b>	<b>(10,849)</b>	<b>(2,654)</b>	<b>(2,103)</b>
Basic and diluted loss per share	\$0.01	\$(0.04)	\$(0.01)	\$(0.01)
Weighted average number of shares Outstanding - Basic	279,672	279,254	276,932	277,436
Total assets	210,270	195,414	194,225	177,530
Total long-term debt	33,691	28,117	13,832	-
Shareholder's equity	89,333	83,592	163,393	159,385

## **CHANGES IN ACCOUNTING POLICIES**

Effective January 1, 2008, the Company adopted three new CICA Accounting Standards as follows. Prior periods have not been restated.

### **1. Capital disclosures**

Section 1535, Capital disclosures, requires the disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital, whether the entity has complied with capital requirements and, if the entity has not complied, the consequences of such non-compliance.

### **2. Inventories**

Section 3031, Inventories, provides guidance on the determination of costs and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories. The Company adopted the new standard effective January 1, 2008 and there was no significant impact on the financial statements.

### **3. Financial instruments**

Section 3861, financial instruments - disclosure and presentation, has been replaced by section 3862, financial instruments – disclosure, and section 3863 – Financial instruments – presentation. These new standards require entities to disclose quantitative and qualitative that enable users to evaluate the significance of financial instruments for the Company's financial performance, and the nature and extent of risks arising from financial instruments to which the Company is exposed during the period and at the balance sheet date. In addition, the Company is required to disclose management's objectives, policies and procedures for managing these risks.

## **FINANCIAL RESULTS FOR THE QUARTER ENDED JUNE 30, 2008**

For the six month period ended June 30, 2008, the Company incurred a net loss of \$45.4 million (June 30, 2007 loss \$8.8 million). The loss was primarily due to derivative losses of \$34.1 million, administration costs of \$9.8 million, mineral exploration costs of \$0.9 million and other charges of \$0.6 million.

For the six month period ended June 30, 2008 the Company settled gold hedge contracts of \$11.3 million (June 30, 2007 nil). These have been recorded in the income statement as realised derivative losses for the six month period. Following an increase in the spot market and forward price of gold during the second quarter (spot price gold June 30, 2008 \$930.25), the mark to market revaluation of the Company's remaining hedge contracts gave rise to unrealized derivative losses of \$22.8 million (June 30, 2007 \$3.7 million).

Administration costs for Q2 include termination and redundancy costs of \$4.3 million relating primarily to changes in senior management in connection with the business combination. Legal and professional costs relating to the Lero acquisition of \$4.9 million, are included as part of the Lero purchase consideration (not included within the Statement of Operations).

Interest income for the three months ended June 30, 2008 is \$0.8 million (for the three months period to June 30, 2007 nil). During Q1, 2008 interest of \$1.2 million on borrowings relating to the development of the Varvarinskoye Project were expensed and during Q2, 2008 these were subsequently reversed and capitalised in line with the Company's accounting policy and Canadian GAAP.

The Company's functional and reporting currency is U. S. Dollars, with operating costs incurred in Canadian Dollars, British Pounds Sterling, Kazakh Tenge and Kyrgyz Som. For the six months ended June 30, 2008 the Company incurred unrealised currency losses of \$0.4 million (June 30, 2007 loss \$0.3 million). For the six months ended June 2008, the following items have capitalized to mineral property and development costs; stock compensation costs of \$0.1 million (2007 \$1.3 million); interest totalling \$1.9 million (2007 \$0.9 million); revenues of \$15.5 million (2007 Nil); selling and operating costs of \$12.7 million.

## **LIQUIDITY AND CAPITAL RESOURCES**

At June 30, 2008 the Company's main source of liquidity was unrestricted cash of \$34.3 million (2007 US\$25.2 million).

At June 30, 2008, the Company's consolidated working capital was \$17.9 million (December 31 2007 working capital deficit of (\$1.6) million, June 30, 2007 working capital \$10.6 million) comprising free cash, inventory, accounts receivable, prepayments, less accounts payable and current portion of the principal on long term debt. This represents an increase of \$19.5 million versus December 31, 2007 and \$7.3 million versus June 30, 2007. The movement during the six months ended June 30, 2008, in the Company's consolidated working capital comprised unrestricted cash \$9.1 million, inventories \$14.1 million, accounts receivable and prepayments \$2.7 million, less an increase in accounts payable \$2.8 million and current portion on the principle long term debt of \$3.6 million.

As a condition of the debt facility, the Company implemented a hedging facility by entering into a monthly US dollar unmargined flat forward gold sales contract (the "Varvarinskoye Hedge") over a term of 8 years. The Company has remaining forward gold sales contracts for 409,808 ounces of gold at a price of \$574.25 per ounce as at June 30, 2008.

During Q2, 2008 the Company successfully renegotiated an extended repayment period for \$15.8 million out of the total of \$61 million of Varvarinskoye debt principal repayments which attracted a marginal increase in interest rates for the extended repayment amounts.

On April 18, 2008, Endeavour Mining Capital Corp. agreed to provide a \$5 million bridge loan to the Company for working capital purposes. The Company then received a further loan of \$25 million on May 13, 2008 from Lero, from which \$5 million along with accrued interest was repaid to Endeavour Mining Capital Corp.

Further details of the Lero Loan and the Endeavour Mining Capital Corp bridging finance are given in the Company's Press Releases dated April 18, 2008 and May 13, 2008.

The Company anticipates that with the financing secured through the acquisition of Lero, the successful conclusion of discussions with its Lenders (as noted above), the planned achievement of commercial production and subsequent sales of metals will provide it with sufficient liquidity to meet its long-term debt and other financial obligations.

However, the ability of the Company to continue as a going concern is dependent upon achieving commercial production at Varvarinskoye within its current planned timescales. If this is delayed there may be doubt about the Company's ability to continue as a going concern and additional capital and financing may be required to fund the Company's commitments. The financial information contained in this MD&A does not reflect adjustments to the carrying value of assets and liabilities, the reported revenues and expenses and balance sheet classifications used that would be necessary if the going concern assumption were not appropriate.

### **Commitments**

The following table summarizes the long-term commitments of the Company as June 30, 2008:

	<b>Total</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Long-term debt	61,000	16,650	40,525	3,825

Under the terms of the Sub Soil Use Contract ("SSUC"), the Company has agreed to repay certain historic costs totalling \$2.1 million (2007 - \$2.1 million) that the Republic of Kazakhstan incurred for a geological survey of the license area. These costs are repayable in annual instalments after both of the following events have taken place:

- i) the first discovery of a reserve in the license area - complete as at June 30, 2007; and
- ii) the completion of the first year (not earlier than the year in which the discovery of a reserve occurs) during which the licensee has a net profit for tax purposes. As the Company has yet to complete a year in which a net profit for tax purposes is recorded, no liability has been recorded at June 30, 2008.

If and when the liability crystallizes, payments under the terms of the SSUC will be charged to operations as incurred.

