Orsu Metals Corporation

Consolidated Financial Statements

September 30, 2008 and 2007 (Unaudited)
(in thousands of U.S. dollars)

Notice to Reader

The accompanying unaudited consolidated financial statements of Orsu Metals Corporation ("the Company") have been prepared by and are the responsibility of the Company's Management. The Company's independent auditor has not performed a review of the Company's unaudited interim consolidated financial statements as at, and for the quarter and nine month period ended, September 30, 2008.

All the figures are presented in US ($) dollars, unless stated in Canadian dollars which is shown by CAD($).

Orsu Metals Corporation

Consolidated Balance Sheets

As at September 30, 2008 (Unaudited) and December 31, 2007

	Notes	**September 30 2008 $000**	December 31 2007 $000
ASSETS			
Current assets			
Cash and cash equivalents	5.c	**17,851**	25,250
Inventory	6	**26,342**	18,738
Accounts receivable and prepaid expenses	5.c	**6,187**	1,032
		50,380	45,020
Restricted cash		**71**	127
Property, plant and equipment	8	**384,644**	220,476
Net investment in oil and gas residual interests	9	**1,364**	1,364
Contractor advances	7	**3,650**	4,180
		440,109	271,167
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	5.c	**21,423**	14,140
Current portion of-long term debt	10	**30,654**	32,475
Current portion of derivative liabilities	11	**19,443**	19,185
		71,520	65,800
Long-term debt	10	**22,320**	17,645
Derivative liabilities	11	**115,727**	121,436
Future income tax		**53,964**	6,705
Asset retirement obligations		**12,060**	11,388
		275,591	222,974
SHAREHOLDERS' EQUITY			
Share capital	12(a)	**361,306**	204,553
Share purchase warrants	12(b)	**49,534**	46,629
Share purchase options	12(c)	**18,370**	13,567
Contributed surplus	14	**1,956**	1,399
Translation reserve		**754**	-
Retained losses		**(267,402)**	(217,955)
		164,518	48,193
		440,109	271,167

Going concern (Note 2)
Measurement uncertainty (Note 3)

Approved on behalf of the Board:

"Sergey Kurzin" Executive Chairman

"Alexander Yakubchuk" Director

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

Orsu Metals Corporation

Consolidated Statements of Operations, Comprehensive Loss and Deficit

For the periods ended September 30, 2008 and September 30, 2007 (Unaudited)

	Note	Three months ended September 30		Nine months ended September 30	
		2008	2007	**2008**	2007
		$000	$000	**$000**	$000
Sales revenues					
Gold		**11,955**	-	**11,955**	-
Copper		**3,557**	-	**3,557**	-
	5.c, 18	**15,512**	-	**15,512**	-
Cost of sales					
Operating expenses	6	**(20,603)**	-	**(20,603)**	-
Selling and distribution costs		**(2,215)**	-	**(2,215)**	-
Depreciation, depletion and amortization	8	**(4,560)**	-	**(4,560)**	-
Accretion		**(311)**	-	**(671)**	-
		(27,689)	-	**(28,049)**	-
Other (expenses) income					
Unrealised derivative gains/ (loss)	11	**28,271**	(34,779)	**5,451**	(38,457)
Realised derivative (losses)/gains	11	**(9,219)**	-	**(20,512)**	-
General and administrative		**(4,885)**	(1,626)	**(14,160)**	(4,740)
Exploration and development	18	**(2,770)**	(74)	**(3,694)**	(343)
Stock based compensation	13	**(1,580)**	(417)	**(1,744)**	(2,861)
Interest and finance fees		**(1,094)**	-	**(1,531)**	-
Interest income	7	**1,132**	429	**1,387**	1,123
Foreign exchange (losses)/ gains		**(1,678)**	723	**(2,064)**	432
		8,177	(35,744)	**(36,867)**	(44,846)
Net loss before income tax		**(4,000)**	(35,744)	**(49,404)**	(44,846)
Future income tax		**(3)**	-	**(43)**	300
Net loss and comprehensive loss for the period		**(4,003)**	(35,744)	**(49,447)**	(44,546)
Retained loss – Beginning of period		**(263,399)**	(79,526)	**(217,955)**	(70,724)
Transitional Adjustment		**-**	(69,641)	**-**	(69,641)
Retained loss - End of period		**(267,402)**	(184,911)	**(267,402)**	(184,911)
Loss per share per common share		**$(0.01)**	$(0.13)	**$(0.16)**	$(0.16)
Weighted average number of common shares (000's) – Basic & diluted		**310,152**	279,764	**310,152**	279,717

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

Orsu Metals Corporation

Consolidated Statements for Cash Flows

For the periods ended September 30, 2008 and September 30, 2007 (Unaudited)

