

Orsu Metals Corporation

Management's Discussion and Analysis of Results
June 30, 2009 and 2008

(Figures in United States Dollars)

Orsu Metals Corporation

MD&A for the period ended June 30, 2009

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Orsu Metals Corporation

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(Stock is quoted in Canadian Dollars)
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(Stock is quoted in British Pounds)

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INTRODUCTION

Orsu Metals Corporation (“Orsu” or the “Company”, formerly European Minerals Corporation or “EMC” until its acquisition of Lero Gold Corp. (“Lero”) on June 19, 2008) is a dual listed (AIM: OSU, TSX: OSU) company, with its head office in London.

The Company is currently operating the Varvarinskoye open pit gold-copper mine in northern Kazakhstan (“Varvarinskoye” or the “Varvarinskoye Project”) and is engaged in mineral exploration of various licence areas within the Republic of Kyrgyzstan and the Republic of Kazakhstan including the Talas Project in northwest Kyrgyzstan.

The Company entered into a sale and purchase agreement (the “SPA”) dated June 13, 2009 with Open Joint Stock Company Polymetal (“Polymetal”), a Russian-based mining company, pursuant to which the Company has agreed, subject to certain conditions, to sell to Polymetal all of its interest in and obligations related to the Varvarinskoye Project. Following the disposition of the Varvarinskoye Project, the Company will no longer have mining and/or production operations and will focus its resources on the exploration and development of its other properties and projects in Kyrgyzstan and Kazakhstan (which includes the Taldybulak Talas property subject to a joint venture with Gold Fields Orogen Holdings BVI Limited (“Gold Fields”). The Company expects to fund such activities with part of the proceeds from the sale of the Varvarinskoye Project. The Company expects to use the balance of such proceeds towards the Company’s operating costs and to fund any acquisitions of new properties and/or therein. The Company will have no long-term debt outstanding following the disposition of the Varvarinskoye Project.

Whilst the sale of the Varvarinskoye Project has not yet been completed, the Company has, in accordance with Canadian GAAP, CICA 3475, accounted for the financial results associated with the Varvarinskoye Project as at June 30, 2009 as discontinued operations.

The effective date of this MD&A is August 13, 2009.

QUARTER HIGHLIGHTS

- 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 and that discussions are ongoing with the Lenders.
- May 2009 – Orsu announced that it has signed an amended and restated offtake agreement with Trafigura Beheer B.V., Netherlands (“Trafigura”) for the purchase of Varvarinskoye’s copper concentrate product.
- May 2009 – Orsu provided an update of on-going work at the Talas and Tokhtazan exploration licence areas of north west Kyrgyzstan and the Karchiga exploration area of north east Kazakhstan.
- June 2009 – Orsu announced it had entered into a sale and purchase agreement to sell to Polymetal all of its interest and obligations in the Varvarinskoye Project.

POST QUARTER HIGHLIGHTS

- July 2009 – Orsu shareholders passed a resolution authorising the sale of its 100% interest in the Varvarinskoye Project (the “Varvarinskoye Disposition Resolution”).

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OVERALL PERFORMANCE

During the three months ended June 30, 2009, the Company continued with the mining and processing of ores at Varvarinskoye and the production of gold doré and copper-gold concentrate. The Company also continued with the development of Orsu's Kyrgyzstan and Kazakhstan-based exploration projects.

On May 12, 2009, Orsu announced that it had signed an amended and restated offtake agreement with Trafigura for the purchase of Varvarinskoye's copper concentrate product. The amendment provided Orsu with more favourable settlement terms and overall costs, as well as improved repayment terms under the earlier offtake agreement for monies owed to Trafigura for the settlement of shipments from June 2008 to October 2008.

At an annual and special meeting of shareholders held at Orsu's London offices on July 10, 2009, the shareholders of the Company authorised the sale by the Company of its 100% interest in the issued and outstanding share capital of one of its direct subsidiaries, Three K Exploration and Mining Limited ("Three K"), and, through such sale, the disposition of the Company's interest in its indirectly wholly-owned subsidiary Joint Stock Company Varvarinskoye ("JSCV"), which is the registered owner of Varvarinskoye. Further information about the sale of Varvarinskoye is provided below as well as in the Management Information Circular (dated June 15, 2009) which can be viewed on www.sedar.com.

DISPOSITION OF THE VARVARINSKOYE PROJECT

Background to the Varvarinskoye Project Disposition

The Varvarinskoye Project is currently producing gold doré and copper-gold concentrate. The mine commenced production of gold doré in December 2007 and copper-gold concentrate in March 2008.

For the year ended December 31, 2008, the Varvarinskoye Project incurred losses (before income taxes) of \$220.5 million after asset impairment write-down charges of \$189 million (the "Write-Down"). For the six months ended June 30, 2009 the Varvarinskoye Project incurred losses of \$19.5 million.

As at the date of this MD&A, the Company (directly and/or through its subsidiaries) has outstanding debt and hedging settlement obligations in an aggregate amount of over \$215 million, which amounts are owing to Investec Bank (UK) Limited, Investec Bank Limited, Natixis Bank and Nedbank Limited (collectively, the "Lenders") under a debt facility (the "Debt Facility") arranged by the Lenders in favour of JSCV to facilitate the construction and development of the Varvarinskoye Project. The Company is the guarantor of such debt and of the obligations of European Minerals (UK) Limited ("EM Limited"), a wholly-owned subsidiary of the Company, under gold hedge (forward sales) contracts (the "Hedge Contracts") relating to the Varvarinskoye Project (collectively, the "Varvarinskoye Project Debt").

The Company was unable to meet the first two repayment tranches under the Debt Facility of \$16.65 million due on December 31, 2008 and \$19.4 million due on June 30, 2009, and as at the date of this MD&A these payment obligations remains outstanding. The Company is also in breach of the permitted indebtedness covenants under the Debt Facility (the "Permitted Indebtedness Covenants") with respect to its trade creditors, both in respect of amounts and terms. In addition, as at the date of this MD&A the Company has been unable to meet its settlement obligations under the Hedge Contracts in the aggregate amount of \$14.9 million as they have fallen due.

While the Company, assisted by Endeavour Financial International Corporation, had been working with the Lenders for several months to refinance the Varvarinskoye Project Debt and had presented various proposals to the Lenders in respect of same, satisfactory arrangements were not reached by June 2009. During this time, the need for additional capital to fund the Varvarinskoye Project increased and it was estimated that \$15 million of additional capital (comprised of \$5 million working capital and \$10 million for essential capital projects) was required to maintain continued operations at the Varvarinskoye Project.

As an alternative to refinancing the Varvarinskoye Project Debt, management of the Company investigated the possibility of disposing of the Varvarinskoye Project as well as the Varvarinskoye Project Debt.

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Management undertook this investigation as a result of the length of time that continued discussions with the Lenders required, in light of the lack of refinancing alternatives generally available to the Company as a result of the current global credit and equity market conditions and the Company's continuing default under the Varvarinskoye Project Debt, and with the desire to maximise shareholder value in the face of alternative scenarios. On June 13, 2009, the Company entered into the SPA.

The SPA involves the following:

- EM Limited will novate its Hedge Contracts and related obligations with respect to the Varvarinskoye Project to Three K;
- the Company will be released from its obligations as guarantor of the Varvarinskoye Project Debt;
- the Company will complete an inter-company debt reorganisation such that on completion of the proposed disposition there will be no outstanding indebtedness between the Company or any of its remaining subsidiaries and Three K or any of its subsidiaries; and
- Polymetal will thereafter acquire 100% of the issued and outstanding share capital of Three K from the Company in exchange for a cash payment of US\$8 million on closing and deferred consideration of up to \$12 million (contingent on future gold and copper prices and calculated by reference thereto).

