Orsu Metals Corporation
(formerly European Minerals Corporation)

Consolidated Financial Statements
December 31, 2008 and 2007
(in thousands of US dollars)

PricewaterhouseCoopers

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Auditors' Report

To the Shareholders of
Orsu Metals Corporation

We have audited the consolidated balance sheets of **Orsu Metals Corporation** as at December 31, 2008 and 2007 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for each of the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for each of the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) PricewaterhouseCoopers LLP

Chartered Accountants

Vancouver, B.C.
April 23, 2009

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Orsu Metals Corporation

Consolidated Balance Sheets

As at December 31, 2008 and 2007

(in thousands of US dollars)

	2008 $	2007 $
Assets		
Current assets		
Cash and cash equivalents	7,774	25,250
Inventory (note 6)	21,461	18,738
Accounts receivable	507	-
Other assets (note 7)	4,034	1,032
	33,776	45,020
Other assets (note 7)	19,688	-
Inventory (note 6)	6,419	-
Restricted cash	142	127
Contractor advances (note 8)	-	4,180
Property, plant and equipment (note 9)	45,748	220,476
Net investment in oil and gas residual interests (note 10)	884	1,364
	106,657	271,167
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 20)	24,440	14,140
Current portion of long-term debt (note 11)	53,751	32,475
Current portion of derivative liabilities (note 12)	24,221	19,185
	102,412	65,800
Long-term debt (note 11)	-	17,645
Derivative liabilities (note 12)	92,773	121,436
Future income tax (note 13)	6,877	6,705
Asset retirement obligations (note 14)	13,357	11,388
	215,419	222,974
Shareholders' (Deficiency) Equity		
Share capital (note 15(a))	361,440	204,553
Share purchase warrants (note 15(b))	48,650	46,629
Share purchase options (note 15(c))	19,000	13,567
Contributed surplus (note 17)	2,715	1,399
Deficit	(540,567)	(217,955)
	(108,762)	48,193
	106,657	271,167

Going concern (note 2)

Measurement uncertainty (note 9)

Commitments (note 18)

Contingencies (note 21)

Subsequent events (notes 2, 11, 14 and 20)

Approved by the Board of Directors

(signed) Sergey Kurzin
______________________________ Executive Chairman

(signed) Alexander Yakubchuk
______________________________ Director

The accompanying notes are an integral part of these consolidated financial statements.

Orsu Metals Corporation

Consolidated Statements of Operations, Comprehensive Loss and Deficit

For the years ended December 31, 2008 and 2007

(in thousands of US dollars)

	2008 $	2007 $
Sales revenues		
Gold	22,768	-
Copper	4,366	-
	27,134	-
Cost of sales		
Operating expenses	(35,412)	-
Selling and distribution costs	(3,515)	-
Depreciation, depletion and amortization (note 9)	(12,234)	-
Accretion	(460)	-
	(51,621)	-
Other (expenses) income		
Impairment of mineral properties (notes 5 and 9)	(119,550)	-
Impairment of Varvarinskoye assets (note 9)	(189,013)	-
Unrealized derivative gains (losses) (note 12)	23,627	(70,980)
Realized derivative losses (note 12)	(20,512)	-
General and administrative	(16,591)	(7,310)
Termination costs	(3,880)	-
Exploration (note 23)	(4,072)	(668)
Stock-based compensation (note 16)	(3,095)	(2,913)
Interest expense	(5,963)	-
Interest income (note 8)	1,584	1,341
Foreign exchange (losses) gains	(2,485)	720
Gain on disposal of mineral properties	-	400
	(339,950)	(79,410)
Loss before income taxes	(364,437)	(79,410)
Recovery of income taxes (note 13)	41,825	1,820
Loss and comprehensive loss for the year	(322,612)	(77,590)
Deficit - Beginning of year	(217,955)	(70,724)
Transitional adjustment (note 12)	-	(69,641)
Deficit - End of year	(540,567)	(217,955)
Loss per common share	$ (0.84)	$ (0.28)
Weighted average number of common shares		
Basic and diluted	385,985	281,732

The accompanying notes are an integral part of these consolidated financial statements.

Orsu Metals Corporation

Consolidated Statements of Cash Flows

For the years ended December 31, 2008 and 2007

(in thousands of US dollars)

	2008 $	2007 $
Cash flows from operating activities		
Loss for the year	(322,612)	(77,590)
Items not affecting cash		
Depreciation, amortization and deferred finance charges	16,520	-
Unrealized derivative (gains) losses (note 12)	(23,627)	70,980
Stock-based compensation (note 16)	3,095	2,913
Unrealized foreign exchange loss	(2,271)	(177)
Inventory write-downs (note 6)	5,139	-
Future income tax recovery	(41,825)	(1,820)
Warrants issued to agents (note 15(b))	311	-
Impairment of mineral properties	119,550	-
Impairment of Varvarinskoye assets	189,013	-
	(56,707)	(5,694)
Change in non-cash working capital		
Increase in inventories (note 6)	(15,117)	(18,738)
Decrease in contractor advances	4,180	-
Increase in accounts receivable and other assets	(5,443)	(476)
Increase in accounts payable and accrued liabilities	31,189	4,916
	(41,898)	(19,992)
Cash flows from investing activities		
Expenditures on property, plant and equipment	(33,414)	(61,222)
Restricted cash	(15)	16,122
Net cash acquired on acquisition of Lero (note 5)	34,051	-
Recovery of net investment in oil and gas residual interests	329	246
	951	(44,854)
Cash flows from financing activities		
Common shares issued - net of issue costs	-	21,275
Proceeds from exercise of stock options (note 15(c))	1,331	672
Proceeds from exercise of warrants	-	1,036
Proceeds from exercise of units	-	4,045
Proceeds from debt	5,000	-
Proceeds from long-term debt	-	46,367
Proceeds from Lero loan (note 5)	25,000	-
Repayment of debt	(5,000)	-
Deferred financing costs	(2,860)	(2,853)
	23,471	70,542
(Decrease) increase in cash and cash equivalents	(17,476)	5,696
Cash and cash equivalents - Beginning of year	25,250	19,554
Cash and cash equivalents - End of year	7,774	25,250

The accompanying notes are an integral part of these consolidated financial statements.

1 Nature of operations

Orsu Metals Corporation ("Orsu" or the "Company", formerly European Minerals Corporation or "EMC") is a dual listed (AIM: OSU, TSX: OSU) base and precious metal mining, production, exploration and development company, with its head office in London, which is operating the Varvarinskoye open pit gold-copper mine in northern Kazakhstan ("Varvarinskoye") and exploring gold and copper deposits in the Kyrgyz Republic and the Republic of Kazakhstan.

The Orsu group as currently constituted 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 (which included the issuance by EMC of 152,101,767 common shares) (see note 5). 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 on July 14, 2008.

Varvarinskoye is an operating asset producing gold dore and copper-gold concentrate. Through its acquisition of Lero, the Company also acquired interests in mineral exploration licences for various areas within Kyrgyzstan and Kazakhstan including the Talas Project in northwest Kyrgyzstan.

On December 3, 2008 the Company entered into an agreement with Goldfields Orogen Holdings BVI Limited ("Gold Fields") to further develop the Taldybulak-Talas property. Under the agreement Gold Fields became the project operator and has right to earn up to a 70% stake in the Talas property. Gold Fields had not earned any stake in the Talas property as at December 31, 2008.

Prior to signing the JV Agreement (and prior to the Company's acquisition of Lero), Gold Fields participated in three private placement financings with Lero and currently holds a total of 11,349,195 common shares of Orsu, or 2.46% of the total issued common shares of Orsu.

2 Going concern

While these financial statements have been prepared using Canadian generally accepted accounting principles ("Canadian GAAP") applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities during the normal course of operations, the adverse conditions below cast significant doubt as to the Company's ability to meet its obligations as they become due and, accordingly, the appropriateness of using accounting principles applicable to going concern.

At December 31, 2008, the Company had a working capital deficit of $68.6 million, (December 31, 2007 - working capital deficit of $20.8 million), accumulated losses of $541 million (December 31, 2007 - $218 million) and shareholders' deficiency of $109 million (2007 - shareholders' equity of $48 million). In addition, the company is subject to commitments and contingencies as set out in notes 18 and 21.