	Notes	Three months ended September 30		Nine months ended September 30	
		2008	2007	**2008**	2007
Cash flows from operating activities		**$000**	$000	**$000**	$000
Net loss for the period		**(4,003)**	(35,744)	**(49,447)**	(44,546)
Items not affecting cash:-					
Depreciation , amortisation and deferred finance charges		**7,030**	-	**7,030**	-
Unrealized derivative loss/ (gain)	11	**(28,271)**	34,779	**(5,451)**	38,457
Stock-based compensation	13	**1,580**	418	**1,744**	2,862
Unrealised foreign exchange loss		**1,097**	(291)	**1,661**	-
Inventory write offs	7	**4,439**	-	**4,439**	-
Future income tax recovery		**-**	-	**-**	(300)
Warrants issued to agents	12(b)	**-**	-	**185**	-
Accrued interest income		**(1,130)**	-	**(1,130)**	-
		(19,258)	(838)	**(40,969)**	(3,527)
Change in non cash working capital:-					
(Increase) decrease in contractor advances, accounts receivable and prepaid expenses		**(2,965)**	(242)	**(1,425)**	1
Increase (decrease) in accounts payable and accrued liabilities		**7,302**	(889)	**4,529**	(847)
Cash used for operating activities		**(14,921)**	(1,969)	**(37,865)**	(4,373)
Investing activities					
Expenditures on Varvarinskoye property, plant and equipment		**(12)**	(20,935)	**(23,763)**	(56,323)
Restricted cash		**-**	3,651	**56**	8,201
Acquisition of Lero, net of cash acquired	2	**-**	-	**29,753**	-
Cash provided by / (used for) investing activities		**(12)**	(17,284)	**6,046**	(48,122)
Financing activities					
Common shares issued		**-**	5,338	**-**	6,249
Proceeds from exercise of stock options	12(c)	**102**	-	**1,324**	-
Proceeds from debt		**-**	-	**5,000**	-
Proceeds from long term debt		**-**	13,836	**786**	44,732
Lero cash advances to EMC pre acquisition	2	**-**	-	**25,000**	-
Repayment of debt		**-**	-	**(5,000)**	-
Deferred financing costs		**(1,625)**	-	**(2,690)**	-
Cash provided by/ (used for) financing activities		**(1,523)**	19,174	**24,420**	50,981
Decrease in cash and cash equivalents		**(16,456)**	(79)	**(7,399)**	(1,514)
Cash and cash equivalents - Beginning of period		**34,307**	18,119	**25,250**	19,554
Cash and cash equivalents - End of period		**17,851**	18,040	**17,851**	18,040

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

1) Nature of operations

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

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

The Company's Varvarinskoye copper-gold mine in northern Kazakhstan is an operating asset producing gold doré and copper-gold concentrate. Commercial production levels (defined by the Company as the earlier of the stage when mining and milling activities are operating at 65% of design capacity for a sustained period for not less than 30 days, or June 30, 2008) was achieved during the third quarter and accordingly the Company commenced recognising operating revenues and expenses for production activities with effect from July 1, 2008. All pre-commercial production operating expenses, including applicable stock compensation costs and interest, have been capitalised as development costs net of pre-commercial production metal revenues.

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

2) Going Concern

At September 30 2008 the Company had a working capital deficit of $1.7 million, (December 31 2007 a working capital deficit of $1.6 million), accumulated losses of $267 million (December 31 2007 - $218 million) and capital commitments for the Varvarinskoye Project amounting to $4.7 million (note 15). In addition, the Company was served with a statement of claim in September 2008 (note 16 (a)).

As at September 30, 2008 a total of $61.0 million long-term debt had been drawn down under the Varvarinskoye limited recourse project finance debt facility with Investec Bank Limited, Nedbank Limited and Natixis Bank (the “Lenders”), of which $36.1 million is due within one year, including a first tranche of $16.65 million which is due December 31 2008. The Company is currently seeking to negotiate an extension of the first tranche repayment. To date no waiver or extension of the first tranche repayment due in December 2008 of $16.65m has been secured.

As a condition of the long-term debt facility, the Company entered into monthly US dollar flat forward gold sales (the “Varvarinskoye Hedge”) over a term of 8 years. The Company has 372,478 ounces of unmargined forward gold sales contracts remaining at a strike price of $574.25 per ounce as at September 30, 2008. To date the Company’s monthly gold production has been insufficient to meet its forward contract commitments resulting in cash settlements of maturing contracts of $20.5 million in the nine month period to September 30 2008 (2007 – nil). Further cash payments are expected to be required to settle future commitments as they fall due.

