Orsu Metals Corporation

Management's Discussion and Analysis of Results
December 31, 2008 and 2007
(Figures in United States Dollars)

CONTENTS

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

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DR ALEXANDER YAKUBCHUK, Director of Exploration
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STOCK EXCHANGES
Toronto Stock Exchange, OSU
(Stock is quoted in Canadian Dollars)
Alternative Investment Market, OSU
(Stock is quoted in British Pounds)

Orsu Metals Corporation (""Orsu" or "the Company" or together with its subsidiaries, the "Group") (TSX: OSU, AIM: OSU) failed to complete and file this MD&A within the time required by Canadian National Instrument 51-102 Continuous Disclosure Obligations.

The delay was caused by the following factors:

- unprecedented market volatility which has required the Company to review the carrying value of its producing assets and mineral properties, and select and implement appropriate valuation methodologies;
- significant management time and effort dedicated to discussions with the Company's existing lending syndicate, comprised of Investec Bank Limited, Nedbank Limited and Natixis Bank (the "Lenders"), in relation to restructuring of the payments due under the loan facility, including hedging payments due under the facility; and
- finalisation of the mineral property valuations and subsequent purchase price allocation following the Company's acquisition of Lero Gold Corp ("Lero") on 19 June 2008.

INTRODUCTION

Orsu was formed on 19 June 2008 upon the Company's completion of the acquisition of Lero, pursuant to which the Company accrued additional interests in exploration projects located in Kyrgyzstan and Kazakhstan. Orsu is a dual listed London-based precious and base metal mining, production, exploration and development company which, through its various subsidiaries, operates the Varvarinskoye open pit gold-copper mine in the Urals belt in northern Kazakhstan ("Varvarinskoye") and exploring advanced copper-gold deposits in the Tien Shan gold belt in the Kyrgyz Republic, one of the largest and most prolific gold belts in the world and the Rudny Altai copper belt in the Republic of Kazakhstan.

The Company's shares began trading under its new name "Orsu Metals Corporation" and new symbol "OSU" on the AIM market of the London Stock Exchange on 4 July 2008 and on the TSX on 14 July 2008.

The following discussion is management's assessment and analysis of the operating results and financial condition of Orsu and should be read in conjunction with the Consolidated Financial Statements for the year ended 31 December 2008 and related notes, which have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). All amounts are reported in United States Dollars unless otherwise indicated. Canadian dollars are referred to herein as CAD$.

The effective date of this MD&A is 24 April 2009.

HIGHLIGHTS

- Plant commissioning completed.
- First gold sales and cash generated from the Varvarinskoye Project.
- First copper-gold concentrate produced.
- March 2008 - EMC announced that The Supreme Court of Appeal of South Africa issued judgment in favour of EMC in relation to its action to recover South African Rand 28.3 million advanced to a former contractor and expropriated by ABSA Bank Limited of South Africa.
- May 2008 - EMC announced an increase in the mineral resources at Varvarinskoye.
- June 2008 - EMC and Lero jointly announced the issuing of a Statement of Claim in the Ontario Superior Court of Justice against EMC and two of its officers.
- June 2008 - EMC completed the acquisition of Lero.
- July 2008 - EMC announced changes to its Board of Directors.
- July 2008 - EMC changed its name to Orsu Metals Corporation.
- July 2008 - Orsu completed first sale of copper-gold concentrate from Varvarinskoye.
- September 2008 - Orsu announced plans to procure a secondary low cost screener and crusher at the Varvarinskoye plant.
- September 2008 - Orsu announced being served with the Statement of Claim.
- October 2008 - Orsu announced it had successfully repatriated South African Rand 28.3 million , $3.65 million, of previously embargoed funds in South Africa pursuant to a legal application made by the liquidator of MDM Ferroman (Pty) Limited.
- December 2008 - Orsu announced an update regarding the Statement of Claim (that it had been effectively replaced by a new claim similar in nature, by a new plaintiff and had on that day been served on the Company).
- December 2008 - Orsu announced it signed a joint venture agreement with Gold Fields Orogen Holdings BVI Limited (“Gold Fields”), a wholly owned subsidiary of Gold Fields Limited for the further exploration and development of the Talas licence area, north west Kyrgyzstan.

POST YEAR END HIGHLIGHTS

- January 2009 - Orsu announced updated mineral reserve and mineral resource estimates for Varvarinskoye.
- January 2009 - Orsu announced the existing lending syndicate, comprised of Investec Bank Limited, Nedbank Limited and Natixis Bank had conditionally approved the extension of the deadline for the Company's principal debt payment of $16.65 million to 31 March 2009.
- February 2009 - Orsu announced all necessary approvals have been received from Export Credit Insurance Corporation, South Africa (“ECIC”) for the extension of the deadline for the Company's principal debt payment to 31 March 2009.
- March 2009 - Orsu announced the completion and SEDAR filing of a revised mine plan, including mineral reserve and mineral resource estimates, entitled "Varvarinskoye Cu/Au Open Pit Mine – Kazakhstan Mine Planning Study".
- April 2009 - Orsu announced that it had not yet reached an agreement on the restructuring of the loan repayments and hedging obligations, due by Joint Stock Company Varvarinskoye (“JSCV”) under its loan and hedging facilities. Discussions are ongoing with the various Lenders.

CORE ASSETS

Orsu's principal asset is the Varvarinskoye open pit gold-copper mine in the Urals belt in northern Kazakhstan (The "Varvarinskoye Project" or "Varvarinskoye") and its other (exploration) projects include the Karchiga volcanogenic massive sulphide ("VMS") deposit in Kazakhstan and the Talas and Tokhtazan exploration licence areas in Kyrgyzstan. The business acquisition of Lero positioned Orsu as a premier growth company with the primary objective of bringing Varvarinskoye up to commercial production levels, whilst at the same time aggressively continuing the exploration and development of its other copper-gold projects in Kyrgyzstan and Kazakhstan and pursuing new opportunities and acquisitions in countries of the Former Soviet Union ("FSU").

- **Varvarinskoye Gold-Copper Mine, Kazakhstan** – Located in north west Kazakhstan, Orsu's 100% owned Varvarinskoye Project commenced production of gold doré in December 2007 and copper-gold concentrate in March 2008. In 2008, the Varvarinskoye Project produced a total of 1,263,697 grams (40,628.8 troy oz) of gold and 4,494 tonnes of copper recovered to concentrate. Orsu's main focus has been the ramp-up of mining operations at Varvarinskoye. Since commissioning, Varvarinskoye's production plant has seen significant increases in throughput; operational capacity reached over 85% of design capacity. In November and December 2008, the grinding circuits were switched to maximise copper-gold concentrate production in light of metals prices during those months. In January 2009, the Company announced an updated mine plan, including updated mineral reserve and mineral resource estimates, for the Varvarinskoye Project. The Company is also implementing a plan to add a secondary low cost screening and crushing plant at the Varvarinskoye Project which is expected to increase throughput in the leach circuit and flotation grinding circuits. Further discussion about the Varvarinskoye Project can be found on page 9 of this MD&A.
- **Talas Exploration Licence Area, Kyrgyzstan** – The Taldybulak copper-gold porphyry deposit is the primary exploration property within the Taldybulak-Talas licence which comprises core assets of the Company in Kyrgyzstan including the Taldybulak, Kentash, Barkol and Korgontash licences. In April 2008, the Company released a National Instrument 43-101 mineral resource estimate. In December 2008, Orsu announced it had signed a joint venture agreement with Gold Fields for the further exploration and development of the Talas licence area. Further discussion about the Talas licence area can be found on page 14 of this MD&A.
- **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. Further discussion about the Tokhtazan licence area can be found on page 21 of this MD&A.
- **Karchiga Copper Project, Kazakhstan** – The 47.3km^2 exploration licence contains the Karchiga VMS deposit. The Karchiga copper-gold deposit is located in the extreme north east of the Republic of Kazakhstan, within 40km of the Chinese border and within the Rudny Altai belt which is ranked in the top four VMS belts in the world. In April 2008, the Company released a National Instrument 43-101 mineral resource estimate. Further discussion about the Karchiga Project can be found on page 22 of this MD&A.

EXECUTIVE CHAIRMAN'S STATEMENT

The key element of the Company's 2008 year was its acquisition of Lero in June 2008, so establishing the Group.

Since my appointment as Executive Chairman, Orsu's newly-appointed Board of Directors and management have followed our initial strategy of bringing the Varvarinskoye gold-copper mine in Kazakhstan to full design production as quickly as possible, whilst at the same time aggressively continuing the exploration and development of our other copper and gold projects in Kyrgyzstan and Kazakhstan. All this takes place during the continued pursuit of new opportunities and acquisitions in the countries of the Former Soviet Union.

The Directors and I have a critical role in ensuring Varvarinskoye delivers gold and copper resources and are working diligently to ensure the Company's future success and growth. In these turbulent global economic times, external elements will continue to challenge our ability to deliver our strategy. In addition to facing increasing input costs, management continues to work extremely hard to isolate and identify ramp-up issues and quickly implement solutions to improve overall mine production and ore processing. Orsu continues to refine its operational focus on the containment of mining and exploration costs, with a number of initiatives having been put in place to enhance its technical and competitive advantages.

The January 2009 review and update of Varvarinskoye's mineral reserves and mineral resources was one of the steps the Company took to rectify the inherit cost imbalances at the mine. Soon after new management assumed control of Varvarinskoye, mine management established that operating costs at the mine were significantly higher than those previously estimated in the November 2004 (as amended in March 2005) feasibility study, subsequent pit optimisations and mine designs completed in December 2006. As a result of increasing consumables, labour and other inputs, the 2006 mining and operating cost estimates were recognised as being significantly below current cost levels. In addition, the geological grade model did not correlate well with the achieved mining grades. It was the combination of these factors which led Orsu's management to initiate a full update to Varvarinskoye's mineral reserves and mineral resources.

Varvarinskoye's first year of production totalled 9.9 million pounds of copper and 40,629 ounces of gold doré. Following the completion of the definitive agreement respecting the restructuring of the outstanding loan repayments, through various planned mining and processing improvements and the delivery of additional equipment, we anticipate to increase annual production levels to approximately 21 million pounds of copper and 109,000 ounces of gold doré in 2009. During the year ended 31 December 2008, the Company generated revenues of $43.7 million from its Varvarinskoye's doré and copper concentrate sales, of which revenues of $16.6 million for the six months to 30 June 2008 were capitalised as Varvarinskoye was not yet deemed to be in commercial production during this period, and revenues of $27.1million for the six months to 31 December 2008 were recorded in the consolidated statement of operations, comprehensive loss and deficit for 2008. The Company's operational cash flows for the year were (negative) US$42 million and its net loss for the year was US$323 million.

As at the date of this MD&A, the Company has not met the first loan repayment due as at 31 December 2008, nor has it settled its gold forward contract obligations falling due during the first quarter of 2009. The Lenders have not taken, nor indicated that they intend to take any action in respect of these defaults. The Company is working with its advisor Endeavour Financial in continuing attempts to reach a satisfactory arrangement with the Lenders, however no definitive agreement has yet been reached.

A further important element in the development of the Company was the December 2008 signing of a joint venture agreement with Gold Fields for the further exploration and development of the Talas licence area, north west Kyrgyzstan. This agreement with the world's fourth largest gold producer has substantially enhanced Orsu's future growth prospects. Gold Fields is due to provide the project with considerable financial resources and technical expertise, with the aim of significantly increasing the known mineral resource base at the Taldybulak project. With the combined technical, financial and regional expertise of both companies, I am confident we can develop the Taldybulak project into a world-class resource.