Following a sharp deterioration in world copper metal prices and higher than expected operating costs at Varvarinskoye, in the fourth quarter of 2008 the Company reviewed its Varvarinskoye mineral reserve and mineral resource estimates and engaged an independent expert to update the mineral reserve estimates based upon a reinterpretation of the central pit geology. Compared with the previous December 2006 Varvarinskoye Technical Report, the remaining mine life from January 1, 2009 has been reduced from 14 years to 8 years with a significant reduction in estimated contained copper and gold metals. Coupled with management's current long-term copper and gold pricing forecasts, the Company's revised mineral reserve and mineral resource estimates for Varvarinskoye create significant doubt regarding the Company's ability to generate sufficient cash flows from its mining operations to meet its obligations under the Varvarinskoye project finance debt facility with Investec Bank Limited, Nedbank Limited and Natixis Bank (the "Lenders") and the unmargined gold forward sales contracts entered into as a requirement of the debt facility.

The Company was unable to meet the first repayment tranche under the long-term debt facility of $16.65 million due on December 31, 2008, and payment of the first tranche remains outstanding. As at February 24, 2009, the Company was in breach of its permitted indebtedness covenant with respect to trade creditors, both in respect of amounts and terms ("Permitted Indebtedness"). This arose primarily due to temporary delays in shipping concentrate for sale. No waiver has been obtained from the Lenders for this breach. The Company is forecasting that, in the absence of additional waivers or modification of the debt terms, it will remain unable to meet its 2009 scheduled repayment obligations, will remain in breach of its repayment terms and its Permitted Indebtedness covenants, and is likely to breach additional covenants of its long-term debt facility. Failure to remedy existing or future breaches and to comply with the debt repayment terms will entitle the Lenders to demand immediate repayment of all amounts owing (see note 11).

At December 31, 2008, the Company had an outstanding future obligation to settle 372,468 ounces of unmargined forward gold sales contracts at a strike price of $574.25 per ounce, of which contracts for 80,326 ounces are due for settlement in 2009. This obligation has been valued on a mark to market basis at December 31, 2008 at $117 million. The practice of the Company has been to settle the gold forward contracts as they fell due on the settlement date. Up to December 31, 2008, the Company had settled contract amounts totalling $20.5 million as they fell due. Subsequent to the year-end, the Company was unable to meet its gold forward contract settlement obligations of: $2,538,000 due on January 30, 2009, $2,675,750 due on February 27, 2009 and $2,471,000 due on March 31, 2009. Under the cross default terms of the debt facility, a default on payments as they fall due under the gold forward contract obligations entitles the Lenders to demand immediate repayment of all amounts owing under the term debt facility and entitles the hedging counterparties to terminate any open derivative positions (see notes 11 and 12).

The Company is currently negotiating with the Lenders to try to restructure the debt facility and gold forward contract obligation terms in such a manner and time period that would allow the Company to meet its obligations as they fall due, including funding of any required future capital expenditures. In the Company's view, the settlement of its future gold forward contract obligations and long-term debt repayments is uncertain until such time as metal prices, and in particular copper prices, have recovered, Varvarinskoye operating costs have been reduced, Varvarinskoye is operating at maximum capacity and the outcome of current refinancing discussions with the Lenders have been concluded. In connection with the breaches of its Permitted Indebtedness covenants, while the Company is taking all possible steps to avoid disruption to essential supplies, management believes that it is unlikely that normal supplier payments and outstanding balances can be restored unless refinancing discussions are concluded on terms favourable to the Company, and unless an additional working capital facility is granted by the Lenders as part of the refinancing. Management considers that if any restructuring or modifications are to be successful, they must include the following as a minimum: the extension of the debt repayment period, an increase in the debt facility of a minimum of $10 million for working capital purposes and the conversion of short-term gold forward contract obligations into scheduled debt repayments. No conclusion from the Company's current discussions with the Lenders has been reached. To date, the Lenders have not taken, nor indicated that they intend to take, any action in respect of the defaults noted above, due to the ongoing discussions with the Company regarding the renegotiation of the debt facility and gold forward contract obligations. However, while the Company has been successful in the past in the past in renegotiating its debt facility and modifying its debt repayment and forward contract obligation terms, there can be no assurance that it will be successful in the future.

As a separate restructuring alternative, management is also investigating the possibility of disposing of the Varvarinskoye mine and related long-term debt and gold forward contract obligations. Whilst the Company remains in discussion with potential buyers, such discussions are at a preliminary stage and no formalized terms have been agreed. There is no assurance that the Company will be successful in any efforts to restructure or dispose of its current interest in the Varvarinskoye project.

These financial statements do 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. Such adjustments could be material.

3 Significant accounting policies

Basis of presentation and principles of consolidation

The accompanying consolidated financial statements have been prepared using Canadian GAAP. All amounts are presented in thousands of United States dollars unless otherwise stated.

The financial statements of entities which are controlled by the Company through voting equity interests, referred to as subsidiaries, are consolidated. Variable interest entities (VIE's), which include, but are not limited to, special purpose entities, trusts, partnerships and other legal structures, as defined by the Accounting Standards Board in Accounting Guideline 15, Consolidation of Variable Interest Entities, are entities in which equity investors do not have the characteristics of a "controlling financial interest" or there is not sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. VIE's are subject to consolidation by the primary beneficiary, the party who absorbs the majority of the entities' expected losses and residual returns. The Company considers JSC Varvarinskoye to be a variable interest entity requiring consolidation.

The principal subsidiaries of the Company as at December 31, 2008 which have been consolidated are as follows:

	% interest
Three K Mining and Exploration Limited ("Three K")	100
JSC Varvarinskoye ("JSCV")	100
European Minerals (UK) Limited ("EMUK")	100
Kazminco Oil Limited ("Kazminco")	100
Lisburne Holdings Limited ("Lisburne")	55
Althames Exploration Limited ("AEL")	100
Lero Gold Corporation ("Lero")	100
Tournon Finance Limited ("Tournon")	100
Kami Associates Limited ("Kami")	100
Eildon Enterprises Limited ("Eildon")	73.9
Oriel In Kyrgyzstan LLP ("OIK")	100
Talas Copper Gold LLP ("Talas")	100
GRK MLD LLP ("MLD")	94.75
Orsu Kazakhstan LLP	100

All intercompany balances and transactions are eliminated upon consolidation.

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 fair values used to establish the purchase price allocation, reserve and production quantities, production costs, depletion, depreciation and amortization, long-lived asset impairment, asset retirement obligation assumptions, stock based compensation and the valuation of derivatives and contingencies.

Revenue recognition

Revenue from sales is based upon the actual or, if applicable, estimated value of metals sold, net of value added tax and refining and treatment charges. Revenue is recognized only once the product has been delivered to the customer, title and risk of ownership have passed, collection is reasonably assured and the price is reasonably determinable.

The Company's copper metal concentrates are sold under pricing arrangements where final prices are determined by quoted market prices in a period subsequent to the date of sale. Revenues are recorded at the time of sale based on forward prices for the expected date of final settlement. As a result, the values of concentrate receivables change as the underlying commodity market prices vary. This component of the contract is an embedded derivative, which is recorded at fair value with changes in fair value recorded in revenue.

Cash and cash equivalents

Cash and cash equivalent balances include cash and short-term deposits with banks or other financial institutions 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.

Inventories

Product inventories are carried at the lower of cost or net realizable value. Cost is comprised of production costs for ore produced and processed. Production costs include the costs of materials, costs of processing and roasting, direct labour, stock-based compensation, mine site and processing facility overhead costs and depreciation, depletion and amortization. Stripping costs are included in the cost of inventory produced unless the stripping activity can be shown to be a betterment of the mineral property, in which case stripping costs are capitalized. The Company uses the weighted average cost method (based upon the cost of product inventories at normal operating levels) for valuing the cost of product inventory produced and sold.

Material and supplies inventories are carried at the lower of cost or net realizable value.

Stockpiled ore is measured by estimating the number of tonnes added and removed from the stockpile, the number of contained metal ounces based on assay data, and the estimated recovery percentage based on the expected processing method. Stockpile tonnages are verified by periodic surveys.

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.

The Company recognizes the payment of amounts required under option agreements as an addition or reduction, respectively, in the book value of the property under option when paid or received.