### ***Transactions with related parties***

For the six month period ended June 30, 2008 (and for the six month period ended June 30, 2007), the Company was party to the following transactions involving related parties, all of which have been recorded at the exchange amount:

Dragon Management International Services Limited ("DIS") charged the Company a total of \$1,573,638 (2007 - \$350,000) in respect of the provision of office facilities, general office overheads and re-charged costs incurred on behalf of the Company. A. J. Williams, former Chairman and director of the Company, beneficially owns DIS.

Endeavour Financial Corp ("EFC") charged the Company a total of \$3,612,391 (2007 - \$101,000) in respect of the provision of consulting services and related expenses of which \$3,539,778 has been recognised in the purchase consideration. A.J. Williams, former Chairman and director of the Company, is a shareholder of EFC. In addition, on April 18, 2008, EFC made a bridging loan of \$5 million to the Company for working capital purposes, which was then subsequently repaid to EFC. EFC were also issued 500,000 purchase warrants for advisor work on the Varvarinskoye debt renegotiation at an exercise price of CAD\$1.20.

During the period ended June 30, 2008 Lero was charged \$110,000 for rent and service charges from Oriel PLC a company on which Sergey Kurzin served as a director.

### **USE OF ACCOUNTING 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 fair values used to establish the purchase price allocation, reserve and production quantities, production costs, depletion, depreciation and amortization, impairment, asset retirement obligation assumptions, stock based compensation and the valuation of derivatives and contingencies.

### **Fair Values**

The Company classifies its financial assets as either held for trading, available for sale, or loans and receivables. Financial liabilities are classified as either held for trading, or loans and receivables.

Held for trading financial assets and liabilities are recorded at fair value as determined by active market prices and valuation models, as appropriate. Valuation models require the use of assumptions concerning the amount and timing of estimated future cash flows and discount rates. In determining these assumptions, the Company uses readily observable market inputs. Changes in fair value of held for trading financial instruments are recorded in net earnings.

The fair value of accounts receivable, advances held by contractors' bank and accounts payable and accrued liabilities approximates their carrying values due to their immediate or short-term maturity as at June 30, 2008.

Loans and receivables are recorded initially at fair value, net of transaction costs incurred, and subsequently at amortized cost using the effective interest method.

### **Credit risk**

The Company's credit risk is primarily attributable to derivative instruments and accounts receivable. It is the Company's policy to deal with banking counterparties for derivatives who are rated "A" grade or above by international credit rating agencies and graduated counterparty limits are applied depending upon the rating.

Exceptions to the policy for dealing with relationship banks with ratings below "A-" are explicitly reported to and approved by the Audit Committee.

### **Liquidity risk**

The Company manages liquidity risk by maintaining cash and cash equivalent balances and available credit under the terms of committed credit facilities. Liquidity requirements are managed based on expected cash flow to ensure that there is capital to meet short term and long term obligations.

### **Market risks**

The significant market risks to which the Company is exposed are commodity price risk, interest rate risk, and foreign exchange risk.

#### **a) Commodity price risk**

The Company is subject to price risk from fluctuations in the market prices of mainly copper and gold. The Company has a policy allowing active management of this exposure through the use of derivative financial instruments; however, to date the Company has entered into derivative positions only as required by lending agreements. The use of commodity derivatives is based on practices and parameters set by the Company's Board of Directors ("Board").

#### **b) Interest rate risk**

The Company's interest rate risk arises primarily from the interest received on cash and short-term deposits and interest paid on floating rate borrowings. The floating rate deposits and borrowings expose the Company to cash flow interest rate risk.

The Company manages its cash flow interest rate risk on borrowings on a net basis after first recognizing the natural hedge arising from floating rate deposits.

#### **c) Foreign exchange risk**

The Company's functional and reporting currency is U.S. dollars. The functional currency of Lero Gold Corporation and its subsidiaries is the Canadian Dollar with the monetary assets and liabilities translated into United States Dollars and consolidated at the exchange rates in effect at the balance sheet date.

All of the Company's revenues are derived in US Dollars and the majority of its business is conducted in US Dollars; foreign exchange risk arises from transactions denominated in currencies other than US Dollars. Commodity sales are denominated in US Dollars, the majority of borrowings are denominated in US Dollars and the majority of operating expenses are denominated in US Dollars.

### **Asset retirement obligations**

The Company recognises the estimated fair value of liabilities for asset retirement obligations, which include reclamation and closure costs, in the period they are incurred. A corresponding addition to the carrying value of the related asset is recorded and depreciated over the life of the related asset. The amount of the liability is subject to re-measurement in each reporting period for changes in the estimated timing or amount of expenditures and is accreted over time to the estimated retirement obligation ultimately payable through charges to operations.

The estimates are based principally on legal and regulatory requirements. It is possible that the Company's estimates of its ultimate reclamation and closure liabilities could change as a result of changes in regulations, the extent of environmental remediation required, changes in technology and the means and cost of reclamation.

### **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 recognised 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 if realization is not considered more likely than not, a valuation allowance is provided.

## CORE ASSETS

Orsu's current projects include the Varvarinskoye open pit copper-gold mine and exploration projects at the Karchiga copper project in Kazakhstan and the Taldybulak-Talas copper-gold deposit in Kyrgyzstan.

Subsequent to the business combination between EMC and Lero, Orsu's group of projects now include one producing asset and three main exploration projects, two of which hold NI 43-101 compliant mineral resource estimates.

Orsu's newly elected board and appointed management has, since the formation of the combined company on 19 June 2008, worked diligently to progress the development of the Varvarinskoye mine and continue to develop the advanced exploration projects acquired by the Company from Lero.

**Varvarinskoye Copper-Gold Mine, Kazakhstan** – Located in north-western Kazakhstan, the mine commenced production of gold doré and concentrate during December 2007. By the end of Q2 2008, shipping of the first two lots of copper-gold concentrate totalling 5,000 tonnes were completed, with an estimated contained value of over US\$9m. The sale of Varvarinskoye's gold doré is continuing and, as of July 2008, 9,514 ounces had been sold, with a total value of over US\$7m.

**Talas Exploration Licence Area, Kyrgyzstan** – The Talas mineral exploration licence area is located on the north slope of the Talas Valley, in the Talas Oblast, north-western Kyrgyzstan, at elevations of 1,800 to 3,000m. The area is accessible year round via the main Bishkek-Talas road (270km from Bishkek) and comprises four exploration licences, namely: Taldybulak-Talas, Korgontash, Kentash, and Barkol with a combined area of 371km<sup>2</sup>. In April 2008, Orsu reported a NI 43-101 compliant mineral resource estimate for Taldybulak-Talas. The mineral resource estimate incorporates all drilling data obtained for Taldybulak-Talas from the 2007-2008 drilling programmes. At a 0.30g/t gold cut-off, the **Indicated mineral** resource is **79Mt @ 0.63g/t Au and 0.17% Cu** with the **Inferred mineral** resources **totalling 163Mt @ 0.58g/t Au and 0.14% Cu**. Within the Korgontash licence area, Orsu is also exploring the Tokhtonnisai copper-gold prospect. The Barkol exploration licence area, located immediately to the west of the Taldybulak-Talas licence, was granted in March 2007. The Barkol licence contains numerous occurrences of mineralisation, with one known copper-gold-molybdenum occurrence within a 2km<sup>2</sup> excision from the licence. All four licenses are subject to ongoing joint venture negotiations with Gold Fields.