Subsequent to the passing of the Varvarinskoye Disposition Resolution further conditions precedent must be satisfied or waived (as applicable) prior to the completion of the disposition of the Varvarinskoye Project:

- obtaining the necessary regulatory consents from the Kazakhstan authorities;
- refinancing arrangements being entered into by each of JSCV, Polymetal and the Lenders as well as agreements being entered into by the Company and the Lenders (among others) providing for the unconditional release of the Company from its obligations under the Varvarinskoye Project Debt and to effect the novation of the Hedge Contracts to Three K;
- any standstill/waiver agreement between Polymetal, Three K and the Lenders (among others) in respect of the rights of the Lenders under the Varvarinskoye Project Debt being entered into and remaining in full force and effect, or in the event that no standstill agreement is entered into, none of the Lenders having taken any enforcement action in relation to the Varvarinskoye Project Debt;
- the approval of the disposition of the Varvarinskoye Project by Export Credit Insurance Corporation of South Africa ("ECIC"), as commercial and political insurer to Nedbank Limited and Investec Bank Limited in respect of their obligations to JSCV under the Debt Facility;
- there having been no material breach by the Company of any of its obligations under the SPA;
- there having been, as at the time of closing, no material breach of certain specified key warranties relating to (among other things) the title of the shares of Three K to be sold in connection with the disposition, the validity of the relevant licences and related matters, certain tax matters and insolvency;
- there having been no business interruption that results in the material suspension, cessation or discontinuation of day-to-day mining operations at the Varvarinskoye Project owing to a mechanical or technical fault or failure of any plant, equipment or infrastructure that is incapable of being repaired or replaced within a specified time period or without capital expenditure in excess of a specified amount; and
- approval by the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan of certain proposed amendments to the existing subsoil use contract relating to the Varvarinskoye Project.

Pursuant to the terms of the SPA, the Company has given Polymetal certain customary warranties regarding title, its ability to sell Three K and the business of JSCV. These warranties are subject to certain limitations, including specified time periods within which claims relating to such warranties can be brought and individual and aggregate claims thresholds and liability caps which are customary for a transaction of this nature. The Company has also given indemnities relating to certain potential tax liabilities and liabilities connected to certain dormant subsidiaries of Three K which are to be transferred to Polymetal as part of the transaction. The Company has also provided certain undertakings to Polymetal to ensure that the business of JSCV will be conducted in the ordinary course (but without any obligation on the Company to provide any further funding to JSCV) in the period prior to the completion of the disposition of the Varvarinskoye Project.

Following the completion of the sale of the Varvarinskoye Project, the Company will have no outstanding long-term debt and intends to use the proceeds from the sale of the Varvarinskoye Project to fund the Company's operating costs, ongoing exploration activities on its existing properties and any acquisitions of new properties and/or interests therein.

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Alternatives to Varvarinskoye Project Disposition

In the event that the proposed transaction does not proceed to completion, the Company will be forced to consider other alternatives (some or all of which may not be possible), including:

- a) resuming its discussions with the Lenders in order to arrive at a mutually acceptable solution in respect of the Varvarinskoye Project Debt;
- b) raising funds from equity or mezzanine finance sources; and
- c) suspending operations at the Varvarinskoye Project to attempt to mitigate further liabilities while searching for other sale or financing alternatives to preserve shareholder value.

In the event that alternative sources of financing cannot be secured in a timely manner to satisfy the Company's obligations under the Debt Facility and the Hedge Contracts, the Lenders may, at their discretion, demand immediate repayment of all amounts owing and enforce their security (which includes share and asset pledges covering the Varvarinskoye Project) under the Varvarinskoye Project Debt. In addition, the default provisions under the Hedge Contracts entitle the hedging counterparties to terminate any open derivative positions and seek full repayment for all unsettled derivative obligations. If any such action is taken by either the Lenders or the counterparties, this could result in the Company losing its interest in the Varvarinskoye Project.

The Company anticipates that, in the absence of additional waivers or modification of the terms of the Debt Facility, it will remain unable to satisfy its outstanding repayment obligations and to meet its additional 2009 scheduled repayment obligations, will remain in breach of its repayment terms and the Permitted Indebtedness Covenants, and is likely to breach additional covenants under the Debt Facility. While the Company has been successful in the past in renegotiating the Debt Facility and modifying the repayment and forward contract obligation terms there under, there can be no assurance that it will be successful in doing so in the future.

The board of directors of the Company (the "Board") considers the viable alternatives to the disposition of the Varvarinskoye Project to be limited due to the current status of the Varvarinskoye Project Debt, the limited equity and mezzanine finance markets for mining exploration companies at the present time and the Company's current working capital position. Management of the Company and the Board have determined that it is in the best interests of the Company to dispose of the Varvarinskoye Project.

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RESULTS OF OPERATIONS

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

FOR THE QUARTER ENDED JUNE 30, 2009 AND SUMMARY OF QUARTERLY RESULTS

Expressed in \$'000s'	June 30 2009 (unaudited)	March 31 2009 (unaudited)	December 31 2008 (unaudited)	September 30 2008 (unaudited)
Other (expenses) income				
Impairment of mineral properties	-	-	(119,550)	-
General & administration	(2,514)	(1,560)	(6,059)	(1,377)
Exploration costs	(158)	(215)	(378)	(2,971)
Stock based compensation	(762)	(800)	(1,268)	(1,497)
Interest expense	-	(67)	(216)	(9)
Interest income	37	1	184	129
Foreign exchange (losses) / gains	347	(389)	(272)	16
Net (loss) before income tax	(3,050)	(3,030)	(127,559)	(5,709)
Recovery of income taxes	-	-	34,367	(44)
Net (loss) for the period	(3,050)	(3,030)	(93,192)	(5,753)
Net gain/ (loss) from discontinuing operations	5,755	(25,255)	(170,400)	1,720
Income/ (Loss) and comprehensive income/ (loss) for the period	2,705	(28,285)	(263,592)	(4,033)
Basic and diluted profit/ (loss) per common share	\$0.01	\$(0.06)	\$(0.68)	\$(0.01)
Weighted average number of common shares ('000) – Basic and diluted	456,959	456,959	385,820	310,152
Total assets	106,391	98,813	106,657	440,109
Total long-term debt	57,623	55,636	53,751	52,974
Shareholders' (deficit)/ equity	(100,237)	(103,725)	(108,762)	164,518

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RESULTS OF OPERATIONS

(Prepared in accordance with Canadian GAAP)

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

Expressed in \$000s'	June 30 2008 (unaudited) (as restated)	March 31 2008 (unaudited) (as restated)	December 31 2007 (unaudited) (as restated)	September 30 2007 (unaudited) (as restated)
Other (expenses) income				
General & administration	(3,830)	(1,508)	(2,580)	(1,626)
Termination costs	(3,880)	-	-	-
Exploration costs	(60)	-	-	-
Stock based compensation	(109)	(138)	(52)	(417)
Interest expense	-	(1,699)	-	-
Interest income	1,392	174	-	-
Foreign exchange gains / (losses)	489	(847)	288	723
Gain on disposal of mineral properties	-	-	400	-
Net (loss) before income tax	(5,986)	(4,014)	(1,944)	(1,320)
Recovery of income taxes	(41)	-	-	-
Net (loss) for the period	(5,986)	(4,014)	(1,944)	(35,744)
Net (loss) from discontinuing operations	(10,937)	(34,050)	(30,800)	(34,424)
(Loss) and comprehensive (loss) for the period	(16,923)	(38,064)	(32,744)	(35,744)
Basic and diluted (loss) per common share	\$(0.05)	\$(0.13)	\$(0.12)	\$(0.13)
Weighted average number of common shares ('000) – Basic and diluted	313,829	303,329	281,732	279,674
Total assets	464,374	259,166	271,167	227,717
Total long-term debt	52,289	51,700	50,120	44,293
Shareholders' equity	165,851	16,921	48,193	58,136

RESULTS OF DISCONTINUED OPERATIONS

Under the terms of the SPA, 100% of the shares in Three K will (subject to the satisfaction or waiver of certain conditions precedent) be sold to Polymetal. Three K currently owns (directly and indirectly) JSCV and will on completion hold (directly and indirectly) all debt and hedging obligations relating to the Varvarinskoye Project.

The sale remains subject to the satisfaction of certain remaining conditions, including: receipt of all necessary regulatory consents including the Kazakhstan authorities; approval of all Lenders and hedge counterparties to the Varvarinskoye Project and definitive documentation being entered into in respect of the refinancing arrangements required between Polymetal and the Lenders in connection with certain bank approvals.