Mining, property and development costs are amortised using the units-of-production method. The assets are amortised based on the amount of ore mined in the period as a percentage of the total recoverable mineral reserves during the life of the mine.

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.

Commercial production levels are 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 for not less than 30 days, or six months from commencement of production. The Company commenced commercial production at Varvarinskoye and recognized operating revenues and expenses for production activities with effect from July 1, 2008. All pre-commercial production operating expenses, including applicable stock compensation costs and interest, have been capitalised as development costs net of pre-commercial production metal revenues.

Expenditures incurred for stripping activity, mine and pit development or reserve development considered to be a betterment of mineral property are capitalized and amortized over the mineral reserves that directly benefit from the specific stripping activity.

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. 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 an 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.

Mining, property and development costs are amortized using the units-of-production method. The assets are amortized based on the amount of ore mined in the period as a percentage of the total recoverable mineral reserves during the life of the mine.

Property, plant and equipment are depreciated as outlined in note 9.

Net investment in oil and gas residual interests

Sales proceeds and royalties received or receivable are recorded as a reduction to the carrying value of the Company's net investment in oil and gas residual interests.

Asset retirement obligations

The Company recognizes 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 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 if realization is not considered more likely than not, a valuation allowance is provided.

Derivative instruments

All derivative financial instruments are classified as held for trading and are measured at fair value. The fair value of these derivative instruments is adjusted at each balance sheet date with changes in fair value recorded in the determination of net income. Fair value estimates for derivative contracts are based on quoted market prices for comparable contracts and represent the amount the Company would have received from, or paid to, counterparty to unwind the contract at the market rates in effect at the balance sheet date.

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 expense attributed to the direct award of stock to employees is measured at the fair value of the award at the grant date, using an option pricing model, and is recognized over the vesting period of the award. Compensation expense for non-employees is 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 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 basic and diluted loss per share are the same.

4 Accounting changes and accounting policy developments

Effective January 1, 2008, the Company adopted the following new CICA Accounting Standards:

Accounting changes

Financial Instrument and Capital Disclosures

Effective January 1, 2008, the Company adopted Canadian Institute of Chartered Accountants (CICA) Handbook Section 3862, Financial Instruments - Disclosures; Section 3863, Financial Instruments - Presentation; and Section 1535, Capital Disclosures. Section 3862, Financial Instruments - Disclosures and Section 3863, Financial Instruments - Presentation, replace existing Section 3861, Financial Instruments - Disclosure and Presentation. The new disclosure requirements of Section 3862 are to enable users to evaluate the significance of financial instruments on financial position and performance, as well as the nature and extent of risks the Company is exposed to from financial instruments and how those risks are being managed. Section 3863 carries forward, unchanged, the presentation requirements of existing Section 3861. The disclosures required by these new standards are presented in note 20.

Effective January 1, 2008, the Company adopted CICA Handbook Section 1535, Capital Disclosures, which requires that the Company provide disclosures on its objectives, policies and processes for managing capital (see note 19).

Inventories

Effective January 1, 2008, the Company adopted the new CICA Handbook Section 3031, Inventories. This new standard replaced the existing Section 3030, Inventories and provides more prescriptive guidance on the measurement and disclosure of inventory. Key requirements of this new standard include that inventories be measured at the lower of cost and net realizable value and the reversal of previous write downs of inventory to net realizable value when there has been a subsequent increase in the value of this inventory. Adoption of this new standard did not have an impact on the amounts as previously reported in the Company's consolidated financial statements. During 2008, the Company provided a valuation allowance of $5.2 million against the carrying value of its inventory to record it at net realizable value (see note 6).

Section 1400 - Going Concern

This section has been amended to include requirements for management to assess an entity's ability to continue as a going concern. Financial statements shall be prepared on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, those uncertainties shall be disclosed (see note 2).

Goodwill and intangible assets

In February 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets, replacing Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. In addition, EIC 27 is no longer applicable for companies upon adoption of Section 3064. Section 3064 establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets and provides guidance for the treatment of preproduction and start-up costs and requires that these costs be expensed as incurred. This Section is applicable to a company's reporting periods regarding interim and annual financial statements for fiscal years beginning on or after October 1, 2008. The Company will adopt the revised guidance effective from January 1, 2009, upon adoption of the section, the company is required to restate its prior period financial statements and will expense $9.5 million of net start-up costs with a corresponding reduction in impairment of Varvarinskoye asset impairment charges for a net impact of $nil on the overall loss and comprehensive loss and closing deficit, as at and for the year ended December 31, 2008, as reported in these consolidated financial statements.

New accounting pronouncements

Credit risk and the fair value of financial assets and financial liabilities

On January 20, 2009, the Emerging Issues Committee (EIC) of the Canadian Accounting Standards Board (AcSB) issued EIC Abstract 173, Credit Risk and Fair Value of Financial Assets and Financial Liabilities ("EIC 173"), which establishes that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. EIC 173 should be applied retrospectively without restatement of prior years to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009. The Company is currently assessing the impact of EIC 173 on its consolidated financial statements.

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. This new Section will only have an impact on the Company's consolidated financial statements for future acquisitions that will be made in periods subsequent to the date of adoption.

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 is currently assessing the future impact of these new Sections on its consolidated financial statements.

5 Acquisition of Lero Gold Corp.

On June 19, 2008, the Company announced the completion of the acquisition of Lero Gold Corp. ("Lero"), a junior mining company engaged in the exploration and development of gold and base metal assets in Kyrgyzstan and Kazakhstan. Consideration for the acquisition was satisfied by the issuance of:

- 152,101,767 common shares of the Company with a fair value of CAD$1.03 per share measured at the closing market price of the shares at the issue date.

- 6,575,000 stock options of the Company, as replacement for 6,575,000 stock options of Lero outstanding at the acquisition date. Each option gives the holder the right to purchase a common share of EMC on the same terms as the underlying Lero options (see note 15(c)).

- 3,105,881 warrants of the Company, as replacement for 3,105,881 warrants of Lero outstanding at the acquisition date. Each warrant gives the holder the right to purchase a common share of the Company on the same terms as the underlying Lero warrants (see note 15(b)).

- Prior to the closing of the acquisition, the Company received a loan of $25 million from Lero ("the Lero Loan") on May 12, 2008. The loan payable was extinguished upon acquisition and has been recorded as a reduction of the purchase price.

Purchase price allocation

The acquisition of Lero has been accounted for as a purchase of assets, and the purchase price was allocated as follows:

	$
Purchase price	
152,101,767 common shares	154,622
Fair value of options assumed	4,346
Fair value of warrants assumed	1,394
Transaction costs	2,945
	163,307
Less: Lero Loan assumed	(25,000)
	138,307
Net assets acquired	
Cash and short-term investments	36,996
Accounts receivable and other assets	674
Mineral property interests	146,275
	183,945
Less:	
Liabilities	(3,622)
Future income tax liability	(42,016)
	138,307

The assumptions used to fair value the options and warrants assumed are shown in the table below:

	Options	**Warrants**
Risk free rate	3.47%	4.00%
Expected dividend yield	Nil	Nil
Expected stock price volatility	58.39%	64.50%
Expected life	2.8 years	2.0 years

The Company engaged a valuation specialist to assist in the valuation of the mineral properties acquired at June 19, 2008. A market approach was used for the valuations, which compared the implied value of gold equivalent ounces of similar junior mining exploration companies operating in Central Asia. At December 31, 2008 and following a sharp decline in general market conditions and the Company's share price, management completed an impairment assessment of the acquired Lero properties, resulting in an impairment charge $119.6 million.

6 Inventory

	2008 **$**	**2007** **$**
Stock piled ore	14,344	11,250
Work-in-progress	1,090	-
Finished goods	2,381	-
Materials and supplies	10,065	7,488
	27,880	18,738
Less: Non-current portion of ore in stock piles	(6,419)	-
	21,461	18,738

At December 31, 2008, stock piled ore inventory was valued at net realizable value, resulting in a charge of $5.2 million (2007 - $nil) in the consolidated statement of operations.

The total amount of inventory recognized as an operating expense, including the aforementioned write-downs, in the period was $34.4 million (2007 - $nil).