Orsu's exploration work in Kazakhstan and Kyrgyzstan continues with the completion of planned drilling programmes at the Karchiga and Talas projects, which are due to upgrade both project's previously reported categories of mineral resources to Measured and Indicated categories.

I would like to thank Orsu's staff, management, consultants and advisors for their hard work, dedication and drive during the formation of this new Group. I am confident our highly-experienced teams in London, Kyrgyzstan and Kazakhstan will continue to work tirelessly in what is continuing to be a very challenging time for the global commodity market.

Dr Sergey V Kurzin
Executive Chairman
24 April 2009

OPERATIONAL REVIEW

VARVARINSKOYE GOLD-COPPER MINE, KAZAKHSTAN

The Varvarinskoye Project is located 130km southwest of Kostanai in northern Kazakhstan. The mine produces for sale gold doré and copper-gold concentrate. Orsu's main focus has been the ramp-up of mining operations at Varvarinskoye. The mine commenced production of gold doré in December 2007 and copper-gold concentrate in March 2008.

Mineral Reserve and Mineral Resource Update

Since assuming management control of the Varvarinskoye Project in June 2008, Orsu's new management established that operating costs at the mine were significantly higher than those previously estimated in the November 2004 (amended March 2005) feasibility study and subsequent pit optimisations and mine designs completed in December 2006. Since December 2006, consumables, labour and other inputs have increased mining and processing costs at the Varvarinskoye Project. As such, the previous mining and operating cost estimates are significantly below current costs. In addition, the geological grade model does not correlate well with the achieved mining grades. These factors led to management initiating an update of the Varvarinskoye Project's mineral reserves and mineral resources, which were released in January 2009.

In November 2008, Orsu contracted Orelogy Pty Ltd., Australia ("Orelogy") to complete a detailed two year mine plan together with a life-of-mine plan. Orsu supplied Orelogy with both current mining and processing costs and updated process recoveries. Based on these inputs and the new geological resource, a programme of re-optimisation and mine design was completed. Prior to Orelogy being contracted, Orsu completed a re-interpretation of the ore bodies within the Varvarinskoye Central Pit, based on both current mining results and historical exploration drilling.

All operational cost information including mining, processing and general and administrative costs were supplied by Orsu. Optimisation work was carried out by Orelogy in conjunction with Orsu's mining and geology departments. The new pit optimisations were based on mining costs of $1.30 per tonne which were factored to increase with depth (cost adjustment factor of 1.14) and processing costs of $7.00 per tonne and $9.25 per tonne for flotation and leach processing respectively. These revised cost estimates represent an increase in operating costs of $0.11 per tonne mined and $4.12 per tonne processed in respect to the previously quoted costs utilised in the December 2006 pit optimisation and design work completed by Orelogy in February 2007 ($1.19 mining cost and $4.58 processing cost).

Pit designs and the final National Instrument 43-101 mineral reserve estimate dated 1 January 2009 were completed using $700/oz Au and $1.50/lb Cu optimised pit shells.

Table 1: Mineral Reserve estimate calculated at $700/oz Au and $1.50/lb Cu at 1 January 2009

Ore Type/ Circuit	Category	Tonnes (Mt)	Au g/t	Cu %	Cu Metal (Mlb)	Au Metal (Koz)
Float	Probable	10.43	1.43	0.66	151	480
Leach	Probable	25.99	1.02	N/A	N/A	855
Total		36.42	1.14	0.66*	151	1,335

*Represents only float circuit feed
Cut-off grade: 0.41g/t Au

For purposes of comparison, the mineral reserve estimate for the 2006 mine design is tabled below.

Table 2: 2006 Mineral Reserve estimate depleted for mining to 31 December 2008
(Reserves calculated at $525/oz Au and $1.30/lb Cu)

Ore Type/ Circuit	Category	Tonnes (Mt)	Au g/t	Cu %	Cu Metal (Mlb)	Au Metal (Koz)
Float	Proven	15.7	1.60	0.66	230	813
Leach	Proven	39.7	1.01	N/A	N/A	1,285
Total		55.5	1.17	0.66*	230	2,098

*Represents only float circuit feed
Cut-off grade: 0.29g/t Au

The updated National Instrument 43-101 mineral reserve estimate dated 1 January 2009 for the Varvarinskoye Project represents a reduction of 763Kozs Au and 79Mlb Cu from the previously reported mineral reserve estimate dated December 2006.

Below is tabled the Indicated and Inferred Resources for Varvarinskoye as per the updated January 2009 mineral resource and reserve estimates.

Table 3: NI 43-101 Indicated and Inferred Resources for Varvarinskoye, Hybrid Model, January 2009

Category	Ore Type	Tonnes (Mt)	Au g/t	Au Metal (Koz)	Cu %	Cu Metal (Mlb)
Indicated	Float – HGCF	19.3	1.3	805	0.57	242
Indicated	Leach – LGCF	56.7	0.92	1,678		
Indicated	Float – HGCP	3.8	1.28	157	0.48	40.2
Indicated	Leach – LGCP	2.1	1.08	74		
Total Indicated		**81.9**	**1.03**	**2,714**	**0.56***	**282.2**
Inferred	Float – HGCF	3.0	1.21	117	0.44	29.2
Inferred	Leach – LGCF	6.8	1.18	259		
Inferred	Float – HGCP	0.3	0.82	7	0.24	1.4
Inferred	Leach – LGCP	0.2	0.78	6		
Total Inferred		**10.3**	**1.17**	**389**	**0.30***	**30.6**

Cut-off grade: 0.29g/t Au and 0.20% Cu
*Cu grade only represents average grade of Float feed
Au g/t and Cu % is averaged for respective total categories
Reserves are reported as part of the reported resources

The "qualified person" (as such term is defined in National Instrument 43-101) who supervised the preparation of and is responsible for the 2009 updated mineral reserve and mineral resource estimates for the Varvarinskoye Project disclosed in this MD&A is Mr Stephen Craig, Managing Director of Orelogy, Australia. The complete technical report respecting the 2009 updated mineral reserve and mineral resource estimates (entitled “Varvarinskoye Cu/Au Open Pit Mine, Mine Planning Study” and dated 30 January 2009) can be viewed on www.sedar.com.

Mining Operations

The 2009 updated Varvarinskoye mine plan envisages the extraction of 252.3Mt of both ore (34.04Mt) and waste (218.27Mt) resulting in a waste to ore stripping ratio of 6.4:1. The mine is being developed to deliver an average of 4.2Mt of ore per year to the processing facility over an 8 year life of mine ("LOM") remaining. The schedule is based on achieving up to 1.3Mtpa of float ore and 3.4Mtpa of CIP ore. Material movement will increase due to the increased strip ratio now being implemented subsequent to the updated mineral reserve and mineral resource estimate. To ensure undisrupted ore delivery, total material movement will have to increase from 26Mtpa to an average of 35.5Mtpa over a five year period (2011 to 2015). At these mining rates, mining is expected to be completed by 2016, with a minor amount of Float ore processed from stockpiles in 2017.

Over the LOM, seven open pits will be developed with the bulk of the ore (58%) mined from the Central pit. From pre-production years through production year five, the primary region of active mining will be the Central pit.

Mining is conducted using conventional open pit truck/excavator technology to mine five metre high benches in both ore and waste. Additional mining capacity is expected due to the increased strip ratio now being implemented. Primary mining and support equipment comprise 14 haul trucks (91t capacity), two excavators (13.7m^3 capacity), one excavator (6m^3 capacity), three drill rigs (165mm hole diameter), four dozers, two graders, one bore hole de-watering drill rig, one water truck and 6 lighting masts. The delivery of four new Caterpillar 777 haul trucks during the 4th quarter 2008 was instrumental in increasing Varvarinskoye's capacity from 1.3Mt/month to the targeted 2.0Mt/month, an increase of approximately 44%. An additional two Atlas Copco DM30 drill rigs have been ordered for delivery by mid-2009.

2008 Production

During 2008, the plant processed a total of 2,326,003 tonnes of ore. The plant was under construction during 2007, hence no production occurred.

A total of 416,175 grams (13,380 troy oz) of gold was produced during the fourth quarter compared to 375,022 grams (12,059 troy oz) in the third quarter. Gold grade of feed to the flotation circuit was 1.09g/t compared to 1.11g/t in the third quarter. Copper production during the fourth quarter was 1,962 tonnes compared to 1,106 tonnes in the third quarter. Copper feed grade to the flotation circuit was 0.84% during the quarter compared to 0.72% in the third quarter. Gold feed grade to the leach circuit was 0.83g/t in the quarter compared to 0.61 in the third quarter.

Table 4: Varvarinskoye 2008 Production

Varvarinskoye Production	1st Quarter Actual	2nd Quarter Actual	3rd Quarter Actual	4th Quarter Actual	Total 2008 Actual
Mining					
Total mined tonnes	2,738,400	2,319,200	3,930,900	4,281,200	13,269,700
Processing					
Flotation					
Processed tonnes	62,698	184,948	187,603	295,663	730,933
Grade Cu %	0.46	0.99	0.72	0.84	0.82
Grade Au g/t	0.66	1.64	1.11	1.09	1.20
Recovery Cu to concentrate %	57.6%	68.9%	82.0%	79.3	75.7
Recovery Au to concentrate %	49.9%	51.3%	59.0%	49.5	52.5
Leach					
Processed tonnes	173,308	449,537	581,060	391,164	1,595,070
Grade Au g/t	0.79	0.60	0.61	0.83	0.68
Recovery Au (onto carbon) %	68.6	66.3	69.5	74.3	70.0
Metal Produced					
Concentrate tonnes	1,105	6,497	6,036	10,334	23,972
Cu recovered to concentrate tonnes	166	1259	1,106	1,962	4,494
Total gold produced grams	122,979	349,522	375,022	416,175	1,263,697

In November and December 2008, the grinding circuits were switched to maximise copper-gold concentrate production in light of metals prices during those months. Copper-gold ore was fed through the large grinding circuit whereas gold leach ore was fed through the small grinding circuit. Gold grade to the leach circuit was maximised by reducing the amount of lower-grade leach ore. Throughout 2008, the average ore hardness varied as mining operations encountered areas of either fresh un-weathered ore or softer near-surface ore. The ore hardness during the second half of 2008 was significantly higher than the first half of 2008 as production came primarily from un-weathered ore.

Low Cost Project Upgrade

The Company intends to expand the Varvarinskoye processing plant during 2009 with the addition of a secondary low cost screening and crushing plant which is expected to significantly increase throughput in the leach and flotation grinding circuits. Orway Mineral Consultants Pty Ltd (Australia) (“Orway”) is working with Varvarinskoye engineers in making improvements to the grinding circuits. With the assistance of Orway, Orsu has determined that both grinding circuits are highly dependent on the size distribution of feed ore. Ore originating from the mine lacks in fineness over the middle fraction and the intention is to screen the coarse ore from the jaw-crusher into three sizes and further crush the middle fraction of the screened product.

The additional crushing of the feed to the leach grinding circuit could increase throughput to 3.6 million tonnes per annum (“mtpa”) or 120% of design capacity. This would represent a 30% increase over what the grinding circuit is currently achieving.