Assuming the satisfaction or waiver of the conditions mentioned above, the Company anticipates completing the sale of Varvarinskoye during the third quarter of 2009. Under CICA 3475 the financial results of the Varvarinskoye Project are considered as "Discontinued Operations" in these consolidated financial statements. Accordingly, the results of the Varvarinskoye Project have been reclassified and disclosed in the consolidated statements of operations as "Net gain/ (loss) from discontinuing operations".

The results of the discontinued operations have been summarised in the two tables that following:

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RESULTS OF DISCONTINUED OPERATIONS

(Prepared in accordance with Canadian GAAP)

FOR THE QUARTER ENDED JUNE 30, 2009 AND SUMMARY OF QUARTERLY RESULTS

Expressed in \$'000s'	June 30 2009 (unaudited)	March 31 2009 (unaudited)	December 31 2008 (unaudited)	September 30 2008 (unaudited)
Sales revenues				
Gold	19,630	7,898	10,813	11,955
Copper	12,865	1,898	809	3,557
	32,495	9,796	11,622	15,512
Cost of Sales				
Operating expenses	(13,956)	(12,010)	(14,809)	(20,631)
Selling and distribution costs	(1,479)	(382)	(1,300)	(2,215)
Depreciation, depletion and amortization	(99)	(100)	(7,369)	(4,523)
Accretion	(192)	(187)	(149)	(671)
	(15,726)	(12,679)	(23,627)	(28,040)
Other (expenses) income				
Impairment of Varvarinskoye assets	-	-	(179,441)	-
Unrealized derivative (losses)/ gains	504	(7,808)	18,176	28,271
Realized derivative (losses)	(7,204)	(7,685)	-	(9,231)
General & administration	(1,402)	(1,340)	(252)	(3,266)
Exploration costs	-	-	-	201
Interest expense	(2,577)	(2,903)	(4,216)	(1,183)
Interest income	-	1	13	1,141
Foreign exchange (losses) / gains	(88)	(2,637)	(177)	(1,685)
Loss on disposal of assets	(247)	-	-	-
Net gain/ (loss)/ profit before income tax	5,755	(25,255)	(177,902)	1,720
Recovery of income taxes	-	-	7,502	-
Net gain/ (loss) from discontinuing operations	5,755	(25,255)	(170,400)	1,720

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RESULTS OF DISCONTINUED OPERATIONS

(Prepared in accordance with Canadian GAAP)

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

Expressed in \$000s'	June 30 2008 (unaudited) (as restated)	March 31 2008 (unaudited) (as restated)	December 31 2007 (unaudited) (as restated)	September 30 2007 (unaudited) (as restated)
Sales revenues				
Gold	6,536	2,260	-	-
Copper	6,689	-		
	13,225	2,260	-	-
Cost of Sales				
Operating expenses	(8,784)	(916)	-	-
Selling and distribution costs	(1,316)	(49)	-	-
Depreciation, depletion and amortization	(4,189)	(3,802)	-	-
Accretion	-	-		
	(14,289)	(4,767)	-	-
Other (expenses) income				
Unrealized derivative gains / (losses)	(566)	(22,214)	(32,523)	(34,779)
Realized derivative (losses)	(5,081)	(6,251)	-	-
General & administration	(2,189)	(1,339)	-	-
Exploration costs	(432)	(432)	(315)	(74)
Interest expense	(1,659)	(1,256)	-	-
Interest income	2	30	218	429
Foreign exchange gains / (losses)	52	(81)	-	-
Net (loss) before income tax	(10,937)	(34,050)	(32,620)	(34,424)
Recovery of income taxes	-	-	1,820	-
Net (loss) from discontinuing operations	(10,937)	(34,050)	(30,800)	(34,424)

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FINANCIAL RESULTS FOR THE THREE MONTHS TO JUNE 30, 2009

For the three months to June 30, 2009 the Company made a net profit of \$2.7 million consisting of a net gain from discontinued operations of \$5.8 million offset by a net loss from continuing operations of \$3.1 million (net loss of \$28.3 million, for the three months to March 31 2009, and net loss of \$16.9 million for the three months June 30, 2008).

The net gain of \$5.8 million from discontinued operations comprised of a gross operating profit of \$16.8 million (losses for the three months to March 31 2009 and June 30, 2008 of \$2.9 million and \$1.1 million respectively) offset by net losses on derivatives of \$6.7 million (losses for the three months to March 31 2009 and June 30, 2008 of \$15.5 million and \$5.6 million respectively), with administration and other charges for discontinued operations of \$4.3 million (expenditure for the three months to March 31 2009 and June 30, 2008 of \$6.9 million and \$4.2 million respectively).

Net losses on continuing operations of \$3.1 million (losses for the three months to March 31 2009 and June 30, 2008 of \$3.0 million and \$6.0 million respectively) were due mainly to: head office general & administration charges (including legal and advisory fees pertaining to the Varvarinskoye disposition), exploration costs, and stock based compensation charges in respect of share options vesting during the quarter.

Revenues – discontinued operations

For the three months to June 30, 2009 the Company invoiced sales of \$34.6 million plus a future metal price settlement adjustment of \$0.9 million (using estimated final settlement price for copper per lb of \$2.27) less treatment and refining charges of \$3.0 million, resulting in reported revenues for the quarter of \$32.5 million (\$9.8 million for the quarter to March 31, 2009, and \$13.2 million, for the quarter to June 30, 2008).

The increase in sales during the quarter ended June 30, 2009 was due to the resumption of copper concentrate shipments to Trafigura during the quarter and full recovery of the revenues in the same period.

Cost of sales – discontinued operations

Costs of sales expenses were \$15.7 million during the quarter (\$12.6 million March 31, 2009 and \$14.3 million June 30, 2008).

The increase in the cost of sales of \$3.1 million for the three months to June 30, 2009 versus the prior quarter was primarily due to additional expenditure on processing consumables resulting in an increase in plant operating costs of \$1.9 million, and an increase in selling and distribution costs of \$1.1 million due to the resumption of copper concentrate shipments during the quarter to Trafigura.

Compared to cost of sales expenses in the same quarter for 2008, the cost of sales expenses increased during the quarter ended June 30, 2009 by an overall \$1.4 million due mainly to: higher mine, plant and site operating costs of \$5.1 million reflecting the increased level of mining and processing activity year-on-year; lower depreciation and amortisation charges during the quarter ended June 30, 2009 of \$3.9 million following the impairment of the Varvarinskoye assets at December 31, 2008.

Other (Expenses) Income

- **Derivative instruments – discontinued operations**

At June 30, 2009 the Company's derivative financial instruments were comprised solely of gold forward sales contracts.

For the three months ended June 30, 2009 the Company booked realised derivative losses of \$7.2 million (for the same period in 2008 – \$5.1 million) representing 20,308 ounces of gold, which remained unpaid at the end of the quarter.

The risk adjusted mark to market revaluation of the Company's derivative liabilities, from a strike price of \$574.25 per oz, as at June 30, 2009 at an average forward gold price of \$852 per oz and a risk adjusted rate for the Company in the range of 14% to 17% per annum, depending on the remaining term of the derivative liability contracts, gave rise to an unrealized derivative gain for the quarter of \$0.5 million (unadjusted unrealized loss for the same period in 2008 of \$0.5 million, unadjusted for the aforementioned Company's own credit risk).

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The Company had 330,160 ounces of forward gold sales remaining at a price of \$574.25 per ounce as at June 30, 2009 (409,808 remaining at June 30, 2008).

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

- **Administration charges**

Administration charges for the quarter were \$3.9 million, comprising \$2.5 million for continuing operations and \$1.4 million for discontinued operations. The charge of \$2.5 million for the quarter relating to continuing operations increased by \$1.0 million from the previous quarter due to legal and advisory fees pertaining to the Varvarinskoye disposition.

- **Interest expense and income**

The interest expense for discontinuing operations for the quarter was \$2.6 million compared with \$1.7 for the same period in 2008. The charge for the quarter was made up of amortised deferred finance costs of \$2.0 million (same period in 2008 - \$1.7 million) and \$0.6 million accrued interest (same period in 2008 – \$1.3 million) for the Varvarinskoye debt facility.