7 Other assets

	2008 $	2007 $
Value added taxes ("VAT")	19,688	-
Other receivables and prepaid expenses	4,034	1,032
	23,722	1,032
Less: Long-term portion of VAT	(19,688)	-
Current portion of other assets	4,034	1,032

As at December 31 2008, the Company recorded VAT of $19.7 million, relating mainly to Varvarinskoye construction activities which is recoverable either in cash or as an offset against future VAT liabilities incurred. The timing of receipt of VAT amounts is dependent upon both the timing of VAT refund applications and future taxable supplies subject to VAT. Due to the inherent uncertainties surrounding the timing of any refunds, the entire VAT balance has been classified as amounts due in greater than one year. This estimate may be subject to change in future periods.

8 Contractor advances

In January 2006, further to the termination of the lump sum turnkey contract ("LSTK") with MDM Ferroman (Pty) Limited ("MDM"), Orsu was notified that MDM was the subject of insolvency proceedings and cash advances made by JSCV totalling Rand 28.3 million (excluding accrued interest) were embargoed.

On October 22, 2008 the embargoed funds of Rand 28.3 million along with accrued interest of Rand 12.7 million were remitted to the Company at a Rand to US$ exchange rate of 11.21. As a result the Company recorded a realised foreign exchange loss of $1.7 million and interest income of $1.1 million as shown in the table below:

	2008 $	2007 $
Balance - Beginning of year	4,180	4,003
Effect of translation of foreign currency	(1,660)	177
Accrued interest	1,130	-
Release of embargoed funds	(3,650)	-
Balance - End of year	-	4,180

Subsequent to receipt of the funds, the Company was informed that the liquidator had placed sufficient security which would enable it to proceed with an action to seek to recover Rand 10 to 12 million in the South African courts (See note 21(b)).

9 Property, plant and equipment

The total property, plant and equipment for the Company are as follows:

	2008 **$**	**2007** **$**
Varvarinskoye Mine		
Plant and equipment	142,001	192,096
Development	94,891	38,765
Accumulated depreciation and depletion	(30,356)	(10,403)
Impairment	(189,013)	-
	17,523	220,458
Exploration properties (note 5)		
Talas	71,452	-
Tokhtazan	39,502	-
Karchiga	35,794	-
Impairment	(119,550)	-
	27,198	-
Office, furniture and equipment	1,221	30
Accumulated depreciation	(194)	(12)
	1,027	18
	45,748	220,476

Varvarinskoye Mine

The Company operates Varvarinskoye Mine through ownership of JSCV. The Varvarinskoye Mine is located in the north of Kazakhstan. JSCV holds two licenses to explore and develop the Varvarinskoye Mine and also a Subsoil Use Contract (“SSUC”) with the Government of Kazakhstan.

In accordance with Canadian GAAP, the carrying value of long-lived assets is tested for impairment whenever events or circumstances indicate that the related carrying amounts may not be recoverable. At December 31, 2008, and based on a number of factors, including the significant decline in the Company’s share price and the revisions to the expected Varvarinskoye Mine cash flows, management determined that impairment indicators did exist, and completed an impairment assessment of its Varvarinskoye Mine.

The impairment assessment included revising the mineral reserves and mineral resource estimates. As a result the Varvarinskoye life of the mine was reduced from 14 to 8 years compared to the previous Varvarinskoye Technical report of December 2006. The Company's estimated operational cash flows arising over the shortened life of mine were discounted to a net present value using the Company's risk-adjusted weighted average cost of capital of 19% and assumed long-term metal prices of $800 per oz of gold and $1.80 per lb of copper, and resulted in an impairment charge of $189 million.

During the year ended December 31, 2008, and pursuant to EIC 27, the Company capitalized pre-production and start-up costs totalling $11.5 million, net of revenues received. The net amounts capitalized comprised operating costs of $11.1 million, administration costs of $4.0 million, loan accretion of $5.0 million and depreciation charges of $8.0 million, offset by revenues received in the pre-operating period of $16.6 million.

As mentioned above, the remaining life of the Varvarinskoye mine is estimated to be 8 years from January 1, 2009. As a result from January 1 2009 the revised depreciation lives of the assets will be:

Building	Straight-line basis over period over 3 to 9 years
Plant and equipment	Straight-line basis over periods from 3 to 9 years
Mining fleet	Units of production method
Vehicles	Straight-line basis from 5 to 7 years
Other	Straight-line basis from 4 to 10 years

Exploration properties

Through the acquisition of Lero (note 5), the Company holds exploration licenses in Kyrgyzstan and Kazakhstan.

On December 3, 2008, the Company entered into an agreement with Gold Fields Orogon Holdings BVI Limited ("Gold Fields") to further develop the Taldybulak-Talas property. Under the agreement Gold Fields became the project operator and has right to earn up to a 70% stake in the Talas property. Gold Fields had not earned any stake in the Talas property at December 31, 2008.

Based on management's assessment that impairment indicators existed at December 31, 2008, and as mentioned in note 5, "Acquisition of Lero Gold Corp.", the Company completed an impairment assessment of its mineral properties at December 31, 2008. The Company engaged an independent expert to assist in determining the fair value of the Company's mineral properties comprised of Taldybulak-Talas and Tokhtazan in Kyrgyzstan, along with Karchiga in Kazakhstan. The result was a revised valuation in total of $20.9 million which has resulted in an impairment charge of $119.6 million.

Measurement uncertainty

Although the management of the Company believes that the estimates applied in the impairment assessments outlined above are reasonable, such assessments are subject to significant uncertainties and judgments. If long-term estimates including those made for commodity prices, recoverable reserves and share prices were to change significantly, additional impairment charges may be required in future periods, and such charges could be material.

10 Net investment in oil and gas residual interests

	2008 $	2007 $
Balance - Beginning of year	1,364	1,693
Royalty income	(480)	(329)
Balance - End of year	884	1,364

In 1999, the Company sold its interest in Tasbulat Oil Corporation ("Tasbulat"), a company producing oil in Kazakhstan. In line with the terms of the sale agreement, in January 2006, the Company received the final portion of the proceeds relating to this sale of $605,000.

The remaining net investment is expected to be recovered from the Company's share of a 1% gross overriding royalty (based on gross sales proceeds less certain sales related costs and taxes) which is payable to the Company from all oil produced from Tasbulat exceeding 2.0 million barrels of oil equivalent. The Company anticipates its residual net investment in oil and gas interests will be fully recovered from future royalty income.

11 Long-term debt

Long-term debt and the attributable unamortized deferred financing costs as at December 31, 2008 are as follows:

				2008
	ECIC loan $	**Commercial loan** $	**Convertible loan** $	**Total** $
Loans fully drawn down at December 31, 2008	34,317	18,000	8,000	60,317
Repayment of capital	(16)	-	(5)	(21)
Unamortized deferred financing costs	(4,030)	(1,401)	(1,114)	(6,545)
Net debt - current portion	30,271	16,599	6,881	53,751

				2007
	ECIC loan $	**Commercial loan** $	**Convertible loan** $	**Total** $
Balance drawn down at December 31, 2007	34,317	17,897	8,000	60,214
Unamortized deferred financing costs	(5,873)	(2,753)	(1,468)	(10,094)
	28,444	15,144	6,532	50,120
Current portion	(20,650)	(11,825)	-	(32,475)
Included in long-term liabilities	7,794	3,319	6,532	17,645

On November 30, 2005, JSCV entered into a limited recourse debt facility (the "Debt Facility") with Investec Bank (UK) Limited, Investec Bank Limited and Nedbank Limited (the "Lenders") to fund the debt portion of the construction of the Varvarinskoye Mine for a total amount of $75.4 million. The Company was unable to draw-down from this facility until the issues relating to the cancellation of the lump sum turnkey contract ("LSTK") with MDM Ferroman (Pty) Limited ("MDM") and subsequent completion of the EPCM with SENET were finalized.

These issues were resolved during the year ended December 31, 2006 and the Debt Facility amended and concluded on December 19, 2006. The Debt Facility is collateralized by the assets of JSCV. The covenants of the Debt Facility require the Company to deposit cash balances in restricted accounts, to maintain certain maximum levels and ageing of creditor indebtedness ("Permitted Indebtedness"), to meet debt and interest repayments as they fall due and also to enter into gold forward contracts. The Debt Facility also requires the Company not to raise any new debt or make distributions that result in the Company exceeding certain specified financial ratios.