Throughput of the flotation grinding circuit could be increased to 1.3mtpa, or 108% of design capacity. This would represent a 50% increase over what the flotation grinding circuit is currently achieving. Overall capacity of the mill is expected to increase to 4.9mtpa or an increase of 17% over original design capacity. The cost of the proposed upgrade will total approximately $5 million and is expected to be completed during Q2 2009.

During LOM planning in December 2008, the total throughput in the LOM was kept to 4.7mtpa with the flotation and leach circuits at 1.3mtpa and 3.4mtpa respectively in order to better match the production from the mine without significant additional capital costs.

This low cost project upgrade is expected to significantly increase throughput of the grinding circuits and in one step solves the current flotation grinding-circuit problems, providing the Company with a mill expansion. The Company does not anticipate having to significantly change the leach or flotation circuits post-grinding to accommodate the increased throughput and the mine is expected to meet production based on the sustaining capital costs already built into the LOM model. An initial scoping study outlined two options for mill expansion; installation of an additional grinding circuit or modification of existing circuits to achieve capacities of 6mtpa and 5mtpa respectively. Management feels this second option provides an optimum increase.

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

The Company is also exploring and developing several advanced stage 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. These exploration projects are held by Orsu through its wholly-owned subsidiary, Lero.

TALAS EXPLORATION LICENCES, KYRGYZSTAN

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-Talas copper-gold porphyry licence.

Table 5

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

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.

Licence Locations

The Talas exploration area is located in the Western Kyrgyz Range on the north slope of the Talas Valley, in the Talas Oblast, north western Kyrgyzstan at elevations of 1,800-3,000m. Orsu's Taldybulak and Tokhtonnisai projects are located within this area. The region includes deposits such as Andash, Aktash, Jerooy, Taldybulak Levoberezhny and Centerra's world class Kumtor deposit. Lero's Talas projects are accessible year round via the Bishkek-Talas road (270km from Bishkek). A rail head is located 140km by road from the deposit and a 500kV power grid passes within 10km of the deposit.

The Taldybulak prospect is the main focus of exploration activity within the Taldybulak licence that covers an area of 43km^2. The Kentash licence is situated immediately east of Taldybulak and covers an area of 42km^2. The Korgontash licence which covers an area of 66km^2 is located approximately 25km east of Taldybulak. The Barkol licence is the westernmost licence, located immediately west of Taldybulak and covers an area of 223km^2.

Gold Fields Exploration Partnership

On 3 December 2008 Orsu announced the signing of a joint venture agreement (the "JV agreement") with Gold Fields for the further exploration and development of the Talas licence area, north west Kyrgyzstan.

Gold Fields has become the project operator and Gold Fields has reimbursed Orsu for all exploration expenditures incurred since March 2008 (approximately $3.5 million), as part of the agreed program and budget.

Under the JV agreement Gold Fields has the right to:

- During Phase One: Earn up to a 60% interest in the joint venture company which is the indirect owner of the Taldybulak, Barkol, Kentash and Korgontash properties in the Talas region by funding exploration expenditures of CAD$10 million;
- During Phase Two: Increase its effective interest in the project by a further 10% (to a total of 70%) by funding the lesser of (i) exploration expenditures of up to a further CAD$10 million, or (ii) exploration expenditures required to complete a feasibility study, pursuant to approved programmes and budgets; and
- After Phase Two: act as lead arranger to obtain any further project financing for the project development, for which Gold Fields will receive a 1.5% arrangement fee. Gold Fields and Orsu will otherwise contribute to the project requirements on a pro-rata basis through to project development.

Phase One will conclude no later than 13 August 2010. During Phase One, the funding will be focused on exploration work in all Talas licence areas with an emphasis on further defining known mineralised systems and their strike extensions. In addition, a scoping study for the Taldybulak-Talas deposit in the Taldybulak licence is due to be completed during 2009. Phase Two will continue for an additional period of up to three years after completion of Phase One and will include the provision to include additional mineral resources in the case of further exploration success in the Talas project area.

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, contributing a total of CAD$7,733,420 to Lero. Gold Fields currently holds a total of 11,349,195 common shares of Orsu, or 2.5% of the total issued common shares of Orsu.

TALDYBULAK, KYRGYZSTAN

Project History

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

The Taldybulak copper-gold porphyry is the most advanced project at present in Orsu’s exploration portfolio.

2008 Taldybulak-Talas Mineral Resource Estimate

Results from geological modelling and mineral resource evaluation studies confirm the potential for a large open-pittable copper-gold porphyry target at Taldybulak Central. These results provide Orsu with a solid foundation from which to calculate a National Instrument 43-101 mineral resource estimate for Taldybulak Central and to further expand and advance exploration activities during 2009.

The mineral resource estimate (Table 6) has been calculated at various gold cut-off grades and incorporates all drilling data obtained for the Taldybulak-Talas copper-gold project by the end of the 1st quarter 2008. 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.

Table 6: Taldybulak-Talas Copper-Gold Project, Mineral Resource Estimate

Cut-off Au g/t	Indicated				
	Mt	Au g/t	Au Moz	Cu %	Cu Mlb
0.20	107	0.53	1.83	0.17	388
0.30	79	0.63	1.61	0.17	301
0.40	61	0.72	1.40	0.18	238
0.50	45	0.81	1.18	0.18	181

Cut-off Au g/t	Inferred				
	Mt	Au g/t	Au Moz	Cu %	Cu Mlb
0.20	286	0.43	3.99	0.14	876
0.30	163	0.58	3.03	0.14	492
0.40	115	0.68	2.50	0.13	336
0.50	87	0.75	2.10	0.13	247

The mineral resource estimates at Taldybulak were prepared by Julian Woodcock (Chief Geologist, Orsu) and under the supervision of Matthew Boyes (Mineral Resources Manager, Orsu), a 'qualified person' (as defined by National Instrument 43-101). These results were also reviewed and approved by Wardell Armstrong International ("WAI"). However, WAI has relied upon the data presented by Lero in formulating its opinion. WAI's complete technical report respecting the mineral resource estimates at Taldybulak (entitled "Technical Report on the Exploration Licences Held by Lero Gold Corporation In Kyrgyzstan & Kazakhstan, Central Asia" and dated May 2008) can be viewed on www.sedar.com.

2008 / 2009 Drilling Programme

Orsu recommenced exploration activities in May 2008. Exploration activities were designed to satisfy the expenditure commitments as required to maintain the licences in good standing.

A 2008/2009 drilling programme was completed 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, north west and south of the central high grade core. An overall exploration expenditure of CAD$7.8 million is budgeted for the Talas Project in 2009, all of which will be covered by Gold Fields.

2008 saw Orsu finalise local drilling contracts which enabled, as of 6 April 2009, for the completion of approximately 10,890m drilling, representing 64% of the planned 17,000m.

As at 30 November 2008 and prior to entering into the JV Agreement with Gold Fields, the Company completed a planned programme of 6,334m (part of 9,080 m) of infill diamond drilling at the Taldybulak-Talas copper-gold porphyry project, covering a continuous combined zone of significant copper-gold mineralisation hosted in a quartz dacite porphyry with dimensions of 1,000m (strike) by 350m (width) and over 650m (depth, proven by drilling). The infill diamond-drilling programme at Taldybulak was prepared by Andy Wurst (Principal Geologist, Gold Fields) a 'qualified person' (as defined by National Instrument 43-101).

New, more densely spaced drilling results from the Taldybulak Central area reveal the presence of two mineralised porphyries at Taldybulak Central East and Taldybulak Central West. These porphyries are separated by the less well-mineralised, later-stage magmatic breccias at Taldybulak Central, containing on average a gold content of between 0.3 to 0.5 g/t Au.

Table 7: Proposed 2008-2009 Drilling Within the Talas Exploration Licences

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
TOTAL			**17,000m**

WAI has been commissioned to conduct a locked cycle test work on sulphide and transitional ores and bottle roll leach tests on oxide ores of Taldybulak. The test work on sulphide and transitional ores has returned positive preliminary results with recoveries from sulphide ores reaching 89-90% of both Au (head grade 0.6g/t) and Cu (head grade 0.18%).

Two main mineral material types were tested: primary sulphide and transitional. The primary sulphide responded very well to the flotation test, including locked cycle test. The primary sulphide sample was made up of core obtained from three separate drill holes in the Eastern, Central, and Western parts of Taldybulak with a final head grade of 0.17% Cu, 0.01% Mo, and 1.02 g/t Au. It was demonstrated that a concentrate grading 18.31% Cu, 0.27% Mo, 83.8 g/t Au and 92.64 g/t Ag can be produced with 70% to 90% recovery for Au and Cu. The transitional ore grading 0.28% Cu, 0.005% Mo, and 0.25 g/t Au reported poorer results to the floatation test, as expected. However, a concentrate grading 18.17% Cu, 0.16% Mo, and 28.12 g/t Au at recoveries of 50% to 80% was achieved. No penalty elements such as Cadmium or Arsenic were reported to be contained in the concentrate.

The Company is continuing test work on the oxide material from the system, which will involve bottle-roll acid leach test work.

Exploration Licences within the Talas Exploration Area
BARKOL, KYRGYZSTAN

Licence Information
In March 2007, the 223km^2 Barkol exploration licence was granted to the Company. Located immediately to the west of the Taldybulak licence, it was acquired at no cost to the Company. The Barkol licence contains numerous occurrences of known mineralisation, with one small copper-gold-molybdenum deposit occurring within a 2km^2 excision from the Chonur licence. Orsu has undertaken an estimated annual expenditure commitment on the Barkol licence of $200,000.

2008 / 2009 Drilling Programme
The Company expects to undertake some limited drill testing and further geophysical investigations on the licence area. Significant thicknesses of Devonian volcanics overly the north eastern section and possibly overly the continuation of the already known Taldybulak mineralisation.

During 2007, Lero completed soil geochemical sampling over areas of historically mapped alteration. This returned some anomalous results for gold, copper and other base metals. These areas were also covered by widely-spaced induced polarisation (“IP”) geophysical survey, which returned some chargeability anomalism in the areas west of Chonur exclusion licence and in the central western part of the Barkol licence. These anomalisms will be followed up during 2009.

A total of 49.2 line km of DD-IP geophysics was completed on the Barkol licence during the third quarter 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 the fourth quarter 2007 have been received and outlined several anomalies, which were investigated during the fourth quarter 2008. An orientation Mobile Metal Ions geochemical sampling programme, aiming to identify concealed targets, was completed in June 2008. Results showed some weak to moderate anomalism over previously mapped alteration and along some fault zones in the overlapping Devonian volcanic rocks.

Core drilling is planned for 2009.

Exploration Licences within the Talas Exploration Area
KORGONTASH, KYRGYZSTAN

Licence Information
The 66km^2 Korgontash licence area hosts the Tokhtonnisai copper-gold skarn project, Talas Oblast, north-west Kyrgyzstan. The Korgontash licence is located in the easternmost part of the copper-gold metallogenic trend on the southern slope of the Kyrgyz ridge. In the central part of the licence is the 2km^2 exclusion zone covered by Aktash licence, controlled by Turan Metals Ltd, a Kyrgyz-Kazakh joint-venture company.

A trenching programme was completed in 2006 with the objective of validating the width and grade of a copper-gold anomaly outlined at the Tokhtonnisai project during the Soviet era. A total of 10 trenches twinning Soviet era trenches were sampled. Some very encouraging results were obtained from the trenching programme. During June 2006, four lines of DD-IP geophysics were completed across the prospect. Drilling in 2006 failed to adequately test the targets as it appears that the mineralisation dips at a shallower angle than had been interpreted, however, broad widths of low grade mineralisation were intersected in hole TTDD-01.