- **Foreign exchange losses**

On February 4, 2009, the Kazakhstan Tenge was devalued from an exchange rate to the US\$ of 120 Tenge to 150 Tenge. As a result of this devaluation, the Company recorded an exchange loss of \$2.6 million during the quarter ended March 31, 2009 for discontinued operations. The Company recorded a further exchange loss for the quarter of \$88,000 for discontinued operations.

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FINANCIAL RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2009

For the six months to June 30, 2009 the company made a net loss of \$25.6 million (net loss of loss \$55 million for the same period in 2008) consisting of a net loss from discontinued operations of \$19.5 million and a net loss from continuing operations of \$6.1 million.

The net loss of \$19.5 million from discontinued operations comprised of a gross operating profit of \$13.9 million (June 30, 2008 gross operating loss of \$3.6 million) offset by net losses on derivatives of \$22.2 million (June 30, 2008 loss of \$34.1 million), and administration and other charges for discontinued operations of \$11.2 million (June 30, 2008 \$7.3 million).

Net losses on continuing operations of \$6.1 million (June 30, 2008 of \$10 million) were due to head office administration and other charges.

Revenues – discontinued operations

For the six months to June 30, 2009 the Company invoiced sales of \$43.4 million plus a future metal price settlement adjustment of \$2.1 million less treatment and refining charges of \$3.2 million, resulting in reported revenues for the quarter of \$42.3 million (\$15.5 million for the six months to June 30, 2008). The settlement adjustments were calculated using estimated final settlement prices for copper per lb between \$2.26 -2.27 at the end of the quarter.

The sales of \$15.5 million for the six months to June 30, 2008, were pre-commercial production.

Cost of sales – discontinued operations

Costs of sales expenses were \$28.5 million for the six months to June 30, 2009, (\$19.1 million six months ended June 30, 2008).

The increase in the cost of sales of \$9.4 million was primarily due to higher mine, plant and site operating costs, \$16.3 million, and selling costs of \$0.5 million, incurred as a result of the mine operating at commercial production as opposed to being in project phase during the same period in 2008. This was partially offset by lower depreciation and amortisation charges of \$7.4 million following the impairment of the Varvarinskoye assets at December 31, 2008.

Other (Expenses) Income

- **Derivative instruments – discontinued operations**

At June 30, 2009 the Company's derivative financial instruments were comprised solely of gold forward sales contracts.

For the six months ended June 30, 2009 the Company booked realised derivative losses of \$7.3 million (for the period in 2008 – \$22.8 million) representing 42,308 ounces of gold, which remained unpaid at the end of the quarter.

The risk adjusted mark to market revaluation of the Company's derivative liabilities, from a strike price of \$574.25 per oz, as at June 30, 2009 at an average forward gold price of \$852 per oz and a risk adjusted rate for the Company in the range of 14% to 17% per annum, depending on the remaining term of the derivative liability contracts, gave rise to an unrealized derivative gain for the quarter of \$0.5 million (an unadjusted loss for the same period in 2008 of \$0.5 million).

The Company had 330,160 ounces of forward gold sales remaining at a price of \$574.25 per ounce as at June 30, 2009 (409,808 remaining at June 30, 2008).

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

- **Administration charges**

Administration charges were \$6.8 million for the six months to June 30, 2008, comprising \$4.1 million for continuing operations (\$5.3 million for the same period in 2008) and \$2.7 million for discontinued operations (\$3.5 million for the same period in 2008).

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For the continuing operations the lower administration charges are due to the higher legal and professional costs incurred for the acquisition of Lero in 2008.

- **Interest expense and income**
Interest expenses for the six months to June 30, 2009, were \$5.5 million compared with \$2.9 for the same period in 2008. The charges include amortised deferred finance costs of \$4.2 million (same period in 2008 - \$1.7 million) and \$1.3 million accrued interest (same period in 2008 – \$1.3 million) for the debt facility.
- **Foreign exchange losses**
On February 4, 2009, the Kazakhstan Tenge was devalued from an exchange rate to the US(\$) of 120 Tenge to 150 Tenge. As a result of this devaluation, the Company recorded an exchange loss of \$2.7 million during the six months to June 30, 2009 (for the same period in 2008, a loss of \$29,000).

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2009 the Company's main source of liquidity was unrestricted cash. In total the Company held \$7.0 million of unrestricted cash (December 31, 2008 \$7.8 million), of which \$2.3 million was held by continuing operations (December 31, 2008 \$6.2 million) and \$4.7 million held by discontinued operations (December 31, 2008 \$1.6 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 June 30, 2009, the Company's consolidated working capital was a deficit of \$152.8 million compared with a working capital deficit of \$4.2 million at June 30, 2008 and a deficit of \$68.7 million at December 31, 2008.

The movement between June 30, 2009 and June 30, 2008 of \$148.6 million was primarily due to: the classification of all Varvarinskoye lender debt as current (\$28 million movement); all derivative liabilities as current (\$78.2 million movement) and a reduction in short term inventory of \$8.7 million; an increase in accounts payable and accrued liabilities are \$4.8 million.

At December 31, 2008, the Company's consolidated working capital was a deficit of \$68.7 million, representing a decrease between quarter four of 2008 and quarter two of 2009 of \$84.2 million. The movement was primarily due to the classification of all derivative liabilities at the end of the quarter as current, \$82.4 million, and the reduction of short term inventory by \$2.7 million.

For the reasons stated in the Going Concern section of the MD&A the Company's working capital as at June 30, 2009 was insufficient to meet its debt, accounts payable and derivative obligations. In the event that the disposition of the Varvarinskoye Project does not proceed the potential impact upon the Company are described under the "Disposition of the Varvarinskoye Project" and in the "Risks and Uncertainties" sections of this MD&A.

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MD&A for the period ended June 30, 2009

GOING CONCERN

While the company's financial statements for the period ended June 30, 2009, 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 June 30, 2009, the Company had a working capital deficit of \$152.8 million, (December 31, 2008 - working capital deficit of \$68.7 million), accumulated losses of \$534 million (December 31, 2008 - \$541 million) and shareholders' deficiency of \$100 million (December 31, 2008 - shareholders' deficiency of \$109 million). At June 30, 2009 the Company was in default on payments as they fell due under the gold forward contract obligations and the hedge counterparties are entitled to terminate any open derivative positions and seek full repayment for all unsettled derivative obligations. For this reason all derivative liabilities have been classified as current liabilities at June 30, 2009, contributing to the increase in the Company's working capital deficit as at June 30, 2009 compared with December 31, 2008. In addition, the Company is subject to commitments and contingencies as set out in note 11 of the Company's financial statements.

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

The Company was unable to meet the first two repayment tranches under the long-term Debt Facility of \$16.65 million due on December 31, 2008 and \$19.4 million due on June 30, 2009, and payment of both tranches 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 additional 2009 scheduled repayment obligations, will remain in breach of its repayment terms and its Permitted Indebtedness covenants, and is likely to breach additional covenants of its long-term debt facility. Failure to remedy existing or future breaches and to comply with the debt repayment terms will entitle the Lenders to demand immediate repayment of all amounts owing (see note 6 of the Company's financial statements).

At June 30, 2009, the Company had an outstanding future obligation to settle 330,160 ounces of unmargined forward gold sales contracts at a strike price of \$574.25 per ounce, of which contracts for 38,018 ounces are due for settlement during the remainder of 2009. This future obligation has been valued on a credit adjusted mark to market basis at June 30, 2009 at \$91.8 million. The practice of the Company has been to settle the gold forward contracts as they fall due on the settlement date. Up to December 31, 2008, the Company had settled contract amounts totalling \$20.5 million as they fell due. However, the Company was unable to meet its gold forward contract settlement obligations due between January 2009 and July 2009 of \$14.9 million. Under the cross default terms of the debt facility, a default on payments as they fall due under the gold forward contract obligations entitles the Lenders to demand immediate repayment of all amounts owing under the term debt facility and entitles the hedging counterparties to terminate any open derivative positions (see note 7 of the Company's financial statements).