Upon finalization of the Debt Facility in 2006, the total facility available was reduced to $61 million and consists of:

- a loan facility under written by the Export Credit Insurance Corporation of South Africa of $35 million (the "ECIC Loan");
- a commercial loan of $18 million (the "Commercial Loan") and
- a convertible loan facility of $8 million (the "Convertible Loan").

On May 9, 2008, the Company and the Lenders agreed certain modifications to the Debt Facility repayment terms and rates to reflect the delayed commencement of commercial production compared with the Company's original expectations.

The Company has applied the debt extinguishment tests prescribed under EIC 88 ("Debtors Accounting for a Modification or Exchange of Debt Instruments") to the revised and original cash flows arising from the amended and original debt facility cash flows and has concluded that the debt facility amendments did not result in the recognition of a new debt instrument at either amendment date but were renegotiations of the original debt facility.

As at December 31, 2008 and following the May 9, 2008 modification, principal repayment and interest rate terms are as follows:

Repayment dates	Applicable Rate	ECIC loan $	Commercial loan $	Convertible loan $	Total principal $
December 31, 2008	(LIBOR plus 1.25%)	9,050			9,050
	(LIBOR plus 2.8%)		7,600		7,600
		9,050	7,600	-	16,650
June 30, 2009	(LIBOR plus 1.25%)	8,100			8,100
	(LIBOR plus 2.8%)		6,175		6,175
	(LIBOR plus 5.0%)		4,225		4,225
	(LIBOR plus 2.8%)			900	900
		8,100	10,400	900	19,400
December 31, 2009	(LIBOR plus 1.25%)	5,551	-		5,546
	(LIBOR plus 5.0%)	11,600			11,600
	(LIBOR plus 2.8%)			3,275	3,275
		17,151	-	3,275	20,421
June 30, 2010	(LIBOR plus 2.8%)	-	-	3,820	3,825
Total principal		34,301	18,000	7,995	60,296

During the year ended December 31, 2008, the Company incurred financing costs of $3.8 million (2007 - $3.2 million) with regard to the Debt Facility.

As mentioned in note 2, "Going concern", the Company was in technical breach of its borrowing covenants as it was unable to repay the first tranche of debt repayment of $16.65 million due on December 31, 2008, and had not received waiver from all the Lenders as at the date of the financial statements. Payment of the first tranche remains outstanding. In addition, as at February 24, 2009, the Company was in breach of its Permitted Indebtedness covenants with respect to trade creditors, both in amounts and terms. In addition, the Company is forecasting that, in the absence of additional waivers or modification of the debt terms, it will remain unable to meet its 2009 scheduled repayment obligations, will remain in breach of its repayment terms and its Permitted Indebtedness covenants, and is likely to breach other loan covenants. Failure to remedy such existing or future breaches and to comply with the debt repayment terms will entitle the Lenders to demand immediate repayment of all amounts owing. As a result, the entire debt amount has been classified as current.

The Company is currently in discussions with the Lenders for the re-financing of JSCV including the possibility of disposing of Varvarinskoye property and related debt and gold forward contract obligations. The outcome of these discussions has not yet been determined and there is no assurance that the Company will be successful in its attempts to refinance JSCV and/or obtain amendments to the debt repayment schedule, or obtain additional waivers or dispose of the Varvarinskoye property and related debt and hedging obligations.

12 Derivative instruments

The mark to market fair value is as follows:

	2008 **$**	**2007** **$**
Derivative instruments	116,994	140,621
Less: Amounts due within one year	(24,221)	(19,185)
	92,773	121,436

As a condition of the Debt Facility, the Company entered into monthly US dollar unmargined flat forward gold sales contracts (the "Varvarinskoye Hedge") over a term of 8 years ending in June 2014. The Company has 372,468 ounces of forward gold sales remaining at a price of $574.25 per ounce as at December 31, 2008.

The Company estimates that the Varvarinskoye Hedge represents approximately 57% of the gold production during the remaining term of the Hedging Facility (January 2009 to June 2014), but only approximately 28% of the current estimates (completed in January 2009) of probable mineral reserves of gold at Varvarinskoye.

None of the Company's derivative liabilities have been designated as hedges. Accordingly, such derivative liabilities that do not qualify for hedge accounting are required to be recorded at fair value with changes in their fair value recognized as unrealized gains and losses in the financial statements in the period in which they occur.

During the year ended December 31, 2008 the Company settled derivative contracts resulting in realized derivative losses of $20.5 million (2007 - $nil).

The mark to market revaluation of the Company's derivative liabilities, from a strike price of $574.25 per oz, as at December 31, 2008 at an average forward gold price of $888 per oz gave rise to an unrealized derivative gain for the year of $23.6 million against the average forward gold price as December 31, 2007 of $937 per oz. (2007 - loss of $70.9 million).

All derivative financial instruments are classified as held for trading and are measured at fair value. At December 31, 2008 and 2007, the Company's derivative liabilities were comprised solely of gold forward sales contracts.

The adoption of CICA 3855 and 3865 in 2007 gave rise to a transitional adjustment of $69.6 million as at January 1, 2007 which was charged to opening deficit.

As at December 31, 2008 and 2007, the Company had the following open derivative positions:

						2008
	Maturity 2009	**Maturity 2010**	**Maturity 2011**	**Maturity 2012**	**Maturity 2013 to 2014**	**Total**
Gold						
Forward contracts (oz)	80,326	81,000	76,142	62,000	73,000	372,468
Price ($/oz)	574.25	574.25	574.25	574.25	574.25	574.25

						2007
	Maturity 2008	**Maturity 2009**	**Maturity 2010**	**Maturity 2011**	**Maturity 2012 to 2014**	**Total**
Gold						
Forward contracts (oz)	70,532	80,326	81,000	76,142	135,000	443,000
Price ($/oz)	574.25	574.25	574.25	574.25	574.25	574.25

13 Income taxes

a) The income taxes shown in the consolidated statements of operations differ from the amount obtained by applying statutory rates due to the following:

	2008	**2007**
Statutory tax rate	30%	30%
	$	**$**
Net loss before income tax recovery	(364,437)	(79,410)
Recovery of income taxes based on statutory rates	109,331	23,823
Change in valuation allowance	(34,117)	(43,440)
Transitional adjustment	-	20,892
Impact of tax rate changes	(22,612)	-
Non-deductible expenses	(10,777)	-
Other	-	545
Future income tax recovery	41,825	1,820

The statutory rates applied reflect the rates applicable in the UK, Canada, Kazakhstan and Kyrgyzstan.

b) Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. On acquisition of resource assets, the Company records a future tax liability and corresponding adjustment to the related asset carrying amount. The significant components of the Company's future income tax assets and liabilities are as follows:

	2008 $	2007 $
Future income tax assets		
Derivative liabilities	35,098	42,186
Operating and capital loss carry forwards	19,497	6,475
Property, plant and equipment	24,620	-
Inventory	1,039	-
Accounts payable	579	
Asset retirement obligation	1,945	3,417
	82,778	52,078
Less: Valuation allowance	(82,778)	(48,661)
	-	3,417
Future income tax liabilities		
Property, plant and equipment	(6,877)	(10,122)
Net future income tax liability	(6,877)	(6,705)

c) As at December 31, 2008, the Company has a total of $83.0 million losses carried forward for income tax purposes, $48 million (2007 - $16 million) arising in the United Kingdom; $31 million (2007 - $nil) arising in Kazakhstan; and $4.0 million (2007 - $nil) arising in Republic of Kyrgyzstan. These losses may be carried forward indefinitely in the United Kingdom, for 7 years in Kazakhstan and 5 years in Kyrgyzstan.