Table 8: Significant Tokhtonnisai historic results

ID	Type	From (m)	To (m)	Length (m)	Au (g/t)	Cu (%)
TTTR-30	Trench	8	34	26	0.63	0.97
TTTR-31	Trench	4	20	16	3.08	1.55
including		*16*	*17*	*1*	*18.2*	*4.69*
TTTR-31	Trench	35	39	4	1.82	3.34
TTTR-32	Trench	1	6	5	1.06	1.35
TTTR-32	Trench	29	31	2	0.98	0.78
TTTR-32	Trench	38	43	5	0.07	1.08
TTTR-36	Trench	0	21	21	3.80	1.49
including		*9*	*12*	*3*	*18.66*	*0.52*
TTTR-37	Trench	8	18	10	0.28	0.67
TTTR-37	Trench	22	24	2	0.44	0.93
TTTR-37	Trench	59	68	9	0.52	0.75
TTTR-37	Trench	87	89	2	0.98	1.86
TTTR-38	Trench	101	125	24	0.39	0.43
TTTR-39	Trench	4	31	27	0.84	1.46
TTTR-39	Trench	53	84	31	0.24	1.07
TTDD-01	Drill hole	1.0	49.5	48.5	0.53	0.75
TTDD-02	Drill hole	114.5	121.5	7.0	1.14	1.65

In 2007, the area north of the contact with granitoid batholiths was covered with a widely spaced soil geochemical survey. This survey revealed gold and copper anomalism east of Tokhtonnisai and west of the Aktash exclusion licence. Due to late completion of the survey in November 2007 these targets were not followed up, but they were thoroughly assessed in 2008.

In 2007, Lero drilled three additional diamond drill holes at the Tokhtonnisai prospect, which returned some good intercepts, generally in line with the previous Soviet data.

Table 9: Significant Tokhtonnisai drill results in 2007

ID	Type	From (m)	To (m)	Length (m)	Au (g/t)	Cu (%)
TTDD07-03	Drill hole	158.8	196.6	38	0.57	1.2

In the third quarter 2008, a 15km^2 ground magnetic survey over the north west extents of the Korgontash licence was completed. The presence of magnetic highs to the west of the Aktash exclusion zone indicates potential for additional skarn type mineralisation as well as a potential deeper seated magnetic intrusive. Follow up work with additional IP lines mainly focused on the area west of the Aktash exclusion zone is planned.

Exploration Licences within the Talas Exploration Area
KENTASH, KYRGYZSTAN

Limited work has been performed on the Kentash licence to date however stream sediment geochemistry completed during 2006 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 widely-spaced soil geochemical survey over the entire Kentash licence. This returned some gold, copper and molybdenum anomalism in three areas, in which exploration is continuing. In 2007, a widely-spaced IP survey revealed chargeability anomalies in the central part of the licence which will be further assessed in 2009.

During the third quarter 2008 three PD-IP lines totalling 9.55km were completed in the Kentash licence over the south west anomaly. At the end of the fourth quarter 2008 assays were received for Kentash soil sampling programme. A comprehensive review will be undertaken during 2009 to ascertain if any new geochemical targets have been identified.

TOKHTAZAN GROUP OF LICENCES, KYRGYZSTAN

Licence Information

The Tokhtazan group of licences contains the Akdjol (4km^2) and Tokhtazan (108km^2) licences.

2008 / 2009 Exploration Works

In 2008, the works were focused on the Buldarek occurrence located 3.5km south south-west from the Tokhtazan prospect. The works included prospecting, trenching and geophysical exploration: 12.8km DD-IP, 41.45km magnetic survey and 43.3km gamma-ray spectrometry.

Within the Akdjol licence the Company performed 3,140m^3 of trenching and road cut sampling, with some 2,532 samples collected. At Akdjol, access road construction was conducted during the third quarter 2008.

Within the Tokhtazan licence, 1,540 cubic metres of trenching and road cutting were performed, with 640 samples collected. At Tokhtazan, access road construction was conducted during the third quarter 2008. A 642.5 m drilling programme was performed at Tokhtazan during 2008, with results expected during the second quarter 2009.

Table 10 below summarises the quantities of drilling completed in this exploration phase as of 31 January 2009.

Table 10: Drilling Works Completed on the Tokhtazan Licences (as of 31st January 2009)

BHID	Hole Depth	Samples*
TBDD08-01	153.40	177
TBDD0801B	37.40	24
TBDD08-03	25.55	16
TBDD08-07	150.80	124
TTR08-07	125.00	149
TTR08-08	125.00	149
Total	**617.5**	**639**

*includes standards and blanks

Table 11 below summarises the quantities of trenching completed in this exploration phase.

Table 11: Trenching Works Completed on the Tokhtazan and Akdjol Licenses (as of 31st January 2009)

Licence	Project	No of Samples	M^3	Length
Tokhtazan	Tokhtazan	265	955	394
Akdjol	Bulderek	2,265	3,740	2,158
Total		**2,530**	**4,695**	**2,552**

In total, 3,102 samples have been delivered to the laboratory for analysis. All core drilled has been sampled and all results received for diamond drilling. Results from RC samples have been received only for hole TTR08-07.

KARCHIGA, KAZAKHSTAN

Licence Information

The Karchiga copper-gold VMS is located in the extreme north east of the Republic of Kazakhstan, within 40km of the Chinese border. The deposit is situated within the north west striking, mid-Palaeozoic, Rudny Altai VMS terrain, the host of numerous world class VMS deposits, including the Leninogorsk (also known as Ridder-Sokolnoye), Zyryanovsk, and Maleevskoye deposits. The Rudny Altai is ranked in the top four VMS belts of the world.

The Karchiga deposit was originally exploited by ancient artisans and was re-discovered and explored by Soviet geologists during the 1940's and 50's. The Soviet era exploration included more than 100 cored drill holes and an exploration shaft into the ore body.

2008 Karchiga Mineral Resource Estimate

The mineral resource estimate incorporates 1,879m of confirmation diamond drilling completed in 2007, 86 historical Soviet diamond drill holes and a trenching programme 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.

Table 12: Karchiga Copper Project, Mineral Resource estimate April 2008

	Indicated Sulphide			Inferred Oxide			Inferred Sulphide		
Cut-off (%) Cu	**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 4.75Mt @ 2.46% Cu of the resource within sulphide (Indicated) and 0.71Mt @ 1.49% Cu within oxide (Inferred) material at a 0.50% Cu cut-off. The balance of the resource is contained within an Inferred sulphide resource at Karchiga North East. The North East lodes, which are blind to surface, are located some 200m across strike and lie 150m stratigraphically above the Karchiga Central mineralised zone.

The mineralisation is located within a series of stacked shallow-dipping massive and disseminated sulphide bodies, primarily consisting of chalcopyrite-pyrrhotite and pyrite mineralisation. The lodes have a strike of in excess of 1km and are intersected at depths reaching 200m. The majority of the high grade sulphide mineralisation is concentrated within 100m from surface. Indication of the presence of easterly-plunging higher grade copper shoots is evident from the modelling completed to date and follow-up drilling is planned to evaluate the down dip potential during the 2008 field season.

The mineral resource estimate at Karchiga was prepared by Matthew Boyes (Mineral Resources Manager, Orsu), a "qualified person" (as defined by National Instrument 43-101). The mineral resource estimation methodology was reviewed by WAI. Assays were conducted at the internationally certified Alex Stewart Lab in Bishkek, Kyrgyzstan. Orsu operates a stringent QA/QC policy that includes external certified standard samples and blanks in each individual batch sent for analysis. WAI's complete technical report respecting the mineral resource estimates at Karchiga (entitled "Technical Report on the Exploration Licences Held by Lero Gold Corporation In Kyrgyzstan & Kazakhstan, Central Asia" and dated May 2008) can be viewed on www.sedar.com.

2008 / 2009 Drilling Programme

Drilling works during the period focused on the Central and North East lodes of Karchiga. The primary scope of the 2008 / 2009 programme is designed to upgrade the previously reported mineral resource estimate at the Karchiga project to Measured and Indicated categories under National Instrument 43-101.

The total drilling programme consisted of 10,559m, of which 9,804m was drilled at Karchiga's Central and North East lodes, with an additional 785m to test new exploration targets. By the end of 2008, Orsu completed 8,000m of diamond drilling within the Central lode of Karchiga by the end of the third quarter 2008. Within the Central lode, data from 60 diamond drill holes has confirmed the continuity of the mineralised zone as delineated for the 2008 mineral resource. The new drilling works demonstrated that the total strike length of the North East lode is continuous for 2,768m, which was only partly included into the April 2008 mineral resource model.

Trenching work to sample the oxide mineralisation in the Central lode at Karchiga was completed in the fourth quarter 2008. Early results demonstrate that an oxidized zone was locally worked by ancient miners to a depth of 18 meters. Sampling of surface trenches has been completed with 571 rock chip samples sent for analysis to Alex Stewart's Karabalta lab (Kyrgyzstan), while geochemical samples were sent to Ultratrace laboratories Perth, Australia.

A soil geochemistry survey has been completed over the entire licence area on soils on 100x20m grid. Samples have been sent to the Ultratrace lab in Australia. An IP and resistivity survey was completed on 18 profiles, totalling 63.55km. A preliminary interpretation was received in the third quarter 2008 and was used for positioning the exploration drill holes in two anomalous zones, similar to Karchiga, where a non-outcropping area of mineralisation is being targeted.

The identification of these new targets is based on historical work plus recently acquired geochemical and IP geophysical data carried out by Orsu since obtaining the licence in 2006. The target areas lie approximately 5km east along strike from the Central zone with the area exhibiting very similar geological terrain and structural characteristics. The Company drilled some of the new anomalies in the fourth quarter 2008.

Metallurgical test work on Karchiga sulphide ores was also completed by the VNIITsvetMet Institute in Ust-Kamenogorsk with positive results suggesting that a 15.9% Cu concentrate can be produced from the Karchiga ores at 98% recovery. This result requires optimisation of concentrate grade versus recovery. For the purposes of a feasibility study, three 400kg metallurgical samples are due to be collected.

These samples will represent the three types of Karchiga ore (oxidized, primary disseminated and massive). The analysis of primary ores at Karchiga showed that 18% of ores are massive (1m average) and 82% of ores is disseminated (4.5 m average). It is also planned to study a variability of these ore types throughout the deposit. Metallurgical sampling was completed in the fourth quarter 2008 with results of metallurgical test-work due approximately in the second quarter 2009.

In September 2008, Micon International Co Limited was contracted to carry out a preliminary assessment (scoping study) of the Karchiga massive sulphide copper project. The scoping study is targeted to provide a preliminary estimate of mineral resource/reserve conversion, an estimate of costs including capital costs, as well as preliminary appraisal of the environmental aspects of the project. As at the date of this MD&A, the scoping study report was pending.

Qualified Person

Mr Matthew Boyes, who is Mineral Resources Manager for Orsu, is the "qualified person" (as such term is defined in National Instrument 43-101) responsible for the technical information respecting Orsu's projects included in this MD&A.