In the Company's view, the settlement of its future gold forward contract obligations and long-term debt repayments will continue to remain uncertain until such time as long term metal prices, and in particular copper prices, have recovered, Varvarinskoye operating costs have been reduced, Varvarinskoye is operating at maximum capacity, additional working capital has been secured and refinancing of the Varvarinskoye Project has been successfully concluded.

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While the Company had been working with the Lenders for several months to refinance the Varvarinskoye Project satisfactory arrangements were not reached and during this time the need for additional capital to fund the Varvarinskoye Project increased to an estimated \$15 million (comprised of \$5 million working capital and \$10 million for capital projects), required to maintain current operations at the Varvarinskoye Project and to achieve the current objectives and plans for the Varvarinskoye Project.

Due to the length of time that continued discussions with the Lenders required, and in light of the lack of refinancing alternatives generally available to the Company as a result of the current global credit and equity market conditions and the Company's continuing defaults, and with the desire to maximize shareholder value in the face of alternative scenarios, the Company entered into a sale and purchase agreement dated June 13, 2009 with Polymetal, a Russian-based mining company, pursuant to which the Company has agreed, subject to certain conditions, to sell to Polymetal all of its interest and obligations in the Varvarinskoye Project.

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 previous ongoing refinancing discussions with the Company and, more recently, due to the ongoing discussions with the Company and Polymetal regarding the sale of the Varvarinskoye Project.

In the event that the disposition of the Varvarinskoye Project does not proceed, the Company will be forced to consider other alternatives (some or all of which may not be possible), including:

- (a) continuing its discussions with the Lenders in order to arrive at a mutually acceptable solution in respect of the Varvarinskoye Project Debt;
- (b) raising funds from equity or mezzanine finance sources; and
- (c) suspending operations at the Varvarinskoye Project to attempt to mitigate further liabilities while searching for other sale or financing alternatives to preserve shareholder value.

In the event that the sale of the Varvarinskoye Project does not proceed and alternative sources of financing cannot be secured in a timely manner to satisfy the Company's obligations under the Debt Facility and the Hedge Contracts, the Lenders may, at their discretion, demand immediate repayment of all amounts owing and enforce their security (which includes share and asset pledges covering the Varvarinskoye Project). In addition, the default provisions under the Hedge Contracts entitle the hedging counterparties to terminate any open derivative positions and seek full repayment for all unsettled derivative obligations. If any such action is taken by either the Lenders or the counterparties, this could result in the Company losing its interest in the Varvarinskoye Project.

The Company anticipates that, in the absence of additional waivers or modification of the terms of the Debt Facility, it will remain unable to meet its 2009 scheduled repayment obligations, will remain in breach of its repayment terms and the Permitted Indebtedness Covenants, and is likely to breach additional covenants under the Debt Facility. While the Company has been successful in the past in renegotiating the Debt Facility and modifying the repayment and forward contract obligation terms there under, there can be no assurance that it will be successful in doing so in the future.

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COMMITMENTS

The following table summarises the commitments of the Company as at June 30, 2009:

	2009 '000 \$	2010 '000 \$	2011 '000 \$	2012 '000 \$	2013 + '000 \$	Total '000 \$
Long-term debt (discontinued operations)	60,296	-	-	-	-	60,296
Derivative liabilities (discontinued operations)	28,432	29,176	28,091	23,780	29,520	138,999
Lease obligations (continued operations)	110	-	-	-	-	110

RELATED PARTY TRANSACTIONS

For the six months ended June 30, 2009 and 2008, 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 \$41,259 (2008 - \$1,573,638) in respect of the provision of office facilities, general office overheads and re-charged costs incurred on behalf of the Company, all such costs ceasing as at March 31, 2009. A former Chairman and director of the Company, beneficially owns DIS.

Endeavour Financial Corp ("EFC") charged the Company a total of \$126,463 (2008 - \$3,612,391) in respect of the provision of debt restructuring and consulting services. A former Chairman and director of the Company, is a shareholder of EFC.

During the period ended June 30, 2009 the Company was charged \$203,231 (2008 - \$110,000) for rent and service charges from Oriel PLC a company for whom the Executive Chairman was a former director (whom resigned September 19 2008).

As at June 30, 2009, a total of \$21,371 (2008 - \$30,000) for related parties has been included in accounts payable.

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.

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Joint ventures

The Company did not account for any joint venture interests during the second quarter of 2009 nor during 2008. However, the agreement signed in December 2008 with Gold Fields 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.

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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.

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CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2009, the Company adopted the following new CICA Accounting Standards:

Accounting changes

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.

Prior to the adoption of Section 3064, the Company capitalised revenues and expenses for production activities up to June 30, 2008. The Company adopted the revised guidance effective from January 1, 2009 and the impact of adopting this section on a retrospective basis is summarized below for the six months ended June 30, 2008:

Consolidated property, plant and equipment as at June 30, 2008

	Previously reported as at June 30 2008	Adjustments on adoption of CICA 3064	Restated
Mining property and development costs - JSCV	48,811	(9,584)	39,227
Mineral property acquired - Lero	153,309	-	153,309
Property, plant and equipment	204,455	-	204,455
	406,575	(9,584)	396,991
Accumulated depreciation	(17,985)	-	(17,985)
	388,590	(9,584)	379,006

Consolidated Statements of Operations, Comprehensive Loss and Deficit for the six months ended June 30, 2008

	Previously reported as at June 30 2008	Adjustments on adoption of CICA 3064	Restated
Sales revenues			
Gold	-	8,795	8,795
Copper	-	6,688	6,688
Cost of sales			
Operating expenses	-	(9,729)	(9,729)
Selling and distribution costs	-	(1,364)	(1,364)
Depreciation	-	(8,009)	(8,009)
Other expenses			
General and administrative	(9,800)	(3,185)	(12,985)
Interest paid	(181)	(2,780)	(2,961)
All other expenses	(35,422)	-	(35,422)
	(45,403)	(9,584)	(54,987)
Deficit beginning of the year	(217,955)	(9,584)	(227,539)
Basic and diluted loss per share	\$(0.14)	\$(0.03)	\$(0.18)

New accounting pronouncements

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

Effective January 1, 2009, the Company adopted EIC Abstract 173, Credit Risk and Fair Value of Financial Assets and Financial Liabilities ("EIC 173") which requires that an entity's own credit risk and the credit risk of the counterparty to a financial instrument should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. The guidance requires that the change in accounting be applied at the beginning of the period on a retroactive basis, without restatement of prior periods.

As a result of the implementation of the guidance in EIC-173, the opening deficit and derivative liabilities as at January 1, 2009 have each been reduced by \$32.5 million to recognize a risk adjusted rate for the Company in the range of 14% to 17% per annum, depending on the remaining term of the derivative liability contracts. Changes in the fair value of other financial liabilities and financial assets as a result of the application of EIC-173 are not considered to be significant due to the relative size and/or expected duration of these financial instruments.

Note 19 of the Company's financial statements, Credit Risk, sets out the potential impact on the fair value of the derivative liabilities in a change in the Company's own credit risk if different assumptions were used to reflect the Company's own credit risk.

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

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

Cash and cash equivalents

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

Inventories

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

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

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

Mineral property and development costs

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

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

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

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

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

The Company reviews and evaluates its mineral property and development assets for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment is considered to exist if the total future undiscounted cash flows are less than the carrying amount of the assets. Estimated future undiscounted cash flows are prepared taking into account estimated future production levels, commodity prices, operating costs, capital costs, reclamation and closure costs.

Where estimates of future net cash flows are not available and where other conditions suggest impairment, management assesses whether the carrying value can be recovered. If an impairment is identified, the carrying value of the property is written down to its estimated fair value. Although the company has taken steps to verify title to mineral properties in which it has an interest, according to industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Such properties may be subject to prior undetected agreements or transfers and title may be affected by such defects.

Property, plant and equipment

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

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

As mentioned in note 2, "Going Concern", the remaining life of the Varvarinskoye mine is estimated to be 8 years from January 1, 2009. As a result from January 1 2009 the company revised depreciation lives of its assets as set out below:

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

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.

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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 and adjusted for the Company's own credit risk.