14 Asset retirement obligations

A reconciliation of the changes in asset retirement obligations is as follows:

	2008 $	2007 $
Balance - Beginning of year	11,388	3,052
Change in estimates	(239)	
Additions in the year	1,302	7,896
Accretion	906	440
Balance - End of year	13,357	11,388

The Company's estimates of future asset retirement obligations are based on reclamation standards that meet or exceed regulatory requirements. Elements of uncertainty in estimating these amounts include potential changes in regulatory requirements, decommissioning and reclamation alternatives and amounts to be recovered from other parties. Significant reclamation and closure cost activities include land rehabilitation and reforestation, demolition of buildings and mine facilities, fencing, ongoing care and maintenance and other costs. The provision for reclamation is based on the following key assumptions:

- total inflated undiscounted cash flows of approximately $25 million (2007 - $31 million),
- the expected timing of payment of the cash flows ranges in the years 2009 to 2017 (previously 2006 to 2021),
- a credit adjusted risk-free rate at which the estimated flows have been discounted by 8.2 % (2007 - 8.2%) and finally,
- after applying an assumed inflation rate of 8.3% (2007 - 8.3%).

This provision is accreted over the life of the mine on a units-of-production basis, to the estimated retirement obligation payable through charges to operations.

During the year ended December 31, 2008, the Company recorded a liability of $1.3 million in connection with its obligation under the Sub Soil Use Contract ("SSUC") with JSCV. This liability is included within asset retirement obligation additions and will be accreted to the total obligation of $2.1 million on a periodic charge to earnings. The liability has been discounted at a credit adjusted risk-free rate of 10% (2007 - 0%).

Under the terms of the 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. Under the terms of the original SSUC these costs are repayable in annual instalments after both of the following events have taken place:

a) the first discovery of a mineral reserve in the license area (completed as at June 30, 2007); and

b) the completion of the first year (not earlier than the year in which the discovery of a mineral 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 December 31, 2008.

However, on January 1, 2009, a new Tax Code was adopted in the Republic of Kazakhstan which cancelled the stability of the Sub Soil Use Contracts. From 1 January 2009 historic costs are to be paid in accordance with article 328 of the new Tax Code, which stipulates that the sub soil user shall agree a payment schedule with the authorized state body which shall be based on pre-determined guidelines and which repayment period cannot exceed ten years.

JSCV has not yet agreed the new payment schedule with the authorized state body, but is expecting that in accordance with such agreement the first instalment of historic costs will be due in 2010. It is expected that the annual payment will be $212,000 per annum, based on total amount of historic costs of $2.1 million.

15 Share capital

a) Authorized

The Company is authorized to issue 100,000,000,000 common shares of no par value.

Issued

	2008		2007	
	Number of shares 000's	**Amount $**	**Number of shares** 000's	**Amount $**
Balance - Beginning of year	302,804	204,553	279,254	174,985
Common shares issued for cash (ii)	-	-	17,497	22,021
Common shares issued on acquisition	152,102	154,624	-	-
Exercise of warrants for cash	-	-	1,250	1,036
Exercise of stock options for cash	1,800	1,331	850	672
Exercise of Agent Units for cash	-	-	3,853	4,045
Transfer of fair value on exercise of stock options, warrants and Agent Units	-	702	-	2,382
Common shares issued for consulting services	253	230	100	159
Share issue costs	-	-	-	(747)
Balance - End of year	456,959	361,440	302,804	204,553

i) The Company issued 152,101,767 common shares at market value CAD$1.03 to acquire all the outstanding common shares of Lero of June 27 2008.

ii) On December 18, 2007, the Company completed a private placement for a total of 17,496,875 common shares of the Company at a price of CAD$1.28 per share, for aggregate gross proceeds of $22 million.

b) Share purchase warrants

A summary of the changes in the Company's share purchase warrants for the years ended December 31, 2008 and 2007 is set out below:

	2008			2007		
	Value Assigned US$	**Warrants Outstanding 000's**	**Weighted average exercise price CAD$**	**Value Assigned US$**	**Warrants Outstanding 000's**	**Weighted average exercise price CAD$**
Balance - Beginning of year	46,629	130,441	1.16	46,346	129,765	1.35
Issued on exercise of Agent's Units	-	-	-	1,032	1,926	1.55
Issued to agent	82	500	1.20	-	-	-
Fair value of warrants assumed from Lero	1,394	3,106	0.85	-	-	-
Issued to debt facility Lenders	545	2,000	1.00	-	-	-
Exercised	-	-	-	(749)	(1,250)	0.71
Forfeited	-	(7,500)	1.20	-	-	-
Balance - End of year	48,650	128,547	1.28	46,629	130,441	1.16

A summary of the share purchase warrants outstanding and exercisable as at December 31, 2008 and 2007 is set out below:

2008			2007		
Exercise Price CAD$	**Expiry date**	**Number 000's**	**Exercise Price CAD$**	**Expiry date**	**Number 000's**
1.20	April 11, 2010	71,888	1.20	April 11, 2010	71,888
1.00	November 30, 2010	2,000	1.00	November 30, 2010	2,000
1.55	March 21, 2011	40,451	1.55	March 21, 2011	40,451
0.92	October 17, 2011	8,602	1.20	December 23, 2008	7,500
1.00	May 9, 2010	2,000	0.92	October 17, 2011	8,602
1.20	April 17, 2010	500	-	-	-
0.85	April 29, 2010	3,106	-	-	-
		128,547			130,441

During the year ended December 31, 2008, warrants exercisable into 2,000,000 shares were issued to the Lenders as part of the re-negotiation of the existing Varvarinskoye debt facilities. These warrants have an exercise price of CAD$1.00 and are exercisable until May 9, 2010. A further 500,000 warrants were issued to Endeavour Financial Services for agents fees at an exercise price of CAD$1.20 exercisable until April 17, 2010. Between May and April 2008, 3,105,881 warrants were issued to agents as part of Lero's private placement of gross proceeds CAD$66 million; these become outstanding as securities of Orsu and were part of the consideration assumed in the acquisition (see note 5, "Acquisition of Lero Gold Corp.").

In accordance with Canadian GAAP, the fair value of the warrants granted has been calculated using the Black-Scholes option pricing model, using the following assumptions:

A summary of the assumptions used in the valuation of share purchase warrants issued during the year ended December 31, 2008 is set out below:

	Lero acquisition warrants	**Agent's warrants**	**Warrants issued to Debt facility lenders**
Risk free interest rate	4.0%	2.85%	2.72%
Expected dividend yield	nil	nil	nil
Expected stock price volatility	64.50%	57.78%	57.42%
Expected warrant life	2 years	2 years	2 years

Pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate and, therefore, the existing models do not necessarily provide a reliable single measure of the fair value of warrants granted by the Company.

c) Share purchase options

The Company maintains an incentive stock option plan (the "Plan") covering directors, officers, employees and consultants of the Company and its subsidiary companies. The exercise price of an option is determined by the Board of Directors on the basis of the closing market price of the Company's shares on the trading day prior to the date of issue of the option. The Plan provides that options may be granted for a maximum period of ten years and the aggregate number of shares which may be issued and sold under the Plan may not exceed 10% of the issued and outstanding common shares from time to time, less options exercised since shareholder approval was last granted in respect of the Plan. At December 31, 2008, a total of 43,540,000 options were reserved under the Plan with 1.6 million options available for granting.

A summary of the changes in the Company's share purchase options for years ended December 31, 2008 and 2007, is set out below:

	2008			2007		
	Value Assigned US$	Options Outstanding 000's	Weighted average exercise price CAD$	Value Assigned US$	Options Outstanding 000's	Weighted average exercise price CAD$
Balance - Beginning of year	13,567	24,265	0.83	9,599	20,815	0.91
Issued	3,105	16,125	0.82	4,860	6,100	1.15
Fair value of options assumed from Lero	4,346	6,575	0.46	-	-	-
Exercised	(702)	(1,800)	0.75	(289)	(850)	0.83
Forfeited	(1,316)	(3,275)	0.65	(603)	(1,800)	0.92
Balance - End of year	19,000	41,890	0.84	13,567	24,265	0.83

A summary of the stock options outstanding and exercisable as at December 31, 2008 is set out below:

Range of prices CAD$	Number of options	Weighted average years to expire	Weighted average exercise price CAD$	Number of exercisable options	Weighted average exercise price CAD$
0.24 - 0.49	5,550,000	2.37	1.00	5,550,000	1.00
0.50 - 0.99	31,990,000	3.74	0.31	31,840,000	0.31
1.00 - 1.49	4,350,000	3.26	2.49	3,475,000	2.86
	41,890,000	3.56	0.84	40,865,000	0.86

16 Stock-based compensation

The Company uses the fair value method of accounting for stock-based compensation. During the year ended December 31, 2008, a total of 16,125,000 options were issued with strike prices ranging between CAD$0.24 - CAD$0.91. Of this total, 9,000,000 were issued to directors of the Company with the balance issued to employees. The fair value of stock-based compensation expense recorded during year ended December 31, 2008 was $3.2 million (2007 - $4.8 million). Of these, $3.1 million (2007 - $2.9 million) was related to non-project personnel and was expensed in the statements of operations with the remaining amounts of $0.1 million (2007 - $1.9 million) related to Project personnel and capitalised to Varvarinskoye property, plant and equipment.