**Karchiga Copper Project, Kyrgyzstan** – The 47.3km<sup>2</sup> Karchiga exploration licence contains the Karchiga copper volcanogenic massive sulphide (VMS) deposit. In April 2008 Orsu reported a NI 43-101 compliant mineral resource estimate for Karchiga. The mineral resource incorporates the 1,879m of confirmation diamond drilling completed in Q4 2007 and 86 historical Soviet diamond drill holes and trenches totalling 10,330m. At a 0.50% copper cut-off, the **Indicated mineral** resource is **4.75Mt @ 2.46% Cu** while the **Inferred mineral** resources total **2.81Mt @ 1.81% Cu**. The deposit is situated 40km from the Chinese border, within the world-class Rudny Altai VMS belt. Management believes significant potential exist for the discovery of additional mineralisation along the 10km strike of the fertile VMS horizon contained within the licence perimeter.

**Tokhtazan Exploration Licence Area, Kyrgyzstan** - The Tokhtazan exploration licence area is located in the Jalal-Abad Oblast, western Kyrgyzstan and is covered by two exploration licences, Akdjol and Tokhtazan. Access to the deposit is via the main Bishkek-Osh bitumen road for 400 km, then 14km on a gravel road. The nearest town and railway station, Tash-Kumyr, is located 31km from the Tokhtazan deposit, whilst the Kurpsai hydro-power station on the Naryn River is situated approximately 18km by road from the deposit.

## REVIEW OF OPERATIONS

### VARVARINSKOYE COPPER-GOLD MINE, KAZAKHSTAN

The Varvarinskoye copper-gold mine is located 130km southwest of Kostanai in Northern Kazakhstan. The mine produces for sale copper-gold concentrate and gold doré. Subsequent to the formation of Orsu on 19 June 2008, Orsu's newly elected board and appointed management's main focus has been the ramp-up of operations at Varvarinskoye. Immediate and positive progress was made towards the end of Q2 2008. This progress continues with further strategic decisions being made towards bringing the plant to design production which is expected by management to be in the near future.

Orsu's press release dated July 10 2008 outlined various strategic decisions made by Orsu's management to expedite the ramp up of production. Improvements made at the operation in the quarter culminated in the shipping of 5,000 tonnes of copper-gold concentrate with an estimated contained value of over US\$9million. The sale of Varvarinskoye's gold doré to Metalor Technologies Group, Switzerland is continuing and as of July 10 2008, 9,514 ounces had been delivered, with a total value of over US\$7million.

### UPDATE ON RAMP-UP PROGRESS AT VARVARINSKOYE

#### Mining

A 20,000m RC drilling programme has commenced within the Central Pit to better delineate the ore blocks and improve grade control. In addition, a new mine manager has been hired who brings considerable experience in selective open pit gold mining, having previously managed Kinross Gold Corporation's Kubaka and Kupol open pits.

Twenty-four-hour mining operations have recently been reinstated after having been suspended on one of two shifts during April and May 2008 while drawing down stockpiles. The blasting contractor has brought in a new blasting expert and a new permanent explosives mixing and delivery truck. These changes in the blasting process will improve the overall productivity of the mine and will allow for better fragmentation and therefore improved grade control.

#### Processing

Within the mill, progress is being made on ramping up throughput in both flotation and leach circuits. The flotation, thickening and filtering portions of the flotation circuit have shown they are capable of operating at required design specifications and operated at up to 180 tonnes per day of concentrate production. The flotation-circuit grinding is currently operating between 60% and 70% of design capacity. Leach-circuit grinding has shown the most improvement overall, increasing hourly throughput from 180 tonnes to 330 tonnes per hour, thus operating at 85% of design capacity.

Other improvements made by Orsu within Varvarinskoye's processing facility include:

- Larger motors installed on pumps within the flotation and leach grinding circuits
- The installation of variable frequency drives has improved the operability of the circuits
- The procurement of additional equipment such as reagent dosing pumps and density meters have improved the operation of both flotation and leach circuits
- Grinding consultants have been employed to help solve grinding issues and ore samples have been submitted to laboratories in Kazakhstan and Australia for hardness/grind testing
- Procurement of higher-quality grinding balls
- Demonstrated concentrate production of up to 180 tonnes per day (100% of nominal capacity)
- Modifications to the cyclone classifiers to reduce circulating load and ultimately increase throughput

The Varvarinskoye project is currently overcoming some of the difficulties presented by the lack of available cash during the first half of 2008. Subsequent to the cash injection of US\$25 million in April 2008 acquired in connection with the Company's acquisition of Lero essential operational equipment and mining supplies are now arriving at Varvarinskoye which will allow operations to continue with minimal interruptions while ramping towards design capacity.

In the next few months the operation will continue with its ramp up by:

- Improving mining practices including productivity increases and improved grade control
- Mining additional waste and lower-grade ore to access higher-grade copper ore, thereby catching up on the mine schedule which was delayed by Q2's decision to mine on a single shift
- Continuing to analyse the two grinding circuits with the possible implementation of additional design modifications
- Increasing ball diameter for SAG mill grinding in both flotation and leach circuits
- Increasing the grinding throughput in the flotation circuit by improved ore blending and stockpile management
- Fine-tuning the leach circuit and lab testing to improve leach kinetics and recovery

## VARVARINSKOYE MINERAL RESOURCES & RESERVES

The mining licence area of Varvarinskoye occupies approximately 1,300 hectares. This area is surrounded by approximately 180km<sup>2</sup> of exploration licence area.

Assay results from diamond drilling completed in the 2007 field season combined with historical data enabled the Company to outline significant additional mineral resources beneath the current pit design which is approximately 300m below surface.

### Mineral Resources

The revised mineral resource estimates increase the previously announced estimated measured and indicated mineral resources by approximately 26 Mt of ore (at 1.24 g/t gold, 0.32% copper\*) containing approximately one Moz of gold and 157 Mlbs of copper, representing an increase of approximately 20% of the total estimated measured and indicated mineral resources tonnages and an increase of approximately 25% in contained gold and 35% in contained copper for the estimated measured and indicated mineral resources. The mineral resource and reserve estimates at Varvarinskoye were completed by William Kennedy a director of the Company (EMC's President and Chief Executive Officer at the time) and a qualified person as defined by Canada's National Instrument 43-101.

### Mineral Reserves

Proven and Probable Mineral Reserve estimates for the Varvarinskoye project are based on the Measured and Indicated categories of the resource model using a gold price of US\$525 per ounce and a copper price of US\$1.30 per pound. The pit design contains estimated Proven and Probable Mineral Reserves of 60.6 Mt containing 2.2 Moz gold and 254 Mlbs copper at a grade of 1.15 g/t gold, including 17.1 Mt at a grade of 0.67% copper.