Incentive stock option plan

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

Earnings (loss) per share

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

CORE ASSETS

Subject to the completion of its sale to Polymetal, Orsu's principal asset is the Varvarinskoye Project. Orsu's other exploration and development projects include the Karchiga Volcanogenic Massive Sulphide ("VMS") deposit in Kazakhstan and the Talas and Tokhtazan exploration licence areas in Kyrgyzstan.

- **Varvarinskoye Gold-Copper Mine, Kazakhstan** – The Varvarinskoye Project is located in north west Kazakhstan and commenced production of gold doré in December 2007 and copper-gold concentrate in March 2008. In the second quarter of 2009, the Varvarinskoye Project produced a total of 527,634 grams (16,939 troy oz) of gold and 1,547 tonnes of copper recovered to concentrate, compared to a total of 423,627 grams (13,599 troy oz) of gold and 1,743 tonnes of copper recovered to concentrate during first quarter of 2009. In January 2009, the Company completed an updated mine plan, including updated mineral reserve and mineral resource estimates, for the Varvarinskoye Project. 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 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 under the Company's profile on SEDAR at www.sedar.com. Further discussion about the Varvarinskoye Project can be found on pages 5 and 10 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 completed 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. 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. Further discussion about the Talas licence area can be found on page 31 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 33 of this MD&A.
- **Karchiga Copper Project, Kazakhstan** – The ("Karchiga" or the "Karchiga Project") 47.3km² 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. 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. Further discussion about the Karchiga Project can be found on page 34 of this MD&A.

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Qualified Person

Mr Matthew Boyes, who is Mineral Resources Manager for Orsu, and a "qualified person" (as such term is defined in National Instrument 43-101) has reviewed and approved the technical information in this MD&A. Mr Boyes has verified the data disclosed in this MD&A in respect of exploration results, including sampling and analytical data underlying the information.

REVIEW OF OPERATIONS

VARVARINSKOYE GOLD-COPPER MINE, KAZAKHSTAN

Pending completion of the sale of Varvarinskoye to Polymetal, Orsu has continued operations at Varvarinskoye.

The Varvarinskoye Project is located 130 km southwest of Kostanai in northern Kazakhstan. The mine produces for sale gold doré and copper-gold concentrate.

Mining and Processing Operations

During the second quarter of 2009, the grinding circuits operated normally. Although throughput within the leach circuit was hampered by worn lifters in the semi-autogenous grinding ("SAG") mill, throughput achieved in both the leach and flotation circuits during this quarter was higher than in any previous quarter.

Gold production during the second quarter of 2009 surpassed that produced in any previous quarter with 527,634 grams or just less than 17,000 troy ounces. Limitations in throughput caused by design deficiencies continue to limit Varvarinskoye's gold production. During the quarter, copper production was recorded at 1,547 tonnes contained in concentrate which was lower than Q1 2009 and Q4 2008. This reduced production was due to the before-mentioned lower throughput within the flotation circuit while the grinding circuits operated in normal mode.

At certain times within the previous two quarters, the flotation circuit throughput was higher than this period due the use of the large grinding circuit normally used for the leach circuit. To enable mine management to meet forecast operating profit, the grinding circuits may at times be switched to maximise the throughput in the flotation circuit which generates higher return per tonne of ore. This would allow higher concentrate production compared to what would be achieved by simply operating the regular circuits. The circuits have been switched according to feed available from the mine. Copper feed grade during the second quarter of 2009 was high at 0.98% Cu.

Mining during the second quarter of 2009 continued to be hampered by poor availability of equipment. In addition to the two large RH120 excavators being down a total of 800 hours, the 992 loader and the 385 excavators were also down a total of 1,300 hours, so reducing the availability of the loading fleet by 25%. Major repairs and overhauls were conducted on all of these units. Availability of trucks was also low during the quarter due to a lack of available replacement tires. Mining was also hampered due to a lack of required drills. Two new blast hole drills were shipped from the U.S.A. during the quarter.

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Second Quarter 2009 Production

During the second quarter of 2009, the plant processed a total of 778,792 tonnes of ore.

A total of 527,634 grams (16,964 troy oz) of gold was produced during the second quarter of 2009, compared to 423,627 grams (13,620 troy oz) in the first quarter of 2009. Gold grade of feed to the flotation circuit during the second quarter of 2009 was 1.25 g/t compared to 1.21 g/t in the first. Copper production during the second quarter was 1,547 tonnes compared to 1,743 tonnes in the first quarter. Copper feed grade to the flotation circuit was 0.98% during the quarter compared to 0.91% in the first quarter. Gold feed grade to the leach circuit was 0.88 g/t in the quarter compared to 0.94 g/t in the first quarter.

Table 1: Varvarinskoye Operating Statistics:

Varvarinskoye Production	2 nd Quarter 2009	1 st Quarter 2009	4 th Quarter 2008	3 rd Quarter 2008	2 nd Quarter 2008	1 st Quarter 2008
Mining						
Total mined tonnes	4,256,358	3,672,800	4,281,200	3,930,900	2,319,200	2,738,400
Processing						
Flotation						
Processed tonnes	188,695	239,994	295,663	187,603	184,948	62,698
Grade Cu %	0.98%	0.91%	0.84%	0.72%	0.99%	0.46%
Grade Au g/t	1.25	1.21	1.09	1.11	1.64	0.66
Recovery Cu to concentrate %	83.5%	80.2%	79.3%	82.0%	68.9%	57.6%
Recovery Au to concentrate %	59.2%	50.7%	49.5%	59.0%	51.3%	49.9%
Leach						
Processed tonnes	590,097	380,513	391,164	581,060	449,537	173,308
Grade Au g/t	0.88	0.94	0.83	0.61	0.60	0.79
Recovery Au (onto carbon) %	73.1%	75.1%	74.3%	69.5%	66.3%	68.6%
Metal Produced						
Concentrate tonnes	7,779	9,608	10,334	6,036	6,497	1,105
Cu recovered to concentrate tonnes	1,547	1,743	1,962	1,106	1,259	166
Total gold produced grams	527,634	423,627	416,175	375,022	349,522	122,979
Total gold produced ounces	16,964	13,620	13,380	12,057	11,237	3,954

Low Cost Project Upgrade

The Company had planned to expand the Varvarinskoye processing plant during 2009 with the addition of a secondary low cost screening and crushing plant which was expected to significantly increase throughput in the leach and flotation grinding circuits. However, no progress has been made on the project during the initiative to date due to a lack of available capital funds needed to progress it, as well as the pending sale of Varvarinskoye to Polymetal. Construction of the project has, accordingly, been suspended. This suspension will have an impact on forward-looking gold and copper production.

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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 LICENCE AREA, KYRGYZSTAN

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

For avoidance of confusion;

1. The Taldybulak-Talas copper-gold porphyry prospect within the Taldybulak-Talas 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-Talas licence, is a separate company from Talas Gold Mining Company, which was the owner of the Jerooy Gold Project.

TALDYBULAK-TALAS LICENCE

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

Targeted Mineralisation

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

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-Talas, 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, Gold Fields is due to complete an in-house scoping study of the Taldybulak-Talas deposit in the Taldybulak licence 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.

Exploration Update

The previously announced 2008 / 2009 drilling programme which is intended to better delineate the extent and geometry at Taldybulak Central and assess the additional tonnage potential through the testing of peripheral targets of the central high grade core is underway. An overall exploration expenditure of CAD\$7.8 million is budgeted for the exploration of the Talas exploration area in 2009, all of which will be funded by Gold Fields.

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Table 2: Proposed 2008-2009 Drilling Programme Within the Taldybulak-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

As at the date of this MD&A, a total of 14,881m have been drilled, representing 88% of the initially planned 17,000m drill programme. A total of 11,572 samples have been delivered to the Alex Stewart laboratory, (Karabalta, Kyrgyzstan) for elemental analysis, of which 11,442 assay results or 98% of submitted samples have been received. For on-going core sampling, 9,599 samples have been delivered to the lab for elemental analysis with full results for 9,469 samples (98.6%).

BARKOL LICENCE

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

Targeted Mineralisation

Copper-gold porphyry mineralisation

Exploration Update

During the first quarter of 2009, the Company undertook limited drill testing and further geophysical investigations within the Barkol licence area. During 2009, the Company is planning following up of anomalies detected during the 2007 induced polarisation ("IP") geophysical survey and soil geochemical sampling programmes.