The fair value of stock options used to calculate compensation expense is estimated using the Black-Scholes option pricing model with the following assumptions:

	2008	2007
Risk free rate	2.9%-3.33%	3.9% - 4.5%
Expected dividend yield	Nil	Nil
Expected stock price volatility	58.58%-65.19%	64% - 69.0%
Expected options life	2.8 years	5 years

17 Contributed surplus

A summary of the changes in the Company's contributed surplus for the year ended December 31, 2008 and 2007 is set out below:

	2008 $	2007 $
Balance - Beginning of year	1,399	796
Transfer of fair value of cancelled incentive stock options	1,316	603
Balance - End of year	2,715	1,399

18 Commitments

The following table summarizes the commitments of the Company as at December 31, 2008:

	2009 $	2010 $	2011 $	2012 $	2013 $	Total $
Long-term debt	60,296	-	-	-	-	60,296
Derivative liabilities	24,221	24,770	23,798	19,916	24,289	116,994
Capital commitments	1,671	-	-	-	-	1,671
Lease obligations	110	-	-	-	-	110

19 Capital disclosures

The Company considers the items included in the shareholders' equity to be capital (see note 15). The Company's objectives when managing capital are to provide returns for shareholders, and comply with lending requirements while safeguarding the Company's ability to continue as a going concern.

The Company manages and monitors the capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the Company's assets.

20 Financial risk management

Fair values

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

Held for trading financial assets and liabilities, including derivative financial instruments, 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.

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

The following provides a summary of the carrying values of each classification of financial instrument as at December 31, 2008:

	Loans and receivables $	Held-for-trading $	Other financial liabilities $	Total carrying amount $
Financial assets				
Cash and cash equivalents	-	7,774	-	7,774
Restricted cash	-	142	-	142
Accounts receivable	507	-	-	507
Financial liabilities				
Accounts payable and accrued liabilities	-	-	24,440	24,440
Derivative liabilities	-	116,994	-	116,994
Long-term debt - net of issue costs	-	-	53,751	53,751

The fair value of the Company's accounts payable and accrued liabilities, derivative liabilities and long-term debt balances are significantly lower than carrying value due to the Company's current financial condition.

The fair value of accounts receivable approximates to their carrying values due to their immediate maturity as at December 31, 2008.

The following provides a summary of the carrying values of each classification of financial instrument as at December 31, 2007:

	Loans and receivables $	**Held-for-trading $**	**Other financial liabilities $**	**Total carrying amount $**	**Total fair value $**
Financial assets					
Cash and cash equivalents	-	25,250	-	25,250	25,250
Restricted cash	-	127	-	127	127
Accounts receivable	1,032	-	-	1,032	1,032
Contractor advances	-	-	-	4,180	4,180
Financial liabilities					
Accounts payable and accrued liabilities	-	-	14,140	14,140	14,140
Derivative liabilities	-	140,521	-	140,521	140,521
Long-term debt - net of issue costs	-	-	50,120	50,120	50,120

The Company is exposed to certain financial risks including credit risk, liquidity risk, currency risk and interest rate risk.

Accounts receivable

Metal (copper) concentrate is sold under contract pricing arrangements where final prices are confirmed at a specified future date based on the then prevailing market prices. Fluctuations in the estimated final price of metal between the date of the initial revenue recognition (i.e. the date at which title passes) and the final future price point, results in the existence of an embedded derivative in the accounts receivable. This derivative is classified as held for trading with changes in fair value recognized as a component of revenue.

Upon the shipment of concentrate, a provisional invoice is raised based on current metal spot prices and an advance of 90% of the value of the metal less deductions for freight, smelting and other costs is received. A final adjusted invoice is then raised at the end of the quotational period based upon the metal prices applicable to the stipulated quotational period.

At each financial period end, the Company estimates the expected final metal sales value based upon forward metal prices applicable to the relevant quotational periods and makes the appropriate adjustment to reported revenues to reflect the expected final metal sales values. As at December 31 2008, these adjustments resulted in a recorded estimated liability of $7.0 million payable to Trafigura for future metal price settlements, which is included in accounts payable and accrued liabilities.

Revenues of $16.6 million for the six months to June 30, 2008 were capitalised as Varvarinskoye was not yet determined to be in commercial production during this period. For the six months to December 31 2008 the Company invoiced sales of $38.1 million less future metal price settlement adjustments of (negative) $11.0 million, resulting in reported revenues for the year of $27.1 million.

Finally, the Company recognises sales on gold and copper concentrate as revenues for the year to December 31, 2008. As a by product of the production process, a small amount of silver was produced which generated sales totalling $71,000. The Company recognizes this as a credit against operating expenses.

Credit risk

The Company's credit risk is primarily attributable to derivative liabilities and accounts receivable. As at December 31 2008, the Company had a single off take contract for its copper concentrate sales (Trafigura Beheer B.V.) and another for its gold Dore sales (Metalor Technologies S.A.). The Company takes all reasonable measures to ensure that the off takers are financially stable and able to fulfil their contractual obligations. Subsequent to the year-end, deliveries of the copper concentrate to Trafigura Beheer B.V. ceased pending the signing of the amended off-take agreement on the revised contractual terms. Amended agreement is expected to be signed by early May 2009 pending the approval by the Lenders. This affected sales proceeds during the first quarter of 2009.

Liquidity risk

The Company's policy is to manage liquidity risk by maintaining cash and cash equivalent balances and available credit under the terms of committed credit facilities, sufficient to meet its short term and long term obligations.

As at December 31, 2008, the Company's short-term and long-term obligations were as follows:

	Total $	Less than 1 year $	1-2 years $	2-3 years $	Beyond 3 years $
Current portion of long-term debt	53,751	53,751	-	-	-
Accounts payable and accrued liabilities	24,440	24,440	-	-	-
Asset Retirement obligations	13,357	-	-	-	13,357
Derivative obligation	116,994	24,221	24,770	23,798	44,205

For the reasons stated in note 2 ("Going Concern") the Company's liquidity as at December 31, 2008 was insufficient to meet all of its debt, accounts payable and derivative obligations falling due in the first quarter of 2009. The Company's liquidity for the remainder of the year will be significantly affected by, amongst other things, metal prices, the frequency of product deliveries, production levels and any amendments to the terms of the Varvarinskoye debt facility and gold forward contract obligations arising from the ongoing discussions with the Lenders.

Currency risk

The Company's functional and reporting currency is US dollars.

Foreign exchange risk arises from transactions denominated in currencies other than US dollars. Commodity sales are denominated in US dollars. All borrowings are denominated in US dollars and the majority of operating expenses are denominated in US dollars and Kazakh Tenge. The impact on earnings (including exploration expenditures) of a 10% appreciation or devaluation in currencies is as follows:

	10% devaluation $	**10% appreciation $**
Kazakhstan Tenge	3,273	(4,000)
Kyrgyzstan Som	1,138	(1,390)
Canadian Dollar	(979)	1,196

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.

The impact on net earnings of a 1% per annum change in LIBOR would be as follows:

	December 31, 2008	**Impact of LIBOR change on net earnings**	
		1% increase	**1% decrease**
	$	**$**	**$**
Cash at bank	7,774	33	(33)
Long-term debt (pre issue costs)	60,296	(603)	603

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 where appropriate. To date the Company has entered into derivative positions for gold sales only, as required by lending agreements.

The following table shows the impact on net earnings due to changes in the fair value of financial instruments from a 10% change in the copper metal prices (based upon a year end weighted average copper metal price of $1.427 per lb) and contract forward gold prices (based upon a year end weighted average gold metal price of $888 per oz).