While these financial statements have been prepared using Canadian generally accepted accounting principles (“GAAP”) applicable to going concern, which contemplates the realization of assets and liquidation of liabilities during the normal course of operations, the conditions and events above cast significant doubt on the validity of that assumption. The ability of the Company to continue as a going concern is dependent upon achievement and maintenance of profitable levels of commercial production at Varvarinskoye and the ability of the Company to raise additional capital and financing to fund the Company’s current commitments. The Company is attempting to secure short-term financing or project re-financing options acceptable to the Lenders. Whilst management has been successful in the past in raising new debt and equity financing, and modifying its debt repayment terms, there can be no assurance that they will be successful in the future.

These financial statements do not reflect adjustments to the carrying value of assets and liabilities, the reported revenues and expenses and balance sheet classifications used that would be necessary if the going concern assumption were not appropriate; such adjustments could be material.

3) Acquisition of Lero

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

Consideration

Consideration for the acquisition was as follows:

- EMC issued 152,101,767 common shares with a fair value of CAD$1.03 per common share of Lero. The measurement of the common share component of the consideration is based on the closing share price of Orsu's common shares on the Toronto Stock Exchange.
- 6,575,000 stock options of Lero, each of which gave the holder the right to purchase a common share of Lero, was exchanged for the same number of stock options of EMC, each of which gives the holder the right to purchase a common share of EMC on the same terms.
- 3,105,881 warrants of Lero, each of which gave the holder the right to purchase a common share of Lero, were exchanged for the same number of warrants of EMC on the same terms.
- The Company received a loan of $25 million from Lero on May13, 2008.

Preliminary Purchase Price Allocation and measurement uncertainty

The acquisition of Lero has been accounted for as a purchase of assets. The purchase price allocation is based on preliminary estimated fair values at the date of acquisition and may be subject to change once the valuation process is completed. Such change may be material.

Purchase price	**$000**
152,101,767 common shares of EMC	154,622
Fair value of options assumed	4,187
Fair value of warrants assumed	1,978
Transaction costs	4,990
	165,777
Less: Lero liability	**(25,000)**
	140,777

Net assets acquired	**$000**
Cash and short term investments	33,598
Accounts receivable and other assets	1,421
Mineral property interests	153,309
Less:	
Liabilities	(3,392)
Future income tax liability	(44,159)
	140,777

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

	Options	**Warrants**
Risk free rate	4.00%	4.00%
Expected dividend yield	Nil	Nil
Expected stock price volatility	98.55%	98.55%
Expected options: years	2.5	2.5

The Company has commissioned an independent expert to complete the valuation of Lero assets acquired, which is anticipated to be completed by December 31 2008. The Lero purchase price allocation above is based on preliminary estimated fair values at the date of acquisition, using estimates in effect at that date and may be subject to change once the valuation process is completed. Such changes may be material.

The Company reviews its long-lived assets for any evidence of impairment in line with CICA 3063. Changes in commodity prices subsequent to the Lero acquisition may indicate that the initial valuations applied to Lero assets are impaired and may result in an impairment expense being recorded in the statement of operations in the near term. Such an impairment charge may be material.

As at the date of these financial statements, and pending finalization of the initial Lero assets valuation, no impairment of the Lero assets valuation has been identified.

4 Basis of Presentation and Consolidation

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") disclosure requirements for interim financial statements and do not contain all the information that is required of annual financial statements. Accordingly, they should be read in conjunction with the December 2007 audited financial statements.

The principal subsidiaries and investees of the Company as at September 30, 2008 were as follows:-

- Three K Mining and Exploration Limited ("Three K") - registered in the British Virgin Islands
- JSC Varvarinskoye ("JSCV") - registered in the Republic of Kazakhstan
- European Minerals Corporation (UK) Limited ("EMUK") - registered in England & Wales
- Kazminco Oil Limited ("Kazminco") - registered in the British Virgin Islands
- Lisburne holdings Limited ("Lisburne") - registered in the British Virgin Islands
- Althames Exploration Limited ("AEL") - registered in the British Virgin Islands
- Lero Gold Corporation ("Lero") - registered in British Columbia
- Tournon Finance Limited ("Tournon") - registered in the British Virgin Islands
- Kami Limited ("Kami") - registered in the British Virgin Islands
- Eildon Enterprises Limited ("Eildon") - registered in the British Virgin Islands
- Oriel In Kyrgyzstan LLP ("OIK") - registered in the Republic of Kyrgyzstan
- Talas Copper Gold LLP ("Talas") - registered in the Republic of Kyrgyzstan
- GRK MLD LLP ("MLD") - registered in the Republic of Kazakhstan

The Company owns the entire issued share capital of the above entities, except for: Lisburne (the Company controls 55% of the issued and outstanding share capital), Eildon (the Company controls 73.9% of the issued and outstanding share capital) and MLD (the Company has effective control of 94.75% of the issued and outstanding share capital through its control of Eildon). All intercompany balances and transactions are eliminated upon consolidation.