BOARD OF DIRECTORS

Dr Sergey V Kurzin - Executive Chairman

Dr Kurzin is a Russian-born research engineer who moved to the United Kingdom in 1990 and has played a key role in initiatives to acquire and progress several important FSU mining assets. These include Julietta (a high grade gold deposit in Magadan, Russia with Bema Gold), Kupol (a high grade epithermal gold deposit in Chukotka, Russia also with Bema Gold Corporation ("Bema")), the Voskhod chromite deposit (acquired by Mechel OAO, Moscow) and the Varvarinskoye deposit in Kazakhstan with EMC.

He also played a key role in establishing UrAsia Energy Ltd, a uranium producer with mining operations in The Republic of Kazakhstan. He was founder and Executive Chairman of Oriel Resources Plc and also held the position of Chairman of Lero. He currently also holds the position of Executive Chairman of Everfor Resources Plc.

Dr Kurzin has been an officer and consultant for the following companies active in the FSU:

- Bema – consultant on Kupol and Julietta gold developments.
- Arian Resources Corp. (acquired by Bema) – ex. VP Corporate Development.
- EMC – ex. VP Corporate Development.
- Consolidated Puma Minerals Corp. – PGM in Kola Peninsula, Russia.
- Zincox – Zinc project in Kazakhstan.
- Eurasia Mining plc – PGM projects in Russia.

Takhirzhan Baratov - Executive Director

Mr Baratov, a Kazakh citizen, is Executive Director for Central Asia and Kazakhstan and currently holds the position of Chairman of the Board of Varvarinskoye JV. Born in 1960, Mr Baratov graduated from the Kazakh State University in 1986, specialising in applied mathematics. Since the early 1990s he has held mining directorships within various international natural resource companies such as EMC, Steppe Gold, Zincox, Oriel Resources plc and Ennex International plc. Mr Baratov also holds the positions of Director General of Muzbel LLP and Deputy Director General of GRK Kazakhstan Nickel LLP.

Dr Alexander Yakubchuk - Director of Exploration

Dr Yakubchuk joined Lero in January 2008, bringing more than 14 years experience gained in Australia, Canada, China, some European Union countries, Mongolia, Russia and the states of the FSU including Kyrgyzstan and Kazakhstan. Most recently he held the position of CEO of Lero and was previously an Exploration Manager for Europe and the CIS for Gold Fields International Services Ltd. Dr Yakubchuk also held the position of Chief Geologist for QGX Ltd in Mongolia and Branch Manager for BHP Minerals International Exploration Inc. in Russia and lectured as an Associate Professor at Lomonosov Moscow State University for 5 years. He negotiated the exploration alliance with Lero, the placement by Gold Fields into EMED Mining and discovered the +3Moz Degdekan Gold Deposit, Magadan, Russia. Dr Yakubchuk has previously consulted to companies such as BHP-Billiton, Norlisk Nickel, Goldcorp, Rio Tinto, World Bank and Inco.

Mr Mark Corra - Non-Executive Director, Lead Independent Director

Mr Corra, Canadian, is Senior VP Finance and CFO of B2Gold Corp. since April 2007, prior to this he spent 17 years with Bema Gold Corporation, first as Controller when he joined in 1990 and was later appointed Vice President Finance in 1995. Mr. Corra started his career at Placer Dome where he spent 11 years in various positions in the accounting department. A Certified Management Accountant, with a diploma in financial management from the British Columbia Institute of Technology, he oversees financial reporting, cash management, tax planning and is a member of the management committee for B2Gold. Over the years he has also acted as CFO for Consolidated Puma Minerals Corp., Victoria Resources Corp. and Consolidated Westview Resource Corp.

Mr Massimo Carello - Non-Executive Director

Mr Carello joined Orsu as Non-Executive Director in September 2008. He held the position of Non-Executive Director of Lero and currently holds Non-Executive positions with Uranium One Inc. and Canaccord Capital. Mr Carello has over 30 years of international senior management and director level experience and was a director within the past five years of UrAsia Energy Ltd and Anker Systems plc and was a former Chairman and CEO of Fiat UK and Diners Club UK.

Mr Timothy Hanford - Non-Executive Director

Mr Hanford joined Orsu from EMC where he also held the position of Non-Executive Director. He is a Managing Director at J.C. Flowers & Co., a financial services focused private equity investment firm. Mr Hanford previously worked at Dresdner Bank as a member of the Institutional Restructuring Unit's Executive Committee and Head of Private Equity. Until 2002 Mr Hanford worked with Charlemagne Capital and prior to that as a Board Director of Schroders, based in Hong Kong and Tokyo and was responsible for structured finance. He holds an MS from Stanford University's Graduate School of Business, where he was a Sloan Fellow, and a B.Sc. in Chemical Engineering from Birmingham University.

RESULTS OF OPERATIONS

FOR THE YEARS ENDED 31 DECEMBER 2008, 2007 AND 2006 CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

The following information of the Company's annual information has been prepared in accordance with Canadian Generally Accepted Accounting Principles (''Canadian GAAP''):

Expressed in US $'000 except where indicated	2008 $000	2007 $000	2006 $000
Sales revenues			
Gold	**22,768**	-	-
Copper	**4,366**	-	-
	27,134	-	-
Cost of sales			
Operating expenses	**(35,412)**	-	-
Selling and distribution costs	**(3,515)**	-	-
Depreciation, depletion and amortization	**(12,234)**	-	-
Accretion	**(460)**	-	-
	(51,621)	-	-
Other (expenses) income			
Impairment of mineral properties	**(119,550)**	-	-
Impairment of Varvarinskoye assets	**(189,013)**	-	-
Unrealised derivative gains/ (loss)	**23,627**	(70,980)	-
Realised derivative (losses)/gains	**(20,512)**	-	-
General and administrative	**(16,591)**	(7,310)	(3,371)
Termination costs	**(3,880)**	-	-
Exploration costs	**(4,072)**	(668)	(1,091)
Stock based compensation	**(3,095)**	(2,913)	(5,698)
Interest expense	**(5,963)**	-	-
Interest income	**1,584**	1,341	1,794
Foreign exchange (losses)/ gains	**(2,485)**	720	440
Write off of property, plant and equipment	**-**	-	(1,001)
Gain/(loss) on disposal of mineral properties	**-**	400	-
	(339,950)	(79,410)	(8,927)
Net loss before income tax	**(364,437)**	(79,410)	(8,927)
Recovery of income taxes	**41,825**	1,820	328
Net loss and comprehensive loss for the period	**(322,612)**	(77,590)	(8,599)
Retained loss – Beginning of period	**(217,955)**	(70,724)	(62,125)
Transitional Adjustment	**-**	(69,641)	-
Retained loss - End of period	**(540,567)**	(217,955)	(70,724)
Loss per share per common share	**$(0.84)**	$(0.28)	$(0.03)
Weighted average number of common shares (000's) – Basic & diluted	**385,985**	281,732	259,837

SUMMARY OF THE QUARTERLY RESULTS FOR 2008 AND 2007

(Prepared in accordance with Canadian GAAP).

Expressed in US $'000 except where indicated	December 31 2008 (unaudited)	September 30 2008 (unaudited)	June 30 2008 (unaudited)	March 31 2008 (unaudited)
Sales revenues				
Gold	**10,813**	11,955	-	-
Copper	**809**	3,557	-	-
	11,622	15,512	-	-
Cost of Sales				
Operating expenses	**(14,809)**	(20,603)	-	-
Selling and distribution costs	**(1,300)**	(2,215)	-	-
Depreciation, depletion and amortization	**(7,674)**	(4,560)	-	-
Accretion	**(149)**	(311)	-	-
	(23,932)	(27,689)	-	-
Other (expenses) income				
Impairment of mineral properties	**(119,550)**	-	-	-
Impairment of Varvarinskoye assets	**(189,013)**	-	-	-
Unrealized derivative gains/ (losses)	**18,188**	28,271	(567)	(22,265)
Realized derivative (losses)	**-**	(9,231)	(5,081)	(6,200)
General & administration	**(6,033)**	(4,885)	(4,170)	(1,503)
Termination costs	**-**	-	(3,880)	-
Exploration costs	**(378)**	(2,770)	(492)	(432)
Stock based compensation	**(1,268)**	(1,580)	(109)	(138)
Interest expense	**(4,432)**	(1,094)	818	(1,255)
Interest income	**196**	1,132	52	204
Foreign exchange (losses) / gains	**(422)**	(1,678)	541	(926)
Gain on disposal of mineral properties	**-**	-	-	-
Net loss before income tax	**(315,022)**	**(4,012)**	**(12,888)**	**(32,515)**
Recovery of income taxes	**41,869**	(3)	(41)	-
Net loss for the period	**(273,153)**	**(4,015)**	**(12,929)**	**(32,515)**
Basic and diluted loss per common share	**$(0.68)**	$(0.01)	$(0.04)	$(0.11)
Weighted average number of common shares ('000) – Basic and diluted	**385,985**	310,152	313,829	303,329
Total assets	**106,657**	440,109	464,374	264,579
Total long-term debt	**53,751**	52,974	52,289	51,700
Shareholders' equity	**(108,762)**	164,518	165,851	16,921

SUMMARY OF THE QUARTERLY RESULTS FOR 2008 AND 2007

(Prepared in accordance with Canadian GAAP)

Expressed in US $000s' except where indicated	December 31 2007 (unaudited)	September 30 2007 (unaudited)	June 30 2007 (unaudited)	March 31 2007 (unaudited)
		(as restated)	(as restated)	(as restated)
Sales revenues				
Gold				
Copper				
	-	-	-	-
Cost of Sales				
Operating expenses				
Selling and distribution costs				
Depreciation, depletion and amortization				
Accretion				
	-	-	-	-
Other (expenses) income				
Impairment of mineral properties	-	-	-	-
Impairment of Varvarinskoye assets	-	-	-	-
Unrealized derivative gains / (losses)	(32,523)	(34,779)	5,554	(9,232)
General & administration	(2,580)	(1,626)	(1,768)	(1,336)
Termination costs	-	-	-	-
Exploration costs	(315)	(74)	(69)	(210)
Stock based compensation	(52)	(417)	(2,232)	(212)
Interest expense	-	-	-	-
Interest income	218	429	463	231
Foreign exchange gains / (losses)	288	723	(201)	(90)
Gain on disposal of mineral properties	400	-	-	-
Net gain/(loss) before income tax	**(34,564)**	**(35,744)**	**1,747**	**(10,849)**
Recovery of income taxes	1,820	-	-	-
Net gain/(loss) for the period	**(32,744)**	**(35,744)**	**1,747**	**(10,849)**
Basic and diluted loss per common share	$(0.12)	$(0.13)	$0.01	$(0.04)
Weighted average number of common shares ('000) – Basic and diluted	281,732	279,674	279,672	279,254
Total assets	271,167	227,717	210,270	195,414
Total long-term debt	50,120	44,293	33,691	15,287
Shareholders' equity	48,193	58,136	89,333	83,592

FINANCIAL REVIEW

FOR THE QUARTER ENDED DECEMBER 31, 2008 AND 2007

Overview

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.

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.

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 and Varvarinskoye is operating at maximum capacity and the outcome of current refinancing discussions with the Lenders has been concluded. As a separate restructuring alternative, management is also investigating the possibility of disposing of Varvarinskoye property and related term debt and hedging 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 its current interest in the Varvarinskoye project.