Regional exploration work was undertaken within the second quarter of 2009 and included the assessment of several new exploration prospects within the Barkol licence. Several new valid prospects were recognised within the north western corner of the Barkol-Chonur area and occur in the same structure as the Taldybulak prospect. Further assessment of these areas is scheduled for the second half of 2009.

KORGONTASH LICENCE

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

Targeted Mineralisation

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

Exploration Update

In the third quarter of 2008, a 15 km² 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 for 2009.

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KENTASH LICENCE

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

Targeted Mineralisation

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

Exploration Update

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.

During 2007 Lero completed a widely-spaced soil geochemical survey over the entire Kentash licence which returned gold, copper and molybdenum anomalies within three areas. In addition, a widely-spaced IP survey during 2007 revealed chargeability anomalies in the central part of the licence. These anomalies are due to be further assessed during 2009.

During the third quarter of 2008 three pole-dipole induced polarisation ("PD-IP") lines totalling 9.55 km 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 is due to be undertaken during 2009 to ascertain if any new geochemical targets can be identified. During Q1 2009, the Company undertook limited drill testing of the licence area.

TOKHTAZAN EXPLORATION LICENCE AREA, KYRGYZSTAN

Tokhtazan Licence

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

Exploration Update

Within the 2008 / 2009 exploration programme, works undertaken within the Tokhtazan licence included 1,540 m³ of trenching and road cutting, with 640 samples being collected.

In total, 3,102 samples have been delivered to the Alex Stewart laboratory, (Karabalta, Kyrgyzstan) for analysis. All core drilled has been sampled and all results received for diamond drilling.

An exploration programme including trenching, geophysics and drilling, is being implemented for the Tokhtazan project area. In 2009, the Company has a work commitment to drill 2,200m within the licence.

Akdjol Licence

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

Exploration Update

Within the ongoing 2008 / 2009 exploration programme, the Company performed 3,140 m³ of trenching and road cut sampling, with some 2,532 samples collected. The 2008 works identified a previously unknown Cu-Au anomalous zone.

An exploration programme including trenching, geophysics and drilling, is being implemented for the Akdjol project area. In 2009, the Company has a work commitment to drill 1,000m within the licence.

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KARCHIGA EXPLORATION LICENCE, KAZAKHSTAN

Karchiga Project
(70% owned by Orsu via GRK MLD LLP)

Targeted Mineralisation
Copper VMS

Exploration Update

Drilling works within the 2008 / 2009 exploration programme focused on the Central and North East lodes of the Karchiga Project. 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.

Further to information provided within the first quarter 2009 MD&A metallurgical test work on Karchiga sulphide ores is continuing. Orsu will provide an update in due course.

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, financial condition and results of operations. They should also be considered in connection with any forward looking information contained in this document and the related cautionary information at the end of this document.

The risk factors include risks associated with fulfilling all conditions precedent to the completion of the disposition of the Varvarinskoye Project namely; either of Orsu or Polymetal failing to obtain the necessary regulatory consents from the Kazakhstan authorities; the various refinancing arrangements contemplated and required in connection with the sale are not entered into by each of JSCV, Polymetal and the Lenders as well as agreements between the Company and the Lenders (among others) providing for the unconditional release of the Company from its obligations under the Varvarinskoye Project Debt and to effect the novation of the Hedge Contracts to Three K); the failure to relevant or required party to enter into any standstill/waiver agreement in respect of the rights of the Lenders under the Varvarinskoye Project Debt; the Lenders take enforcement action in relation to the Varvarinskoye Project Debt; ECIC not approving the disposition of the Varvarinskoye Project; a material breach by the Company of any of its obligations under the SPA; there having been, as at the time of closing, no material breach by the Company under the SPA of certain specified key warranties relating to (among other things) the title of the shares of Three K to be sold in connection with the disposition, the validity of the relevant licences and related matters, certain tax matters and/or insolvency; the occurrence of no business interruption that results in the material suspension, cessation or discontinuation of day-to-day mining operations at the Varvarinskoye Project owing to a mechanical or technical fault or failure of any plant, equipment or infrastructure that is incapable of being repaired or replaced within a specified time period required by the SPA or without capital expenditure in excess of an amount specified in the SPA; and failure to obtain the approval of the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan of certain proposed amendments to the existing subsoil use contract relating to the Varvarinskoye Project.

In the event that the sale of Varvarinskoye does not proceed, additional risks will include: the Company being unsuccessful in resuming its discussions with the Lenders in order to arrive at a mutually acceptable solution in respect of the Varvarinskoye Project Debt; the Company's inability to raise funds from equity or mezzanine finance sources; and the Company being required to suspend operations at the Varvarinskoye Project to attempt to mitigate further liabilities while searching for other sale or financing alternatives to preserve shareholder value.

Additional risks relating to the Company and its operations, generally, include the estimate of mineral reserves, mineral resources and current or potential 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 and copper and foreign currency fluctuations; and the inability to economically or fully insure against certain risks. The Company is also subject to a number of risk factors due to the nature of the resource business in which it is engaged. The Company seeks to counter these risks as much as possible by selecting exploration, production and development areas on the basis of their recognised geological, production and potential to host economic returns.

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Disposition of the Varvarinskoye Project not proceeding

In the event that the sale of Varvarinskoye does not proceed to completion for any reason, the Company will be forced to consider other alternatives (some or all of which may not be possible), including:

- a) resuming its discussions with the Lenders in order to arrive at a mutually acceptable solution in respect of the Varvarinskoye Project Debt;
- b) raising funds from equity or mezzanine finance sources; and
- c) suspending operations at the Varvarinskoye Project to attempt to mitigate further liabilities while searching for other sale or financing alternatives to preserve shareholder value.

In the event that alternative sources of financing cannot be secured in a timely manner to satisfy the Company's obligations under the Debt Facility and the Hedge Contracts, the Lenders may, at their discretion, demand immediate repayment of all amounts owing and enforce their security (which includes share and asset pledges covering the Varvarinskoye Project) under the Varvarinskoye Project Debt. In addition, the default provisions under the Hedge Contracts entitle the hedging counterparties to terminate any open derivative positions and seek full repayment for all unsettled derivative obligations. If any such action is taken by either the Lenders or the counterparties, this could result in the Company losing its interest in the Varvarinskoye Project.

The Company anticipates that, in the absence of additional waivers or modification of the terms of the Debt Facility, it will remain unable to satisfy its outstanding repayment obligations and to meet its additional 2009 scheduled repayment obligations due June 30, 2009, will remain in breach of its repayment terms and the Permitted Indebtedness Covenants, and is likely to breach additional covenants under the Debt Facility. While the Company has been successful in the past in renegotiating the Debt Facility and modifying the repayment and forward contract obligation terms there under, there can be no assurance that it will be successful in doing so in the future.

The Board considers the viable alternatives to the disposition of the Varvarinskoye Project to be limited due to the current status of the Varvarinskoye Project Debt, the limited equity and mezzanine finance markets for mining exploration companies at the present time and the Company's current working capital position.

Risks Associated with Debt Facility

The 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 collateralised by the assets of JSCV. The covenants of the Debt Facility require the Company to deposit cash balances in restricted accounts, to remain below the Company's 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 June 30, 2009 the Company remained in breach of its debt repayment covenants (as previously reported at December 31, 2008) and was 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 two quarters of 2009. 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 sale of Varvarinskoye is not completed and the Company is not able to restructure the Debt Facility and the Company is unable to meet its past and future outstanding hedge and debt commitments or otherwise breaches its covenants under the Debt Facility and the Hedge Contracts 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 Hedge Contracts 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 Hedge Contracts, 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 without any payment for such interest.

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The participation of the 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 is in breach of its covenants under the Debt Facility and fails 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. Disclose status of withdrawal or intention for ECIC

There can be no assurance that the Company will be able to remedy the current breaches and/or any future breaches and/or obtain any requisite waiver or deferral from the Lenders in respect of any such future breaches.