		Impact of price change on net earnings	
Derivative instruments	**December 31, 2008**	**10% increase $**	**10% decrease $**
Copper			
Embedded derivative - accounts receivable (payable)	8,082,317 lb	1,153	(1,153)
Gold			
Forward sales contracts	372,468 oz	(32,181)	32,181

21 Contingencies

a) Legal claim

The Company was served by Bernard Szuszkiewicz, on September 18, 2008, as a proposed representative plaintiff on behalf of persons who acquired securities of EMC during the period from May 16 2007 to March 31, 2008 with a statement of claim filed in the Ontario Superior court of Justice. 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). The plaintiffs are claiming general and special damages in the amount of CAD$50,000,000 and punitive damages in the amount of CAD$5,000,000. The Company's directors have appointed legal counsel and are currently preparing their defence.

Subsequently on December 5 2008, the Company was served by new claim which effectively replaced the original claim stated above. The new claim is similar in nature to the original but by a new plaintiff.

The claim has not yet been certified as a class action. Orsu believes that the Claim is without merit and intends to vigorously defend it. There have been no provisions made for any potential losses which may arise under this claim.

b) The Company continues to be the subject of insolvency proceedings with MDM. In January 2006, the Company terminated the lump sum turnkey contract ("LSTK") with MDM in relation to the Varvarinskoye Project. At the time of the cancellation of the LSTK, various suppliers (the "Suppliers") were in various stages of providing the components that they had agreed to supply to MDM. Amounts remained owing by MDM to certain suppliers who had completed their obligations and to certain other suppliers with obligations outstanding who indicated that they would not do any further work without receiving satisfactory assurances that they would receive the balance of amounts owing to them. In November 2005, prior to being placed into provisional liquidation, MDM assigned all of its rights and obligations under its contracts with the Suppliers to JSCV under a cession agreement (the "Cession"). Virtually all suppliers advised JSCV that they agreed to be bound by the Cession and dealt directly with JSCV thereafter. The liquidator of MDM has claimed the Cession of the sub-contracts under the LSTK gave rise to the Company receiving a benefit in preference to the other creditors and claimed this could be set aside under South African insolvency law. As a result, certain suppliers requested indemnification from JSCV for any losses suffered by them based on action taken against these suppliers by the liquidator. The liquidator has issued summons to pursue a claim against JSCV in the South African courts for between Rand 10 to 12 million arising for the cession, and did seek to embargo funds held in South Africa by the Company. The attempt to embargo funds was successfully opposed, and the funds repatriated to the Company (see note 8). However, the liquidator is still pursuing the claim in the South African courts for Rand 10 to 12 million but any judgement of a South African court will have to be recognised and enforced in Kazakhstan.

Orsu believes that the claim is without merit and intends to vigorously defend it. No provision has been made in these financial statements for any loss that may arise under the current action being pursued by the liquidator.

22 Related party transactions

During the year ended December 31, 2008 and 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 $295,628 (2007 - $603,000) in respect of the provision of office facilities, general office overheads and re-charged costs incurred on behalf of the Company. A former Chairman and director of the Company, beneficially owns DIS.

Endeavour Financial Corp ("EFC") charged the Company a total of $3,814,973 (2007 - $144,000) in respect of the provision of consulting services and related expenses of which $2,422,391 has been recognised in the purchase consideration. A former Chairman and director of the Company, is a shareholder of EFC. In addition, on April 17, 2008, EFC made a bridging loan of $5 million to the Company for working capital purposes, which was then subsequently repaid to EFC on May 14, 2008. An arrangement fee of $150,000, and a total of 254,479 shares were issued to EFC as part of the fees for providing the bridging loan. EFC were also issued 500,000 purchase warrants, at an exercise price of CAD$1.20, for advisory work on the Varvarinskoye debt renegotiation in May 2008.

During the period ended December 31, 2008 Lero was charged $820,530 (nil 2007) for rent and service charges from Oriel PLC a company related through a common director (whom resigned September 19 2008).

Mining Assets Corp ("MAC") charged the Company a total of $132,780 (2007 - $67,000) in respect of the provision of the consulting services and related expenses of a director of a company, who provides services to the Company on an ad-hoc basis. The director of the Company, beneficially owns MAC.

As at December 31, 2008, a total of $325,177 (2007 - $151,0000) for related parties has been included in accounts payable.

In June 2008, the Company entered into a related party transaction, not in the normal course of business, with Oriel Resources Corp., related through a director in common. During the year, Orsu received furniture and office equipment with a book value of $513,000 (2007 - $nil), in exchange for paying Oriel's lease obligations from June to December 2008 of approximately $100,000 in the period and assuming a dilapidation liability.

23 Segmented reporting

The segment reporting for Orsu is split between the operating activities covering all activities associated with Varvarinskoye mine, mineral exploration and development and head quarter charges.

Segmental information for the year ended December 31, 2008 is as follows:

	(Kazakhstan) Varvarinskoye Mining, exploration and development $	(Kazakhstan and Kyrgyzstan) Mineral exploration and development $	(UK) Corporate $	Total $
Revenues				
Gold	22,768	-	-	22,768
Copper	4,366	-	-	4,366
	27,134	-	-	27,134
Cost of sales	(51,621)	-	-	(51,621)
Other costs				
Derivative gains, net	3,115	-	-	3,115
Stock-based compensation	-	-	(3,095)	(3,095)
Foreign exchange	(1,900)	-	(585)	(2,485)
Exploration expenses	-	(4,072)	-	(4,072)
Interest expense	(5,534)	-	(429)	(5,963)
Termination costs	-	-	(3,880)	(3,880)
General and administrative	(3,873)	(195)	(12,523)	(16,591)
	(8,192)	(4,267)	(20,512)	(32,971)
Interest income	1,186	-	398	1,584
Segmented loss before the following	(31,493)	(4,267)	(20,114)	(55,874)
Write-off of mineral properties	-	(119,550)	-	(119,550)
Write-off of Varvarinskoye assets	(189,013)	-	-	(189,013)
Segmented loss before income taxes	(220,506)	(123,817)	(20,114)	(364,437)
Property, plant and equipment	17,523	27,749	476	45,748
Total assets	72,006	28,919	5,732	106,657

Segmental information for the 12 month period ended December 31, 2007 is as follows:

	(Kazakhstan) Varvarinskoye Mining, exploration and development $	(Kazakhstan and Kyrgyzstan) Mineral exploration and development $	(UK) Corporate $	Total $
Revenues				
Gold			-	-
Copper			-	-
	-	-	-	-
Cost of sales	-	-	-	-
Other costs				
Derivative losses	(70,980)	-	-	(70,980)
Stock-based compensation	-	-	(2,913)	(2,913)
Foreign exchange	-	-	720	720
Exploration expenses	(668)	-	-	(668)
Interest expense	-	-	-	-
General and administrative	(2,961)	-	(4,349)	(7,310)
Gain on disposal of mineral properties	-	-	400	400
	(74,609)	-	(6,142)	(80,751)
Interest income	1,066	-	275	1,341
Segmented loss before the following	(73,543)	-	(5,867)	(79,410)
Write-off of mineral properties	-	-	-	-
Write-off of Varvarinskoye assets	-	-	-	-
Segmented loss before income taxes	(73,543)	-	(5,867)	(79,410)
Property, plant and equipment	220,458	-	18	220,476
Total assets	243,643	-	27,524	271,167

In 2007, the segmental activities only covered the Varvarinskoye and head quarters. With the acquisition of Lero in 2008, the Company added an additional reporting segment of exploration activities.

24 Supplementary cash flow information

	2008 $	2007 $
Non-cash investing and financing activities		
Shares issued for consulting services	230	159
Financing costs capitalized	3,128	9,400
Shares, options and warrants issued for Lero acquisition	160,362	-
Warrants issued to lenders for finance fees	545	-
Warrants issued for Agent's fees	81	-
Interest paid	3,477	3,067

At December 31, 2008 and 2007, cash and cash equivalents comprised the following:

	2008 $	2007 $
Cash	7,774	11,208
Short-term deposits	-	14,042
	7,774	25,250

Restricted cash

Restricted cash comprises accounts held for the Vavarinskoye project and the terms of their restriction remain in place. In addition, Vavarinskoye holds restricted cash of $89 thousand to meet local regularity requirements.