Proven & Probable Reserves @ 525/oz & US\$1.30/lb Cu							
Summary		COG Au g/t	Tonnes	Grade		Contained Metal	
			Mt	Au g/t	Cu %	Au Kozs	Cu Mlbs
	Proven	0.38	14.4	1.59	0.7	732.0	223.0
Float	Probable	0.38	2.7	1.43	0.52	125.1	30.9
	Total	0.38	17.1	1.56	0.67	857.1	253.9
	Proven	0.25	36.2	0.98		1,136.3	
CIP	Probable	0.25	7.3	1.03		242.8	
	Total	0.25	43.5	0.99		1,379.1	
<b>Total Proven &amp; Probable</b>			<b>60.6</b>	<b>1.15</b>	<b>0.7*</b>	<b>2,236.2</b>	<b>253.9</b>

\*% Cu Grade only applicable to HGCF material type

## ORSU'S COPPER-GOLD EXPLORATION LICENCES IN KYRGYZSTAN & KAZAKHSTAN

Subsequent to the formation of Orsu Metals Corporation, the Company is also exploring and developing several advanced staged gold and copper deposits in the Tien Shan metallogenic belt in Kyrgyzstan and the Rudny Altai metallogenic belt in Kazakhstan. The Tien Shan gold belt is host to some of the world's largest copper-gold porphyries, including a 93 Moz porphyry cluster at Almalyk in Uzbekistan. These exploration projects were brought into Orsu from Lero Gold Corporation.

## TALAS EXPLORATION LICENCES, KYRGYZSTAN

Licence Areas	Area (km <sup>2</sup> )	Date Granted	Expiry Date
Barkol	223	16 March 2007	16 March 2009
Taldybulak	42	14 February 2005	31 December 2010
Kentash	46	14 February 2005	31 December 2009
Korgontash	66	30 March 2005	31 December 2009

The Talas exploration area comprises the core assets of the Company in Kyrgyzstan including the Taldybulak, Kentash, Barkol and Korgontash licences. The primary exploration property is the Taldybulak copper-gold porphyry prospect.

For avoidance of confusion;

1. The Taldybulak copper-gold porphyry prospect within the Taldybulak exploration licence area is a separate asset from the Taldybulak Levoberezhny gold deposit previously owned by Central Asia Gold Limited, and
2. The Talas Copper Gold Limited Liability Company, holder of the Taldybulak licence, is a separate company from Talas Gold Mining Company, which was the owner of the Jerooy Gold Project.

### TALDYBULAK-TALAS PROJECT

(100% owned by Orsu Metals Corporation via Talas Copper Gold LLP)

#### Targeted Mineralisation

Copper-gold porphyry and high sulphidation Au mineralisation is associated with Late Ordovician dioritic-dacitic stocks, intruding Lower Ordovician intermediate volcanics. The Taldybulak-Talas copper-gold porphyry deposit was discovered during the Soviet era, but had been subject to limited exploration.

#### 2<sup>nd</sup> Quarter Activity and Reported Mineral Resource

Q2 2008 saw Lero announce a NI 43-101 compliant mineral resource for the Taldybulak-Talas copper-gold porphyry deposit.

The mineral resource estimate was calculated at various gold cut-off grades and incorporates all drilling data obtained for the Taldybulak-Talas copper-gold project from the 2007-2008 drilling programmes completed in Q1 2008. At a 0.30g/t gold cut-off, the Indicated mineral resource is 79 Mt @ 0.63g/t gold and 0.17% copper with the Inferred mineral resources totalling 163Mt @ 0.58g/t gold and 0.14% copper.

**Table 1: Taldybulak-Talas Copper-Gold Project, Mineral Resource (Lero - April 2008)**

Cut-off Au g/t	Indicated						
	Mt	Au g/t	Au Moz	Cu %	Cu Mlb	Au_eq g/t	Au_eq Moz
0.20	107	0.53	1.83	0.17	388	0.95	3.24
0.30	79	0.63	1.61	0.17	301	1.07	2.71
0.40	61	0.72	1.40	0.18	238	1.17	2.27
0.50	45	0.81	1.18	0.18	181	1.27	1.84

Cut-off Au g/t	Inferred						
	Mt	Au g/t	Au Moz	Cu %	Cu Mlb	Au_eq g/t	Au_eq Moz
0.20	286	0.43	3.99	0.14	876	0.78	7.18
0.30	163	0.58	3.03	0.14	492	0.92	4.82
0.40	115	0.68	2.50	0.13	336	1.01	3.73
0.50	87	0.75	2.10	0.13	247	1.07	3.00

Note: Au\_eq=Au g/t + 2.5x Cu%

Metal equivalent: metallurgical recoveries and net smelter returns are assumed to be 100%

The mineral resource is based on 20 historical Soviet holes (5,080m) and 34 diamond holes (8,484m) drilled by Lero from 2005 through to 2008; a total of 9,530m of surface trenching data was also included in the modelling and interpolation. The mineralisation is located within an east-west trending linear porphyry, with a surface exposure of 1,000m x 400m. The above mineral resource is calculated down to a depth of 500m below surface and is fully supported by drilling; no extrapolation of the mineral resource below the base of the current drilling information was undertaken. The mineralisation remains open to the west and at depth, where a high-grade core (0.7-0.9g/t gold) was discovered during the 2007 drilling programme.

The mineral resources were calculated within a constrained geological wireframe, limited by external pyrite halo defined by an induced polarization survey and verified by drilling. Post-mineral dykes were modelled and excluded from the reported volume and interpolation run. Results from systematic variography analysis formed the basis for assigning resource categories with Indicated mineralisation being assigned to all material falling within an isotropic search ellipse with a maximum range of 100m and Inferred mineralisation being assigned within a 200m range. Log Normal Kriging was the selected algorithm utilised for the interpolation of grade.

The resource estimates at Taldybulak were completed by Matthew Boyes (Senior Geologist, Lero), a qualified person as defined by Canada's NI 43-101, and Julian Woodcock (Chief Geologist, Lero). These results were reviewed and approved by Wardell Armstrong International (WAI). However, WAI has relied upon the data presented by Lero in formulating its opinion. The complete technical report can be viewed on [www.sedar.com](http://www.sedar.com).

### **2007 – 2008 Drill Programmes**

A 2007 drill programme was completed in March 2008 in order to better delineate the extent and geometry at Taldybulak Central and assess the additional tonnage potential through the testing of peripheral targets along strike to the east, northwest and south of the central high grade core. The design of infill, step-out and exploration drilling programmes for Taldybulak Central has commenced with drilling forecast to begin in Q2 2008. Following the 2007 drill programme, Lero completed an additional diamond drill hole located 200m to the west of TBDD07-07 (included in the above resource estimate) to test the extension of the previously delineated high grade core in the Taldybulak Central zone.