If the restructuring discussions with the Lenders were to be unsuccessful and the Company was unable to meet its outstanding and future hedge and debt commitments or otherwise breached its covenants under these facilities and failed to remedy the breach within the permitted time, if applicable, or obtain any requisite waiver or deferral from the Lenders, the Lenders could decide to terminate the Debt Facility and/or the Varvarinskoye Hedge or enforce their security over the Varvarinskoye Project or the shares of JSCV. If this were to occur, the Company would have to repay all amounts owing and would be responsible for additional fees, costs and expenses owing to the Lenders, including the costs associated with terminating the Varvarinskoye Hedge, which could have a material adverse effect on Orsu's business and financial condition. If the Lenders were to enforce their security, Orsu could lose its interest in the Varvarinskoye Project.

For the three months ended December 31, 2008, the Company incurred a net loss of $273.2 million, compared to a loss of $32.7 million for the same period in 2007.

During the quarter the Company recognized revenues of $11.6 million, a net gain on derivative instruments of $18.2 million and an income tax recovery of $41.9 million. These were mainly offset by cost of sales of $23.9 million, administration costs of $6.0 million, exploration expenditure of $0.4 million, foreign exchange losses of $0.4 million, stock based compensation charges of $1.3 million and net interest expense of $4.2 million.

During the quarter the Company also booked long-lived asset impairment charges for its mineral properties of $119.6 million and Varvarinskoye assets of $189.0 million.

Revenues

For the three months to December 31, 2008 the Company invoiced sales of $17.5 million (compared with $21.2 million for the third quarter). However due to the continuing sharp deterioration in copper metal prices the Company made a further invoice settlement adjustment during the fourth quarter to reflect the final expected copper metal settlement price (settled at the end of the relevant quotational period) of (negative) $5.9 million (compared with a negative settlement adjustment during the third quarter of $5.7 million). The resulting net reported revenues for the fourth quarter were $11.6 million (compared with $15.5 million for the third quarter). The settlement adjustments were calculated using final estimated settlement price for copper per lb of $2.25 at the end of quarter three and $1.69 at the end of quarter four.

The invoiced sales value for quarter four compared with quarter three was further reduced due to the deduction in quarter four of $0.5m of smelter treatment and refining charges; the quarter three charges of $1.0m were classified within cost of sales (operating expenses) in quarter three and have not been reclassified.

Cost of sales

Costs of sales expense of $23.9 million for the fourth quarter of 2008 fell by $3.8 million compared with the third quarter of 2008. This was due to reduced selling costs and a reduction in the mine, plant and site operating costs of $5.8 million primarily relating lower net work in progress expensed in the quarter compared to the previous quarter. These were partially offset by increased depreciation and amortisation charges for the quarter of $3.0 million reflecting the accelerated depreciation of the Varvarinskoye assets following the reduction in the Varvarinskoye life of mine from 14 years to 8 years.

Other (Expenses) Income

- **Impairment charges**

During the year the Company updated the Varvarinskoye mineral reserves and mineral resource estimates (refer to the “Mineral Reserve and Mineral Resource Update” section of the Operational Review).

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 for its mineral property interests and the Company’s only operating asset, the Varvarinskoye gold-copper mine in northern Kazakhstan, resulting in a charge of $119.6 million for its mineral properties and $189.0 million for its Varvarinskoye assets.
(Refer to section “Asset Impairments” for further information).

- **Derivative instruments**

At December 31, 2008 the Company's derivative financial instruments were comprised solely of gold forward sales contracts.

Realised derivative gains or losses for the three months ended December 31, 2008 were nil compared with realized losses of $9.2 million for the previous quarter of 2008 and compared with realized gains or losses of $0 for the same period in 2007. The Company settled its quarter four gold forward hedge contracts during quarter three in advance of their maturity dates at a settlement price of $794.75 per ounce; the resulting settlement cost of $5.0 million is included within the quarter three expense of $9.2 million. No gold hedge contracts were due for settlement during 2007.

In line with reduced spot and forward prices of gold during the fourth quarter, the unrealised mark to market revaluation of the Company's forward gold hedge contracts reduced from $135.2 million as at September 30, 2008 to $117 million as at December 31, 2008, resulting in an unrealised derivative gain for the quarter of $18.2million. Gold spot prices per ounce were $865 at December 31, 2008, $884.50 at September 30, 2008 and $836.50 at December 31, 2007.

The Company had 372,468 ounces of forward gold sales remaining at a price of $574.25 per ounce as at September 30, 2008 and December 31, 2008 (443,000 remaining at December 31, 2007).

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 reserves of gold at Varvarinskoye.

- **Administration charges**

Administration costs for the fourth quarter were $6.0 million. This includes office overheads and salary charges of $3.1 million, provisions for tax penalties for Varvarinskoye of $2.5 million and legal and professional costs of $0.4million.

- **Interest expense and income**

The interest expense for the fourth quarter of 2008 was $4.4 million compared with $0 for the same period in 2007, due to the fact that prior year interest had been capitalized (pre commercial production). The fourth quarter expense was broadly in line with the quarter three expense.

Interest income was broadly comparable year-on-year but fell compared with the previous quarter of 2008 due to the reduction in unrestricted cash balances from $17.9 million at September 30, 2008 to $7.8 million at December 31, 2008 of which $3.5m cash income was received at the end of December 2008 from Gold Fields as a reimbursement of prior period exploration expenditure for the Talas property following the signing of the Gold Fields Joint Venture Agreement.

Recovery of income taxes

During the fourth quarter of 2008, the Company recovery of income taxes of $41.8 million for recovery of income taxes.

This was primarily due to the release of $33.5 million future income tax provision relating to the impairment of the Lero mineral properties acquired in 2008(Refer to section "Asset Impairments" for further information). The remaining amount of $8.3 million relates to the release of future income tax provisions, made in prior years, for the Varvarinskoye asset which were written down at December 31 2008. (Refer to section "Asset Impairments" for further information)

FOR THE YEAR ENDED DECEMBER 31, 2008 AND 2007

Overview

For the year ended December 31, 2008, the Company incurred a net loss of $322.6 million (compared to a loss of $77.6 million in 2007).

The Company recognized revenues of $27.1 million, a net gain on derivative instruments of $3.1million and an income tax recovery of $41.8 million. These were offset by cost of sales of $51.6 million, administration & employment termination costs of $20.5 million, exploration expenditure of $4.1 million, foreign exchange losses of $2.5 million and other charges of $7.5 million.

Finally, during the quarter the company booked impairment charges for its mineral properties of $119.6 million and Varvarinskoye assets of $189.0 million.

Revenues

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.

As a by product of the copper concentrate production process, a small amount of silver was produced which generated sales totalling $71,000. The Company recognises silver revenue as a by-product credit and records this revenue as an offset against operating expenses.

Cost of sales

The operational costs for the year were $51.6 million. This included operating expenses of $35.4 million (made up of mining costs of $15.1 million, plant costs of $14.8 million site costs of $1.2 million and net work in progress expensed of $4.3 million), accretion charges of $0.5 million, selling and distribution costs of $3.5 million; depreciation and amortization of $12.2 million. Included within the net work in progress expense is a recoverable inventory valuation write down (due to declining metal prices during the period) of $5.2 million.

Other (Expenses) Income

- **Derivative instruments**

At December 31, 2008 the Company's derivative financial instruments were comprised solely of gold forward sales contracts.

During the year ended December 31, 2008 the Company settled derivative contracts resulting in realized derivative losses of $20.5 million. No gold hedge contracts were due for settlement during 2007.

In line with reduced spot and forward price of gold during the fourth quarter, the unrealized mark to market revaluation of the Company's forward gold hedge contracts reduced from $140.6 million as at December, 2007 to $117 million as at December 31, 2008, resulting in an unrealized derivative gain of $23.6 million for the year.. Gold spot prices per ounce were $865 at December 31, 2008, $884.50 at September 30, 2008 and $836.50 at December 31, 2007.

The Company had 372,468 ounces of forward gold sales remaining at a price of $574.25 per ounce as at December 31, 2008. The mark to market revaluation of the Company's derivative instruments as at December 31, 2008 gave rise to unrealized derivative gain for year of $23.6million (2007 - loss of $70.9 million).

All derivative financial instruments are classified as held for trading and are measured at fair value.

- **Impairment charges**

During the year the Company updated the Varvarinskoye mineral reserves and mineral resource estimates (refer to the "Mineral Reserve and Mineral Resource Update" section of the Operational Review).

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 for its mineral property interests and the Company's only operating asset, the Varvarinskoye gold-copper mine in northern Kazakhstan, resulting in a charge of $119.6 million for its mineral properties and $189.0 million for its Varvarinskoye assets.

(Refer to section "Asset Impairments" for further information).

- **Administration charges**

Administration costs for the full year period include termination and redundancy costs of $3.9 million relating primarily to changes in senior management in connection with the business combination, head office costs and salaries of $6.3 million and provisions for tax penalties for Varvarinskoye of $3.0 million. Legal and professional costs relating to the Lero acquisition of $3.0million, are included as part of the Lero purchase consideration (not included within the Statement of Operations). Administration costs year on year have risen generally as a reflection of the enlarged group's activities following the Lero acquisition and following then commencement of full production during 2008.

- **Interest expense and income**

The Company successfully repatriated South African Rand 28.3 million in contractor advances (relating to MDM) along with accrued interest of South African Rand 12.7 million on October 22 2008 at an exchange rate of South African Rand to the US($) of 11.21, $3.65 million. As a result the Company earned interest income of $1.1 million.

The Company earned a further $0.4 million of interest income on surplus cash balances during the year.

The interest expense of $6.0 million for the year was primarily due to amortisation charges of deferred finance costs relating to the loan facilities for the six months to December 31, 2008 of $3.8 million. A further $1.8 million relates to interest paid on the Varvarinskoye debt facility and $0.3 million other debt interest charges.

- **Foreign exchanges (losses)/ gains**

The foreign exchange loss of $2.5 million was primarily due to the repatriation of South African Rand 28.3 million in contractor advances (relating to MDM) on October 22 2008 at an exchange rate of South African Rand to the US($) of 11.21, $3.65 million as mentioned above. The advances had been previously been recorded by Company at an exchange rate of South African Rand to US ($) 6.75. As a result the Company recorded a foreign exchange loss of $1.7 million.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2008 the Company's main source of liquidity was unrestricted cash of $7.8 million (2007 $25.2 million).

The Company measures its consolidated working capital as comprising free cash, inventory, and accounts receivable, other assets and prepayments, less accounts payable and accrued liabilities, current portion of the principal on long term debt and the current portion of derivative liabilities.

At December 31, 2008, the Company's consolidated working capital was a deficit of $68.6 million compared with a working capital deficit of $20.8 million at December 31 2007, representing an increase in the deficit of $47.8 million. The movement during this period comprised a decrease in unrestricted cash of $17.5 million, increase in inventories $2.7 million, increase in accounts receivable and prepayments $3.5 million, an increase in accounts payable $10.3 million, an increase in the current portion on the principle long term debt of $21.2 million and an increase in the current portion of derivative liabilities of $5.0 million. Whilst cash balances increased year on year due to the commencement of concentrate sales, the Lero loan (pre acquisition) of $25 million and the cash balances of $37 million acquired as part of the Lero acquisition, this was more than off-set by the impact of falling realized copper prices on concentrate sale proceeds during the second half of the year, the operating costs during the prolonged ramp up period (commercial production was only achieved during quarter three), the $20.5 million cash settlement of gold forward contracts, the Lero acquisition transaction costs and Varvarinskoye capital expenditure of $36.4 million. Inventory balances increased due to increased mining resulting in higher ore stockpile levels, the commencement of concentrate production during the year and the associated end of year finished goods inventory and higher stocks of materials and supplies. The accounts payable balance increase reflects in part the recorded estimated liability of $7.0 million payable to Trafigura for future metal price settlements. The increase in the current portion of long-term debt arose due to the classification of the entire Varvarinskoye debt facility liability as current, reflecting the Lenders' ability at December 31, 2008 to demand immediate repayment of all amounts owing.