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 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 are 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 are 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 current or future commercial production to be uneconomic. Depending on the price of precious or base metals, cash flow from mining operations may not be sufficient. A decline in the market price of precious and base metal may render ore reserves containing relatively lower grades of mineralisation uneconomic.

Credit Risk

The Company's credit risk is primarily attributable to accounts receivable and derivative liabilities.

Accounts receivable

As at June 30 2009, the Company had a single off take contract for its copper concentrate sales (Trafigura) and another for its gold Dore sales (Metalor Technologies S.A., "Metalor"). The Company takes all reasonable measures to ensure that the off takers are financially stable and able to fulfil their contractual obligations. During the first quarter of 2009, the Company suspended shipments of copper concentrate whilst the off take contract with Trafigura was re-negotiated which resulted in reduced first quarter revenues. The Company successfully agreed revised terms with Trafigura during the second quarter of 2009 and had resumed shipments of copper concentrate to have fully recovered revenues in the same period.

Derivative liabilities

The Company's derivative liabilities are monthly US dollar unmargined flat forward gold sales contracts over a term of 8 years ending June 2014.

Effective January 1, 2009, the Company adopted EIC Abstract 173, Credit Risk and Fair Value of Financial Assets and Financial Liabilities ("EIC 173") which requires that an entity's own credit risk be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. As a result of the implementation of the guidance in EIC-173 the Company has used a risk adjusted rate for the Company in the range of 14% to 17% per annum in the valuation of its derivative liabilities, depending on the remaining term of the derivative liability contracts.

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.

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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 recognising the natural hedge arising from floating rate deposits.

Limited Operating History

Following the completion of the sale of the Varvarinskoye Project, which has only recently reached commercial production levels, the Company will no longer have mining and/or production operations and will focus its activities and resources towards the exploration and development of its other (exploration) properties and projects and 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 or raise new funds required for 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 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 relies 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.

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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. 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.

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. 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.

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.

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

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

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 planned disposition of the Varvarinskoye Project and related debt obligations; the structure and timing of the proposed sale of the Varvarinskoye Project to Polymetal and the other transactions contemplated in connection therewith, including (but not limited to) the novation of the Hedge Contracts, the release of the Company as guarantor under the Varvarinskoye Project Debt, the inter-company debt reorganization, the acquisition by Polymetal of all of the issued and outstanding share capital of Three K, the transfer of Three K's subsidiaries; the ability of the Company to ensure that the business of JSCV is conducted in the ordinary course of business until completion of the disposition of the Varvarinskoye Project; the Company's intended use of the proceeds raised from the sale of the Varvarinskoye Project; anticipated alternatives in the event that the disposition of the Varvarinskoye Project does not proceed (including, the ability to resume discussions with the Lenders and arrive at a mutually acceptable solution in respect of the Varvarinskoye Project Debt, raise alternative funds, and suspend operations at Varvarinskoye and the effect that same would have on further liabilities); the consequences of failing to proceed with the sale of the Varvarinskoye Project or obtaining other sources of financing; the possibility of the Company losing its interest in the Varvarinskoye Project; the Board's expectations with respect to the viability of alternatives to the disposition of the Varvarinskoye Project; estimates relating to the level of additional capital required to maintain continued operations at the Varvarinskoye Project and to achieve current plans and objectives; the Company's estimate that the Varvarinskoye Hedge represents approximately 57% of the gold production during the remaining term of the Debt Facility and 28% of the current estimate of probable reserves of gold at Varvarinskoye; the impact of suspended construction on copper and gold production at Varvarinskoye; estimates relating to the final settlement prices of copper; the ability of the Company to meet its obligations as they become due and to generate sufficient cash flows from mining operations to meet its obligations; the estimated life of mine of Varvarinskoye and reductions in respect thereof as well as the expected lives of its assets; the Company's expectations with respect to its planned operations during 2009 and its projects; the anticipated timing for completion of the Taldybulak-Talas scoping study; completion of the follow-up work at Korgontash; the expected timing of the commencement of investigations of the anomalies identified at Barkol and Kentash; development and operational plans and objectives; the Company's expectation of financial support and the timing amount and use of same with respect to the joint venture agreement Gold Fields with respect to the Barkol, Kentash, Taldybulak and Korgontash licences; the potential for additional mineralisation and deep-seated magnetic (intrusion) at Korgontash; the proposed work programs for the Company's exploration properties and their respective timing; the proposed meters to be drilled at Taldybulak; the potential for further occurrences of mineralization at Kentash; the planned comprehensive review at Kentash to determine if new geochemical targets can be identified; expectations regarding the upgrading of the mineral resource categories of the Karchiga Project to Measured and Indicated; the potential for a joint venture with Gold Fields; the timing and planned provision of an update regarding metallurgical test-work at Karchiga; inaction by the Lenders in respect of the Company's defaults under the Debt Facility; the Company's forecast that, in the absence of additional waivers or modifications of the terms of the Debt Facility, it will be unable to meet its scheduled repayment terms, will remain in breach of its repayment obligation and Permitted Indebtedness Covenants and is likely to breach additional covenants; current long-term copper and gold pricing forecasts; the impact of certain changes in accounting policies; estimates relating to critical accounting policies; the Company's plans with respect to the conversion to IFRS, including the Company's expected timing for implementing same and the development of an effective plan; the continuation of assessments relating to resource and training requirements; the Company's plans with respect to the preparation of more complete disclosure of the implementation of IFRS exceptions and exemptions as well as the impact of IFRS on amongst other things the Company's accounting policies, information technology and data systems; and the Company's plans for adopting and/or implementing changes to accounting policies; and the Company's expectations with respect to pursuing new opportunities.

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 treatment of the Varvarinskoye Project as discontinued operations, the satisfaction or waiver of the conditions precedent to the disposition of the Varvarinskoye Project, ability to continue refinancing discussions with the Lenders, the prospects of raising funds from equity or mezzanine finance sources, the viability of alternatives to the sale of the Varvarinskoye Project, the Company's ability to generate sufficient cash flow from operations and capital markets to meet its future obligations following the disposition of the

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Varvarinskoye Project, the effectiveness of the Company's design relating to the implementation, the duration of the Company's financial instruments and other assumptions relating to the Company's critical accounting policies, the regulatory framework in Kazakhstan and Kyrgyzstan with respect to, among other things, permits, licences, authorisations, royalties, taxes and environmental matters, 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; capital and operating costs varying significantly from estimates; inflation; changes in exchange and interest rates; adverse changes in commodity prices; the ability to obtain required financing; adverse general market conditions; the Company's inability to complete the transaction with Polymetal for any reason whatsoever, including (but not limited to) as a result of the parties failing to satisfy all conditions precedent to the completion of the sale, including (but not limited to) the parties' respective ability to obtain all required regulatory approvals, the failure to enter into a definitive arrangement with the Lenders with respect to the restructuring of payments under the Debt Facility and Hedge Contracts, the failure to obtain the approval of the disposition of the Varvarinskoye Project from ECIC or to meet any of the other conditions to the completion of the proposed transactions; the inherent risks associated with the use of derivatives; inability to delineate additional mineral resources or reserves; future unforeseen liabilities 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 mineral resource and mineral reserve estimates in respect of its properties are well established, by their nature mineral resource and mineral reserve estimates are imprecise and depend, to a certain extent, upon statistical inferences which may ultimately prove unreliable. If such mineral reserve and mineral resource estimates are inaccurate or are reduced in the future, this could have a material adverse impact on the Company. Due to the uncertainty that may be attached to inferred mineral resources, it cannot be assumed that all or any part of an inferred mineral resource will be upgraded to an indicated or measured mineral resource as a result of continued exploration.

Additional information about the risks and uncertainties of the Company's business is provided in its disclosure materials, including its Annual Information Form, dated April 24, 2009 (the "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 Director of Exploration acting as Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. The Company has performed an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings). Based on that evaluation, the Chief 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 June 30, 2009.

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 June 30, 2009 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 made to the Company's ICFR during the period ended June 30, 2009 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

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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 August 13, 2009:

Outstanding Securities	Number in issue
Common shares of no par value ("Shares")	456,959,226
Share purchase options ⁽¹⁾	36,250,000
Share purchase warrants ⁽²⁾	128,547,520

Note:

1. Up to 36,250,000 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