TBDD07-24 (not included in the above mineral resource estimate) was drilled in the north eastern direction to a depth of 405m and intersected strongly potassic-altered stock worked porphyry from 70m below surface to the end of hole. The start of alteration is consistent with that previously intersected in TBDD07-07 and indicates that the high grade mineralisation is plunging to the west, as modelled from previously interpreted geophysics and the recently completed mineral resource estimate.

Table 2 shows some of the more significant results from the recent Lero drilling campaign, including those of TBDD07-24, as well as intersections from a scout exploration drilling programme completed at a previously untested geophysical/geochemical anomaly at Taldybulak East.

**Table 2: Significant intersections from Lero drilling of Taldybulak-Talas**

Hole-ID	From (m)	To (m)	Length	Au (g/t)	Cu (%)	Area
TBDD07-07	0.00	402.8	402.8	0.75	0.18	Taldybulak Central West
* including						
TBDD07-07	33.3	153.6	120.3	0.87	0.28	
TBDD07-07	180.0	212.0	32.0	1.87	0.11	
TBDD07-07	212.0	316.0	104.0	0.48	0.07	
TBDD07-07	316.0	408.2	92.2	0.90	0.23	
TBDD07-11	0.00	100.4	100.4	1.01	0.27	Taldybulak Central
TBDD07-14	123.8	186.7	62.9	0.65	0.23	Taldybulak Central
TBDD07-14	229.2	255.3	26.1	0.39	0.16	
TBDD07-05	0.00	242.7	242.7	0.64	0.12	Taldybulak Central
* including						
TBDD07-05	3.0	43.2	40.2	0.51	0.30	
TBDD07-05	54.9	71.0	16.1	0.51	0.12	
TBDD07-05	79.0	139.3	60.3	1.23	0.07	
TBDD07-24	72.8	405.0	332.2	0.69	0.14	Taldybulak Central West
* including						
TBDD07-24	158.6	405.0	246.4	0.89	0.14	
TBDD07-12	136.9	199.3	62.4	0.51	0.06	Taldybulak East
TBDD07-13	99.0	232.0	133.0	0.24	0.06	Taldybulak East

\* Au Values un-cut

A continuous zone of significant copper-gold mineralisation, hosted in a quartz dacite porphyry with dimensions of 1,000m (strike) by up to 350m (width) and 500m (depth), has now been delineated at Taldybulak Central. The higher grade intercepts in TBDD07-24 coincide with an extensive zone of potassic-hematite altered porphyry, as previously intercepted in TBDD07-07. This result enlarges a higher grade core in the western part of Taldybulak Central. Mineralisation at Taldybulak Central remains open at depth and along strike to the west.

In addition to the Taldybulak mineral resource calculation announced by Lero in April 2008, these positive results have extended the known mineralisation at Taldybulak Central. TBDD07-24 was the second best hole of the 2007 programme and was drilled outside the recently reported resource envelope. The results demonstrate that the porphyry remains mineralised for an additional 200m along strike to the west, giving significant impetus to expand the reported mineral resource at Taldybulak Central.

In March 2008, Lero completed an additional 2,280m drilling programme to assess the additional tonnage potential through the testing of peripheral targets along strike to the east and northwest, as well as to the south of the central high grade core in order to identify a 300Mt targeted size of porphyry.

Core samples have been submitted to Spec Cam, UK for infrared reflectance analysis. The results will be integrated into the construction of a three-dimensional alteration model of the porphyry system.

Preliminary floatation/gravity/bond ball index metallurgical test work has been completed at Wardell-Armstrong, positively indicating the treatability of the Taldybulak-Talas ores. The sulphide composite responded well to flotation giving a satisfactory grade of copper concentrate of 21.6% copper with reasonable recoveries of 71% copper and 60% gold. A further 19% of both the copper and gold reported to the cleaner tailings products and could potentially be recovered when these products are recycled. More work is necessary on testing the metallurgical behaviour of the transition and oxide composites. The gold gravity recoveries ranged from 13.0% to 27.8% and this method of processing may be incorporated into the process flow sheet in order to reduce losses through over grinding during milling.

A 32 bed, fully serviced exploration camp has been constructed on site.

Drilling contracts have been finalised with Spektra Jeotek, Turkey and Altyn Jilga, Kyrgyzstan to conduct core drilling on all Talas licences.

### **Proposed Programme for 3rd Quarter**

A new diamond drilling programme, totalling more than 17,000m, and further geophysical surveying has commenced in end Q2 2008. Targeting of further drilling will be dependent on the results of the most recent geophysical surveys and assay results from the earlier drill holes.

**Table 3: Proposed drilling within Taldybulak-Talas Exploration Licence**

Licence Area	Purpose	Target	Proposed Metres
Taldybulak	Drill out	Taldybulak Central	7,000m
	Exploration	Taldybulak west extension & Taldybulak central deeps	2,000m
	Exploration	Taldybulak East	2,000m
Barkol	Exploration	Taldybulak West IP Anomaly	3,000m
Kentash	Exploration	Taldybulak East extension in to Mag & IP Anomaly	800m
	Exploration	Lower Kentash (Dzhangiturmish SE extension) SW Soils & IP Anomaly	1,000m
	Exploration	Kokkiya	400m
Korgontash	Exploration	Tokhtonnisai	800m
<b>TOTAL</b>			<b>17,000m</b>

Core samples have been submitted to HyChips, Australia for additional infrared reflectance analysis and association to mineralisation and geochemical and assay results.

### **KENTASH PROJECT**

**(100% owned by Orsu Metals Corporation via Talas Copper Gold LLP)**

#### **Targeted Mineralisation**

Palaeozoic copper-gold porphyry and associated skarn and quartz vein hosted mineralisation.

#### **2nd Quarter Activity and Significant Results**

Within the Kentash licence a stream sediment geochemistry survey was completed during 2006 which returned high copper and gold values, indicating potential for further occurrences of mineralisation along the corridor, linking Andash and Taldybulak.

In 2007, Lero completed a wide-spaced soil geochemical survey over the entire Kentash licence. This returned some gold, copper and molybdenum anomalism in 3 areas which will be further assessed in 2008. In 2007, a widely-spaced IP survey revealed chargeability anomalies in the central part of the license which will be further assessed during 2008.

Soils sampling has been conducted to infill the widely-spaced geochemical survey of 2007.

### **Proposed Programme for 3rd Quarter**

Orsu will proceed with the assessment of the anomalies revealed during the 2007 geochemical and IP surveys.

A scout exploration drilling programme and further IP surveys are scheduled for Q4 2008.

An orientation Mobile Metal Ions geochemical sampling programme, aiming to identify concealed targets, was completed in June 2008. Results are pending.

### **KORGONTASH PROJECT**

**(100% owned by Orsu Metals Corporation via Talas Copper Gold LLP)**

#### **Targeted Mineralisation**

Palaeozoic copper-gold porphyry and associated skarn and quartz vein hosted mineralisation.

#### **2nd Quarter Activity and Significant Results**

A drilling programme consisting of three diamond drill holes totalling 480m was completed at the Tokhtonnisai prospect in the western section of the Korgontash licence. The best intercept included 38m @ 0.60% copper and 0.56g/t gold.