At September 30, 2008, the Company's consolidated working capital was a deficit of $21.1 million, representing a decrease between quarter four and quarter three of $38.9 million. The main movements between the two quarters were a decrease in cash of $10 million, an increase in VAT recoverable of $12.6 million, an increase in the current portion of long-term debt of $23.1 million.

For the reasons stated in the Going Concern section of the MD&A the Company's working capital as at December 31, 2008 was insufficient to meet its debt, accounts payable and derivative obligations at December 31 2008 and falling due in the first quarter of 2009.The Company's working capital 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 hedge obligations arising from the ongoing discussions with the Lenders.

The ongoing debt and hedge obligation restructuring discussions with the Lenders and the potential impact upon the Company should these negotiations prove to be unsuccessful are described in the "Risks and Uncertainties" section of this MD&A.

GOING CONCERN

While the Company's financial statements have been prepared using 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).

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 updated 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 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.

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.

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.

COMMITMENTS

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

	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
Lease obligations	110	-	-	-	110

The Company's capital commitments as at December 31, 2008 were a total of $1.7 million payable during 2009 only.

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 Lero acquisition 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 fee 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 - $151,000) for related parties has been included in accounts payable.

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, it received furniture and office equipment with a book value of $573,000 in exchange for making Oriel's lease payments from June to December 2008 of $100,000 in the period and assuming a dilapidation liability.

ASSET IMPAIRMENTS

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. This acquisition has been accounted for using the purchase method, whereby the purchase consideration was allocated to the estimated fair values of the assets acquired and liabilities assumed at the effective date of the purchase, resulting in $146 million of the total purchase consideration being attributed to the mineral property interests acquired (exploration licences for various areas within Kyrgyzstan and Kazakhstan including the Talas Project in northwest Kyrgyzstan).

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 for its mineral property interests and the Company's only operating asset, the Varvarinskoye gold-copper mine in northern Kazakhstan..

The Company engaged a valuation specialist to assist in the valuation of the mineral properties acquired on June 19, 2008. The valuation was performed as at June 19, 2008 and as at December 31, 2008 using a market approach (the Guideline Company Method), which compared the implied enterprise value of gold equivalent ounces of similar junior mining exploration companies operating in Central Asia. The valuation exercise assumed long-term metal prices of $775 per oz of gold and $1.75 per lb of copper. The revised valuation of $20.9 million resulted in an impairment charge of $119.6 million.

During the fourth quarter of 2008 the Company also reviewed its Varvarinskoye mineral reserves and resource estimates and, as a result, the Varvarinskoye life of the mine was reduced from 14 to 8 years as at December 31, 2008 compared to the previous Varvarinskoye technical report of December 2006. In line with the reduced life of mine and the updated probable reserves, the Company estimated the Varvarinskoye post-tax, pre-debt operational cash flows assuming, amongst other things, long-term metal prices of $800 per oz of gold and $1.80 per lb of copper. The resulting cash flows were discounted to a net present value using a risk-adjusted weighted average cost of capital ("WACC") of 19.0% and compared with the carrying value of the Varvarinskoye assets to arrive at an impairment charge at December 31, 2008 of $189.0 million.

The Capital Asset Pricing Model ("CAPM") was used to determine the required return on equity as a component of the WACC. The following selected assumptions were also used in the Company's calculation of the appropriate WACC:

Risk-free rate	2.69% (based upon a 10 year Canadian government bond yield)
Beta (levered)	0.742
Tax rate	10%
Company risk adjustment	3%

Although 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.

CONVERGENCE WITH INTERNATIONAL FINANCIAL REPORTING

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

The conversion to IFRS will impact the Company's accounting policies, information technology and data systems, internal control over financial reporting, and disclosure controls and procedures. The transition may also impact business activities, such as foreign currency, certain contractual arrangements, debt covenants and compensation arrangements.

Therefore during the fourth quarter of 2008, the Company commenced the scoping and planning phase of its changeover plan. The Company has designated the appropriate resources to the project to develop an effective plan and will continue to assess resource and training requirements as the project progresses.

The Company has identified the following four phases of its conversion plan: scoping and planning, detailed assessment, operations implementation and post implementation.

The scoping and planning phase involves establishing a project management effort, mobilizing organizational support for the conversion plan, identifying major areas affected, and developing an implementation plan and communication strategy. The detailed assessment phase will result in accounting policy decisions, quantification of financial statement impact, identification of business processes and resources impacted. The operations implementation phase includes the preparation of draft financial statements and design of business, reporting and system processes to support the compilation of IFRS compliant financial data for the opening balance sheet at January 1, 2010. Ongoing training, testing of the internal control environment and updated processes for disclosure controls and procedures will continue. Post implementation will include sustainable IFRS compliant financial data and processes for fiscal 2011 and beyond.

Due to the change in the IFRS environment over the next two years, all accounting policy decisions will be subject to change until December 31, 2010, at which time the Company will prepare more complete disclosure of the implementation of IFRS exceptions and exemptions, as well as the impact of IFRS on the Company's financial statements.

The Company has substantially completed the scoping and planning phase. Through the scoping and planning phase, the Company's initial assessment of high impact areas of potential differences follows:

Reclamation liabilities

The Company's future obligations to retire an asset including site closure, dismantling, remediation and ongoing treatment and monitoring are currently recorded as a liability at fair value at the time incurred. The fair value determination is based on estimated future cash flows, the current credit adjusted risk-free discount rate and an estimated inflation factor. The value of asset retirement obligations is evaluated on an annual basis or as new information becomes available on the expected amounts and timing of cash flows required to discharge the liability and accreted to full value over time through periodic charges to earnings. These changes in value are recorded in the period in which they are identified and when costs can be reasonably quantified, and are capitalized as part of the asset's carrying value and amortized over the asset's estimated useful life.

Under IFRS:

- IFRS defines site restoration and environmental provisions as legal or constructive obligations; Canadian GAAP limits the definition to legal obligations.
- IFRS requires provisions to be updated at each balance sheet date using a current pre-tax discount rate (which reflects current market assessment of the time value of money and the risk specific to the liability). Canadian GAAP requires the use of a current credit-adjusted, risk-free rate for upward adjustments, and the original credit-adjusted, risk-free rate for downward revisions.
- Accretion expense is recorded as a finance cost under IFRS rather than as an element of operating cost.

Joint ventures

The Company did not account for any joint venture interests during 2008. However, the agreement signed in December 2008 with Gold Fields, a wholly owned subsidiary of Gold Fields Limited for the further exploration and development of the Talas licence area, north west Kyrgyzstan, may lead to a joint venture being created in the future if Gold Fields exercises its right to earn up to a 70% stake in the Talas project.

Under IFRS:

- Current IFRS guidance permits a choice of either proportionate consolidation or equity accounting for joint ventures, whereas Canadian GAAP requires proportionate consolidation.
- In a recent exposure draft, the IASB has proposed the removal of proportionate consolidation.

Business combinations

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

Under IFRS:

- IFRS 1 provides the option to not apply the IFRS business combinations standard on a retrospective basis.
- A new business combinations standard IFRS 3(R) will be applicable prior to transition, and will significantly change accounting for acquisitions including the following:
- Transaction costs will be expensed as incurred.
- Assets and liabilities will be recorded at full fair value, rather than at the value of the consideration paid.
- In step acquisitions, the assets and liabilities owned prior to the acquisition of majority interest are re-valued at the date of acquisition.

Impairment (long-lived assets, intangibles and goodwill)

In evaluating the Company's long-lived assets for recoverability, estimates of after-tax discounted future cash flows of the individual operations are used to estimate the fair value and this is compared with carrying amount. Where the fair value is less than the carrying value an impairment charge is recognised.

Under IFRS:

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

Property, plant and equipment ("PPE")

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

Under IFRS:

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

Foreign currency translation

The Company's functional and reporting currency is US dollars. None of the Company's operations are accounted for as self-sustaining operations. The Company's assets and liabilities are translated at exchange rates in effect at the balance sheet date and revenues and expenditures are translated at average exchange rates. Differences arising from these foreign currency translations are recorded in the consolidated statements as other comprehensive income in the Statement of Operations, Comprehensive Loss and Deficit.

Under IFRS:

- IFRS 1 allows companies to reset their existing cumulative translation account balance to zero at the date of transition.
- IFRS uses a functional currency concept (currency of the primary economic environment in which the entity operates) to determine the method of measuring foreign currency translation. Canadian GAAP uses the concept of integrated and self-sustaining foreign operations.

Financial Instruments

The Company enters into various arrangements such as gold forward sales contracts. The Company does not consider any of these arrangements as hedging relationships, nor does it designate these contracts as "normal sales and purchase contracts". Financial and derivative instruments, including embedded derivatives, are recorded at fair values on the Company's balance sheet, with gains and losses in each period included in other comprehensive income or net income. Fair values are determined using valuation techniques. These techniques use assumptions based on market conditions existing at the balance sheet date.

Under IFRS:

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

CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2008, the Company adopted three new CICA Accounting Standards as follows:

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.

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.

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.

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.

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 of a net impact of $nil on the overall loss and comprehensive loss 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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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 recognised only once the product has been delivered to the customer, title and risks of ownership have passed, collection is reasonably assured and the price is reasonably determinable.

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.
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.

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 stocks 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 onwards. 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. 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
Mine 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 amortised using the units-of-production method from July 1st 2008 onwards. 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.

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 or grants to, including those that are direct awards of stock or call for settlement in shares or cash or other assets. Under the fair value method, compensation expense attributed to the direct award of stock 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.

RISKS AND UNCERTAINTIES

Risks and uncertainties

Readers of this MD&A should give careful consideration to the information included in this document and the Company's consolidated financial statements and related notes. There may be additional risks unknown to the Company and other risks, currently believed by the Company to be immaterial, which could turn out to be material and impair the Company's operations, financial condition or performance. These risks, whether they materialise individually or simultaneously, could significantly adversely affect the Company's business and financial condition and results of operations. They should also be considered in connection with any forward looking statements in this document and the cautionary information at the end of this document.

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 (including the Company's ability to successfully restructure its obligations owing under the Debt Facility and the Varvarinskoye Hedge (as defined below)) and operating permits on a timely basis; and the inability to economically or fully insure against certain risks. The Company is also subject to a number of risk factors due to the nature of the resource business in which it is engaged. Political instability or social unrest may lead to a change in Government policy or have a material adverse effect on the Group's operations within Kazakhstan and Kyrgyzstan. Kazakhstan's Government has actively pursued a programme of economic reform, helping to make it the most politically stable and economically developed country in Central Asia. While a number of former Soviet republics have experienced periods of political instability, this has not been the case for Kazakhstan. The Directors continue to view the political, social and economic environment within Kazakhstan favourably, and looking forward, remain enthusiastic about the conditions for business in the region.

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 resource 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 material 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.

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.

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, materially 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, materially adversely affecting the Company's earning and competitive position in the future and, potentially, its financial position.

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 material 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 a material 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 has or may in the future 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.

Credit Risk

The Company's credit risk is primarily attributable to derivative instruments 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 a single off take contract for its gold Doré sales with 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.

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.

Currency Risk

Currency fluctuations may affect the cash flow that the Company may realise 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, Canadian Dollars 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.

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.

Limited Operating History

The Company's Varvarinskoye mine has only recently reached commercial production levels. Also, the Company is still working towards developing its other 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 its active mining operations at Varvarinskoye in the future and its ability to access equity or debt 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 such 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 such operations / exploration 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 properties 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 Company's only current source of cash flow is from its existing active mining operations; the only other source of funding which may be available to the Company is through the issue of equity capital, project finance or borrowing. Global securities markets are currently experiencing significant volatility, which may result in increased difficulty in raising equity capital and market forces may render it difficult or impossible for the Company to secure investors to purchase any new share issuances at prices which will not lead to severe dilution to existing shareholders, or at all. 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 materially 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, Republic of 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 instability and government regulations relating to the mining industry. There can be no assurance that future political and economic conditions in the Russian Federation, Republic of 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, nationalisation, 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; discrepancies and confusion surrounding the powers of different governmental agencies; 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 financial condition and results of 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 in 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 mineral exploration and development rights, but also on its ability to select and acquire mineral exploration and development rights on suitable properties for mineral exploration and development. There is no assurance that the Company will be able to compete successfully with its competitors in acquiring mineral exploration and development rights on such properties.

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 is 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 it 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.

Risks Associated with Debt Facility

The Varvarinskoye debt facility bears interest at a rate based on LIBOR. Any increase in interest rates may have a material adverse effect on Orsu’s business and financial condition.

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 remain below 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.

As at the 31 December 2008 the Company was in breach of its debt repayment and other covenants and was subsequently in breach of its Permitted Indebtedness covenants and had been unable to meet its hedge contract settlement obligations as they fell due during the first quarter of 2009. The Company continues to be in discussions with the Lenders of the debt facility to seek a potential sale of the Varvarinskoye asset or a satisfactory arrangement with respect to the restructuring of the payments due under the terms of the loan facility, including the hedge payments due under the facility. At as the date of the MD&A, the Lenders have not taken, nor indicated that they intend to take, any action in respect of these defaults.

If the restructuring discussions are unsuccessful and the Company is unable to meet its past and future outstanding hedge and debt commitments or otherwise breaches its covenants under these facilities and fails to remedy the breach within the permitted time, if applicable, or obtain any requisite waiver or deferral from the Lenders, the Lenders could decide to terminate the Debt

Facility and/or the Varvarinskoye Hedge or enforce their security over the Varvarinskoye Project or the shares of JSCV. If this were to occur, the Company would have to repay all outstanding amounts and would be responsible for additional fees, costs and expenses owing to the Lenders, including the costs associated with terminating the Varvarinskoye Hedge, which could have a material adverse effect on Orsu's business and financial condition. If the Lenders were to enforce their security, Orsu could lose its interest in the Varvarinskoye Project.

The participation of the Export Credit Insurance Corporation of South Africa ("ECIC") in providing political and commercial risk insurance for the Varvarinskoye Project is also a condition of drawdown under the debt facility. If, the Company's was in breach of its covenants under the debt facility and failed to remedy the breach within the permitted time, if applicable, or obtain any requisite waiver or deferral from the Lenders, ECIC insurance could be withdrawn and the Lenders would have the right to terminate the Debt Facility.

Although the Company has been successful in remedying previous failures to make payment or breaches of the Debt Facility, there can be no assurance that the Company will be able to remedy the current breach and/or any future breach and/or obtain any requisite waiver or deferral from the Lenders in respect of any such future breach.

Financial Instruments and Derivatives

The Company holds certain financial instruments, the most significant of which are gold forward contracts (the "Varvarinskoye Hedge"). These derivatives are recorded at fair value on the Company's balance sheet with gains and losses in each period included in other comprehensive income or net deficit as appropriate. Fair value estimates for derivative contracts are based on quoted market prices for comparable contracts, which are based upon gold metal prices and represent the amount the Company would have received from, or paid to, a counter party to unwind the contract at the market rates in effect as at the balance sheet date. Precious and base metal prices fluctuate on a daily basis and are affected by numerous factors beyond Orsu's control. A decrease in precious and base metal prices could have a material adverse effect on Orsu's business and financial condition. The Lenders have required JSCV to maintain the Varvarinskoye Hedge and the Lenders may require JSCV to use other derivative products to manage the risks associated with changes in interest rates and foreign currency exchange rates.

The use of derivative instruments (including the Varvarinskoye Hedge) involve certain inherent risks including: (a) credit risk — the risk of default on amounts owing to JSCV by the counterparties with which JSCV has entered into such transaction; (b) market liquidity risk — the risk that JSCV has entered into a derivative position that cannot be closed out quickly, by either liquidating such derivative instrument or by establishing an offsetting position; and (c) mark to market risk — the risk that, in certain derivative products an adverse change in market prices for metals, currencies or interest rates will result in JSCV recognising a loss in respect of such derivative products.

Global Economic and Financial Markets

Recent market events and conditions, including disruption in the Canadian, U.S. and international credit markets and other financial systems and the deterioration of Canadian, U.S. and global economic conditions, could, among other things, impede access to capital or increase the cost of capital, which would have an adverse effect on the Company's ability to fund its working capital and other capital requirements. Notwithstanding various actions by U.S., Canadian and foreign governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions have caused the broader credit markets to further deteriorate and stock markets to decline substantially. In addition, general economic indicators have deteriorated, including declining consumer sentiment, increased unemployment and declining economic growth and uncertainty about corporate earnings. These unprecedented disruptions in the current credit and financial markets have had a significant material adverse impact on a number of financial institutions and have limited access to capital and credit for many companies, particularly resource exploration and development companies such as the Company.

These disruptions could, among other things, make it more difficult for the Company to obtain, or increase its cost of obtaining, capital and financing for its operations. The Company's access to additional capital may not be available on terms acceptable to the Company or at all.

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 anticipated rates of production and extraction and revenue therefrom, including expected levels of operating profits and costs; the Company's planned implementation of a second low cost screener and crusher at Varvarinskoye and the resulting increase in throughput expected (including the anticipated levels of increase); the estimated costs associated with the proposed upgrade of the screener and crusher; management's expectations of increased grades of mined ore at Varvarinskoye during 2009; the estimated life of mine at Varvarinskoye; estimates relating to the proportion of total gold production the Varvarinskoye Hedge will represent during the term of the Hedging Facility and of current estimates of probable reserves; the Company's intended efforts with respect to avoiding disruptions to essential supplies at Varvarinskoye; the Company's expectations that an additional working capital facility will be granted by the Lenders as part of the refinancing; the expected volumes of ore that will be treated at the Varvarinskoye mine; expectations regarding additional mining capacity at Varvarinskoye; the Company's expectations with respect to its planned operations at Varvarinskoye and its other projects; the anticipated contributions of Gold Fields to the Taldybulak project and the development of the Taldybulak project into a world-class resource; the anticipated timing for completion of the Taldybulak-Talas and Karchiga scoping studies and expectations regarding the upgrading of the mineral resource categories of these properties to Measured and Indicated; the ability to collect samples at the Karchiga property and the timing of the results of the metallurgical test work completed in the fourth quarter of 2008;; completion of the follow-up work at Korgontash being planned; the expected timing of the commencement of investigations of the anomalies identified at Barkol and the Barkol core drilling programme; development and operational plans and objectives; the Company's intentions with respect to completing a comprehensive review and assessment of its Kentash property; the Company's expectation of financial support, increased mineral resources, future growth prospects and proposed drilling metres subsequent to the joint venture agreement Gold Fields, with respect to the Barkol, Kentash, Taldybulak and Korgontash licences; estimates relating to future income tax recoveries; the proposed work programs for the Company's exploration properties and their respective costs (including the Company's ability to contain its mining and exploration costs) and timing; the Company's expectations with respect to pursuing new opportunities and acquisitions in countries of the former Soviet Union;

the Company's ability to enhance its technical and competitive advantages; the Company's plans with respect to the change to IFRS, including the Company's expected timing for implementing same and the anticipated impact IFRS will have on the Company's accounting policies, information technology and data systems, internal control over financial reporting, disclosure controls and procedures, and business activities such as foreign currency, certain contractual arrangements, debt covenants and compensation arrangements; the Company's plans for adopting and/or implementing changes to accounting policies and the impact on the Company's consolidated financial statements; estimated amounts of additional working capital required; estimates and assumptions affecting reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and the Company's intention to continue attempts to reach a satisfactory arrangement with the Lenders

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, long-term metal prices and a WACC of 19% and the assumptions underlying the Company's calculation of WACC set out under "Asset Impairments"; the regulatory framework in Kazakhstan and Kyrgyzstan with respect to, among other things, permits, licences, authorisations, royalties, taxes and environmental matters, the ability of management to continue 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 realised or substantially realised, there can be no assurance that they will have the expected consequences to, or effects on, the Company.

Factors that could cause actual results or events to differ materially from current expectations include, but are not limited to: the grade and recovery of ore which is mined varying from estimates; the nature of mineral exploration and mining (including the ability to obtain necessary licences); capital and operating costs varying significantly from estimates; inflation; changes in exchange and interest rates; fluctuations in commodity prices; production delays at Varvarinskoye caused by unavailability of equipment, labour or supplies, climatic conditions, delays in the delivery and installation of plant and equipment or otherwise; the Company's inability to restructure the loan repayments and hedging obligations due by the Company's wholly-owned subsidiary JSCV, under its loan and hedging facilities; the Lenders enforcing their security over the shares of JSCV; 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 and Uncertainties" in this MD&A.

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.

Any 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.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company is reported within the time periods specified under securities laws and include controls and procedures that are designed to ensure that information is communicated to management of Orsu, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. The Company has performed an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual Financial and Interim Filings). Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer of Orsu have concluded that the design and operation of the Company's disclosure controls and procedures were effective as at December 31, 2008.

Internal Control Over Financial Reporting ("ICFR")

The Chief Executive Officer and Chief Financial Officer of Orsu are responsible for establishing and maintaining adequate ICFR to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. The Chief Executive Officer and Chief Financial Officer of Orsu directed the assessment of the design and operating effectiveness of the Company's ICFR as at December 31, 2008 and based on that assessment determined that the Company's ICFR, no matter how well designed, has inherent limitations. Therefore, the ICFR can only provide reasonable assurance with respect to financial statement preparation and may not prevent all misstatements, errors or fraud.

Material weakness relating to design of ICFR

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

While management of the Company has put in place certain plans and procedures to mitigate the risk of a material misstatement in the Company's financial reporting, a system of internal controls can provide only reasonable, not absolute, assurance that the objectives of the control system are met, no matter how well conceived or operated. Other than personnel-related changes resulting from the Lero acquisition, there were no changes were made to the Company's ICFR during the year ended 31 December 2008 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

OTHER INFORMATION

Additional information:

Additional information relating to the Company, including the Company's Annual Information Form, may be accessed through SEDAR on the internet at www.sedar.com.

Disclosure of Outstanding Share Data

The following table sets forth information concerning the outstanding securities of the Company as at 24 April, 2009:

Outstanding Securities	Number in issue
Common shares of no par value ("Shares")	456,959,226
Share purchase options(1)	41,575,000
Share purchase warrants(2)	128,547,520

Note:

1. Up to 41,575,000 shares are issuable upon the exercise of the share purchase options.
2. Up to 128,547,520 shares are issuable upon the exercise of the share purchase warrants.

ENDS