#### **Proposed Programme for 3rd Quarter**

A drilling follow-up programme on soil geochemical anomalies is currently being designed and expected to commence Q3/Q4 2008. A 5x2km detailed ground magnetic survey is to be completed prior to drilling. This programme will help to clearly map the magnetite-rich copper-gold skarns at Korgontash.

### **BARKOL EXPLORATION LICENCE, KYRGYZSTAN**

**(100% owned by Orsu Metals Corporation via Talas Copper Gold LLP)**

#### **Targeted Mineralisation**

Copper-gold porphyry and quartz vein hosted mineralisation.

#### **2nd Quarter Activity and Proposed Programme for 3rd Quarter**

A total of 49.2 line km of DD-IP geophysics was completed on the Barkol licence during Q3 2007. Approximately half of this volume was used to identify Ordovician copper-gold mineralisation masked by Devonian volcanics in the east of the licence with the remainder conducted over the Barkol and Chonur prospects in western section of the licence.

All results from the geochemical programme completed in Q4 2007 have been received and outline several anomalies which require follow-up investigation.

Soils sampling conducted including detailed infill soil geochemical sampling over three anomalies which were identified from 2007's sampling.

An orientation Mobile Metal Ions geochemical sampling programme, aiming to identify concealed targets, was completed in June 2008. Results are pending.

#### **Proposed Programme for 3rd Quarter**

A Pole-Dipole Induced Polarisation (PD-IP) survey was commenced in the end of July 2008.

Drill programme planning and commencement of core drilling were undertaken in July 2008 and require an induced polarization survey to be completed prior to initiation of the first-pass drilling later in 2008.

## **TOKHTAZAN EXPLORATION LICENCE, KYRGYZSTAN**

Lero was pursuing the sale of the issued and outstanding shares that it holds in its wholly owned subsidiary, Tournon Finance Ltd. Tournon is the 100% beneficial owner of Oriel in Kyrgyzstan LLP, which holds the exploration and mining licences for the Tokhtazan and Akdjol areas in western Kyrgyzstan. Following the internal review of the geological potential of both areas in June 2008, the management decided to undertake a CAD\$600,000 exploration programme to test an upside potential.

### **Tokhtazan Project**

**(100% owned by Orsu Metals Corporation via Oriel in Kyrgyzstan LLP)**

Access road construction was conducted during Q2 2008.

### **Proposed Programme for 3rd Quarter**

A diamond drilling programme, consisting of approximately 2,500m, is due to be carried out during Q3 2008.

### **Akdzhol Project**

**(100% owned by Orsu Metals Corporation via Oriel in Kyrgyzstan LLP)**

No exploration work was conducted during Q2 2008.

### **Proposed Programme for 3rd Quarter**

A trenching programme, consisting of approximately 500m, is due to be carried out on the Kurpsai area within the licence area during Q3 2008.

## **KARCHIGA EXPLORATION LICENCE, KAZAKHSTAN**

### **Karchiga Project**

**(70% owned by Orsu Metals Corporation via GRK MLD LLP)**

### **Targeted Mineralisation**

Copper Volcanogenic Massive Sulphide

### **2nd Quarter Activity and Significant Results**

In February 2008, a completion of 1,880m of diamond drilling at Karchiga was announced. Both infill drill holes on the known zones and exploration drill holes to expand the known mineralisation were completed during Q4 2007.

Samples were submitted to the laboratory for analysis and on receipt of assay results in April 2008, Lero announced significant intersections up to 17.50m at 4.56% copper and 9.70m at 3.22% copper.

Following further analysis, Lero released a NI 43-101 compliant inferred mineral resource, which incorporated 1,879m of confirmation diamond drilling, completed by Lero in Q4 2007 and 86 historical Soviet diamond drill holes and trenches totalling 10,330m. At a 0.50% copper cut-off, the Indicated mineral resource is 4.75 Mt @ 2.46% copper while the Inferred mineral resources total 2.81Mt @ 1.81% copper.

**Table 4: Karchiga Copper Project, Mineral Resource Estimate April 2008**

Cut-off (%) Cu	Indicated Sulphide			Inferred Oxide			Inferred Sulphide		
	Tonnes (Mt)	Cu (%)	Copper (Mlb)	Tonnes (Mt)	Cu (%)	Copper (Mlb)	Tonnes (Mt)	Cu (%)	Copper (Mlb)
0.3	5.10	2.32	261	0.86	1.30	26.9	2.21	1.77	86.5
0.5	4.75	2.46	258	0.71	1.49	26.3	2.10	1.85	86.3

Karchiga Central lodes contain 4.75 Mt at 2.46% copper of the mineral resource within sulphide (Indicated) and 0.71 Mt at 1.49% copper within oxide (Inferred) material at a 0.50% copper cut-off. The balance of the mineral resource is contained within an Inferred sulphide resource at Karchiga Northeast. The north eastern lodes, which are blind to surface, are located some 200 m across strike and lie 150 m stratigraphically above the Karchiga Central mineralised zone.

A mineral resource was calculated using Ordinary Kriging on composite drill hole samples selected within a 0.5% copper wireframe. All wireframe models were constructed from interpretation of geology and grade boundaries and used to assign block categories within the grade interpolation model. Material types and sample data were subsequently extracted and subset within discrete lodes and grade interpolation constrained to each individual lode separately. A total of seven separate wireframes were constructed to constrain drill hole data. Specific gravity measurements were carried out for the different material types collected from Karchiga diamond drill core and an in-situ bulk density value assigned to the block model.

Resource estimates at Karchiga have been completed by Matthew Boyes (Senior Geologist, Lero), a qualified person as defined by Canada's NI 43-101. These results were reviewed and approved by WAI. However, WAI has relied upon the data presented by Lero in formulating its opinion. The complete technical report can be viewed on [www.sedar.com](http://www.sedar.com).

#### **Proposed Programme for 3rd Quarter**

Orsu is continuing the 2008 mineral resource definition and exploration drilling programme which was commenced in June 2008. The designed programme total 9000m of diamond drilling concentrated principally in the Karchiga Central and Northeast areas. The objective is to upgrade the existing Indicated and Inferred mineral resource categories to Measured and increase the known resource base. Metallurgical test work samples will also be collected for submission in Q4 to coincide with the commencement of the planned scoping study

Regional exploration is continuing with a 56km of DD-IP geophysical programme half completed and a 3300 sample geochemical soil programme nearing completion. Orsu expects to have all results from both the geochemical and Geophysical programmes by the end of Q3 2008.

## **RISKS AND UNCERTAINTIES**

Readers of this Management Discussion and Analysis should give careful consideration to the information included in this document and the Company's consolidated financial statements and related notes.

The risk factors include risks associated with the estimate of mineral reserves, mineral resources and production; risks of development, construction and mining operations; exploration and mining risks; 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 of title to mineral properties; risks associated with non-compliance with environmental and regulatory requirements; fluctuations in the price of gold, copper and foreign currency fluctuations; risks of obtaining required financing and operating permits on a timely basis; and the inability to economically or fully insure against certain risks. Additional risks not currently known to the Company, or that the Company currently deems immaterial, may also adversely affect or impair the Company's operations and results of operations. 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, production and development areas on the basis of their recognised geological, production and potential to host economic returns.

### **Nature of Mineral Exploration and Mining**

The exploration and development of mineral deposits involves significant financial risks over a prolonged period of time, which even with a combination of careful evaluation, experience and knowledge may not eliminate. While discovery of a mineral structure may result in substantial rewards, few properties that are explored are ultimately developed into economically viable operating mines. Major expenditure may be required to establish mineral reserves by drilling and 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 the Company's projects or the current or proposed exploration programmes on any of the properties in which the Company has exploration rights will result in a profitable commercial mining operation. The Company's operations will be subject to all of the hazards and risks normally incidental to the exploration, development and production of precious metals and base metals, any of which could result in damage to life or property, environmental damage and possible legal liability for any or all such damage caused.

The Company's activities may be subject to prolonged disruptions due to weather conditions depending on the location of operations in which the Company has interests. Hazards, such as unusual or unexpected formations, rock bursts, pressures, cave-ins, flooding or other conditions may be encountered in the drilling and removal of material. While the Company may obtain insurance against certain risks in such amounts as it considers adequate, the nature of these risks are such that liabilities could exceed policy limits or that certain risks could be excluded from coverage. There are also risks against which the Company cannot insure or against which it may elect not to insure. The potential costs that could be associated with any liabilities not covered by insurance which may be, but is not, taken out or in excess of insurance coverage actually taken out may cause substantial delays and require significant capital outlays, adversely affecting the Company's earning and competitive position in the future and, potentially, its financial position. In addition, the potential costs that could be associated with compliance with applicable laws and regulations may also cause substantial delays and require significant capital outlays, adversely affecting the Company's earning and competitive position in the future and, potentially, its financial position. Whether a precious metal or a base metal deposit will be commercially viable depends 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 and environmental protection). The effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital.

## **Exploration, Mining and Processing Licences**

The Company's exploration, mining and processing activities will be dependent upon the grant of appropriate licences, concessions, leases, permits and regulatory consents, which may be withdrawn or made subject to limitations. There is no guarantee that, upon completion of any exploration, a mining licence will be granted with respect to exploration territory. There can also be no assurance that any exploration licence will be renewed or if so, on what terms. These licences place a range of past, current and future obligations on the Company. In some cases there could be adverse consequences for breach of these obligations, ranging from penalties to, in extreme cases, suspension or termination of the relevant licence or related contract.

## **Development Projects**

Development projects have no operating history upon which to base estimates of future cash operating costs. For development projects, estimates of mineral resources and mineral reserves are, to a large extent, based upon the interpretation of geological data obtained from drill holes and other sampling techniques and feasibility studies.

This information is used to calculate estimates of cash operating costs based upon anticipated tonnage and grades of ore to be mined and processed, the configuration of the ore body, expected recovery rates, comparable facility and equipment operating costs, anticipated climatic conditions and other factors. As a result, it is possible that actual cash operating costs and economic returns may differ from those currently estimated.

## **Expansion Targets and Operational Delays**

It is anticipated that the Company will develop its properties, if warranted. However, there can be no assurance that it will be able to complete any planned development on time or to budget, or that the current personnel, systems, procedures and controls will be adequate to support the Company's operations. Any failure of management to identify problems at an early stage could have an adverse impact on the Company's financial performance.

## **Precious Metal and Base Metal Prices**

The profitability of any precious or base metal mining operation in which the Company may acquire 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 which will be beyond the Company's control. The level of interest rates, the rate of inflation, world supply of precious and base metals and stability of exchange rates, among others, 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 serious price declines could cause commercial production to be uneconomic. Depending on the price of precious or base metals, cash flow from mining operations may not be sufficient. If, as a result of a decline in precious or base metal prices, revenues from metal sales were to fall below cash operating costs, production if started, might be discontinued.

## **Limited Operating History**

Construction and commissioning of the Company's Varvarinskoye mine has only recently been completed and it has not yet achieved commercial production levels. Also, the Company is still working towards developing properties into operations that would be capable of producing positive cash flows in the future. The Company's ultimate success will depend on its ability to continue to generate cash flows from active mining operations in the future and its ability to access equity markets for its further development requirements if and when needed.

A portion of the Company's activities will be directed to the search for and the development of new mineral deposits. Significant capital investment will be required to achieve commercial production from the Company's projects and from successful exploration efforts. There is no assurance that the Company will be able to generate positive cash flows from existing operations or raise new funds required to continue these activities.

## **Additional Financing**

The Company is required to fund its share of approved exploration expenditure on certain of the properties on which it has exploration rights, failing which the Company's exploration rights in the relevant property may be either reduced or forfeited. The Company may acquire exploration rights in other exploration properties which may require acquisition payments to be made and exploration expenditures to be incurred. The only current source of cash flow is from its existing active mining operations; the only other source of funding which it is anticipated will be available to the Company is through the issue of equity capital, project finance or borrowing. There is no assurance that the Company will be successful in generating or raising sufficient funds to commence future mining operations or to meet its obligations with respect to the exploration properties in which it has or may acquire exploration rights.

## **Key Personnel**

The Company will rely on a limited number of key executive and employees. However, there is no assurance that the Company will be able to retain such key executives, employees or other senior management. If such personnel do not remain active in the Company's business, its operations could be adversely affected. The Company will not maintain key employee insurance on any of its employees.

## **Political Risk**

The Company will conduct its exploration and development activities primarily in the Commonwealth of Independent States. The directors of the Company are hopeful that the governments of the Russian Federation, Kazakhstan and the Kyrgyz Republic and other republics in the region will support the development of natural resources by foreign operators, but there have been cases of mineral licences being revoked in the past. Mineral exploration and mining activities may be affected in varying degrees by political stability and government regulations relating to the mining industry. There can be no assurance that future political and economic conditions in the Russian Federation, Kazakhstan and the Kyrgyz Republic and other republics in the region will not result in their governments adopting different policies in relation to foreign development and ownership of mineral resources. Any such changes in policy may result in changes in laws affecting ownership of assets, taxation, rates of exchange, environmental protection, labour relations, repatriation of income, return of capital, nationalization, expropriation and other areas, each of which may affect both the Company's ability to undertake exploration and development activities in respect of future properties in the manner currently contemplated, as well as its ability to continue to explore and develop those properties in respect of which it has obtained exploration and development rights to date.

## **Risks related to Kyrgyz legislation and Kyrgyz legal system.**

The legislation of the Kyrgyz Republic is not stable, is regularly amended and modified. The following risks create uncertainties to business entities in the Kyrgyz Republic: conflicting and uncoordinated laws, regulations, decrees; inconsistent application of laws and regulation; alleged corruption and non-transparency within governmental bodies; alleged non-independent judicial system; certain limitations related to foreign citizens; the possible adoption of a new tax code which might adversely affect companies doing exploitation business in the Kyrgyz Republic; powers of different governmental agencies are not clear and overlap which causes confusion; and excessive discretion. There is also no assurance that the Company's legal rights to use or operate any property in which it invests in Kyrgyzstan will be recognised by the relevant government or other authorities. No assurance can be given that the uncertainties associated with the existing and future laws and regulations in Kyrgyzstan generally will not have a material adverse effect on the Company's investments or operations. Governmental authorities have a high degree of discretion in the Kyrgyz Republic and at times act selectively or arbitrarily, without hearing or prior notice, and sometimes in a manner that is contrary to law or influenced by political or commercial considerations. Moreover, the government also has the power on certain circumstances, by regulation or governmental act, to interfere with the performance of, nullify or terminate contracts.

## **Environmental Factors**

The Company's operations will be subject to environmental regulation (including regular environmental impact assessments and the requirement to obtain and maintain certain permits) in all the jurisdictions in which the Company will operate.

Such regulation covers a wide variety of matters, including, without limitation, prevention of waste, pollution and protection of the environment, labour regulations and health and safety. The Company may also be subject under such regulations to clean-up costs and liability for toxic or hazardous substances which may exist on or under any of its properties or which may be produced as a result of its operations.

Environmental legislation and permitting requirements are likely to evolve in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their directors and employees. In addition to environmental regulation, various discretionary government approvals will be required in order to place a mining project into production. In recent years a number of mining projects have been stopped due to intense lobbying and protests initiated by either local or international environmental groups, the most notable being the Esquel gold project in Argentina. Such occurrences may represent a serious risk to the Company.

## **Competition**

The mineral exploration and mining business is competitive in all of its phases. The Company will compete with numerous other companies and individuals, including competitors with greater financial, technical and other resources than the Company, in the search for and acquisition of exploration and development rights on attractive mineral properties. The Company'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 for exploration and development. There is no assurance that the Company will be able to compete successfully with its competitors in acquiring exploration and development rights on such properties.

## **Currency Risk**

Currency fluctuations may affect the cash flow that the Company may realize from its operations, as minerals and base metals are sold and traded on the world markets in United States Dollars. The Company's costs are incurred primarily in United States Dollars, British Pounds Sterling and also in the currencies of the former Soviet countries in which it operates. Various countries within the Commonwealth of Independent States have from time to time imposed restrictions on the convertibility of local currency and there is no guarantee that such restrictions will not be imposed in future.

## **Limitations on Foreign Control of Mining Companies**

There are no restrictions on the foreign ownership of mining companies in any of the jurisdictions in which the Company will be operating. However, there can be no assurance that legal requirements as to the foreign ownership and control of mining companies in these jurisdictions will not change.

## **Uninsured Risks**

The Company, as a participant in exploration and mining programmes, may become subject to liability for hazards that cannot be insured against or against which it may elect not to be so insured because of high premium costs. The Company may incur a liability to third parties (in excess of any insurance cover) arising from pollution or other damage or injury.

## **Geology, Resources and Reserves**

Any mining exploration programme entails risks relating to the location of economic ore bodies, the development of appropriate metallurgical processes, the receipt of necessary governmental permits and the construction of mining and processing facilities at any site chosen for mining. No assurance can be given that any exploration programme will result in any new commercial mining operation or in the discovery of new mineral resources. A decline in the market price of precious and base metal may render ore reserves containing relatively lower grades of mineralisation uneconomic.

## **Economic, Political, Judicial, Administrative, Taxation or other Regulatory Factors**

The Company may be adversely affected by changes in economic, political, judicial, administrative, taxation or other regulatory factors, in the areas in which the Company will operate and holds its major assets, as well as other unforeseen matters.

Since the 1998 Russian debt crisis, the investment risk profile in the Russian Federation and the Kyrgyz Republic has gradually improved. However, although steps have been taken to strengthen the legal and tax regimes including those applicable to foreign companies and to facilitate currency movements, there remain areas of uncertainty in the legislation and its interpretation and in relation to the enforcement of judgements.

## **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 Company's expected date of reaching commercial production and the anticipated rates of production and revenue there from; development and operational plans and objectives; the estimated value of gold-copper concentrate produced from Varvarinskoye; the Company's expectation of proceeding towards a pre-feasibility study at Karchiga and the timing of such study along with the construction of the project facilities and production; the Company's expectation of Gold Fields' participation and financial support with respect to the Barkol, Kentash, Taldybulak and Korgontash licenses; the Company's expectation to being able to deliver increased value to shareholders; the Company's plans to develop and grow its properties and to pursue additional natural resource opportunities within the FSU; the Company's expectation to generate and maintain sufficient levels of cash to repay its long-term debt and other obligations; the expected levels of ore that will be treated at the Varvarinskoye mine per annum during its current estimated mine life of 17 years; estimates of mineral resources and reserves; Management's beliefs with respect to the extent of potential which exists for the discovery of the additional mineralization at the Karchiga copper project; the proposed work programs for the Company's exploration properties and their respective costs and timing and the Company's expectations concerning enhancements to ICFR controls and procedures.

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 cash flow from operations and capital markets to meet its future obligations, the regulatory framework in Kazakhstan and Kyrgyzstan with respect to, among other things, permits, licenses, authorizations, royalties, taxes and environmental matters, the ability of management to establish a commercial mining operation at Varvarinskoye, and the Company's ability to continue to obtain qualified staff and equipment in a timely and cost-efficient manner to meet the Company's demand.

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 realized or substantially realized, 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: the grade and recovery of ore which is mined varying from estimates; capital and operating costs varying significantly from estimates; inflation; changes in exchange rates; fluctuations in commodity prices; delays in the development of, and the commencement of operations at, the Varvarinskoye Project caused by unavailability of equipment, labour or supplies, climatic conditions, delays in the delivery and installation of plant and equipment or otherwise; termination or suspension of the Company's debt facility; uncertainty of the outcome of any litigation; inability to delineate additional mineral resources or reserves; and other factors including, but not limited to, those listed under "Risk Factors".

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.

The mineral resource and mineral reserve 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 resource and reserve estimates referred to in this MD&A are well established, by their nature resource and reserve estimates are imprecise and depend, to a certain extent, upon statistical inferences which may ultimately prove unreliable. If such 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.

Additional information about the risks and uncertainties of the Company’s business is provided in its disclosure materials, including its Annual Information Form, available under the Company’s profile on SEDAR at [www.sedar.com](http://www.sedar.com).

**OTHER INFORMATION**

**Additional information:**

Additional information relating to the Company is available on SEDAR 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 August 18, 2008:-

<b>Common shares of no par value (“Shares”)</b>	<b>Number in issue</b>
Shares	456,934,227
Share purchase options <sup>(1)</sup>	44,615,000
Warrants outstanding <sup>(1)</sup>	136,044,620

<sup>(1)</sup> Each share purchase warrant and share purchase option entitles the holder thereof to purchase one Share.

Orsu is authorised to issue 100 billion shares

**ENDS**