5 Changes in accounting policies

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

a. Capital disclosures

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

The Company's objectives when managing capital are to continue to provide returns for shareholders, and comply with lending requirements while safeguarding the Company's ability to continue as a going concern. The Company considers the items included in the shareholders' equity to be capital (see Note 12).

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

The Company's net debt as at September 30, 2008 was as follows:

	September 30, 2008	December 31, 2007
	$000	$000
Total long term debt	**52,974**	50,120
Cash and cash equivalents	**(17,851)**	(25,250)
Net debt	**35,123**	24,870
Total capital	**164,518**	48,193

b. Inventories

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

The Company currently values inventory as follows:-

- Product inventories are carried at the lower of cost or net realizable value;
- Materials and supplies inventories are carried at the lower of cost or replacement cost;
- Finished goods and work in progress are based on the cost of produced stocks from production at normal operating levels.
- 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.

Production costs include the costs of materials, costs of processing, direct labour mine and plant facility overheads, depreciation, depletion and amortization (see Note 6).

c. Financial instruments

Section 3861, Financial Instruments - disclosure and presentation, has been replaced by section 3862, Financial Instruments – disclosure, and section 3863 – Financial instruments – presentation. These new standards require entities to disclose quantitative and qualitative that enable users to evaluate the significance of financial instruments for the Company's financial performance, and the nature and extent of risks arising form financial instruments to which the Company is exposed during the period and at the balance sheet date. In addition, the Company is required to disclose management's objectives, policies and procedures for managing these risks (see note 6 for additional details).

Fair Values

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

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

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

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

The following provides a comparison of carrying and fair values of each classification of financial instruments as at September 30, 2008

	Loans and receivables	Available-for-sale	Held for trading	Other financial liabilities	Total carrying amount	Total fair value
Financial assets						
Cash and cash equivalents		17,851			17,851	17,851
Restricted cash		71			71	71
Accounts receivable	6,187				6,187	6,187
Net investment in oil and gas residual interests					1,364	1,364
Contractor advances					3,650	3,650
Financial liabilities						
Accounts payable and accrued liabilities				21,423	21,423	21,423
Derivative instruments			135,170		135,170	135,170
Long-term debt (net of issue costs)				52,974	52,974	52,974

The following provides a comparison of carrying and fair values of each classification of financial instrument as at December 31, 2007:

	Loans and receivables	Available-for-sale	Held for trading	Other financial liabilities	Total carrying amount	Total fair value
Financial assets						
Cash and cash equivalents		25,250			25,250	25,250
Restricted cash		127			127	127
Accounts receivable	1,032				1,032	1,032
Contractor advances					1,364	1,364
Financial liabilities						
Accounts payable and accrued liabilities				14,140	14,140	14,140
Derivative instruments			140,621		140,621	140,621
Long-term debt				50,120	50,120	50,120

Accounts receivable

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

Upon the shipment of concentrate, an initial invoice is raised based on current spot prices and an advance of 90% of the value of the invoice less deductions for freight, smelting and other costs is received. A final adjusted invoice is then raised based on the date of the future final price as outlined above and defined by the quotational period used.

At each period end, the Company estimates the value of the final invoice amount based on the current forward prices and makes an adjustment to revenues to reflect the estimated final sales prices.

For the nine months ended September 30 2008, the Company invoiced a gross amount totalling $38.8 million which was revalued using a final settlement price for copper of $2.25 per lb. This gave rise to a total settlement adjustment to revenue of negative $5.7 million; $2.4 million relating to the six months ended June 30 2008 and $3.3 million for the three months to September 30 2008.
For the three month period to September 30 2008, the Company invoiced $21.2 million against which the aforementioned settlement adjustment of negative $5.7 million was made resulting in revenues for the period of $15.5 million.

Finally, the Company recognised sales on gold and copper concentrate as revenues for the three months to September 30 2008. As a by product of the production process, a small amount of silver was produced which generated sales totalling $21,000. The Company does not recognise this as income and has been recorded as part of operating expenses.

Credit risk

The Company's credit risk is primarily attributable to derivative instruments and accounts receivable. At present the Company has a single off takers contract for its copper concentrate sales (Trafigura) and its gold Dore sales (Metalor) respectively. The Company takes all reasonable measures to ensure that the off takers are financially stable and able to fulfil their contractual obligations.

Liquidity risk

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

Contractually obligated undiscounted cash flow requirements as at September 30, 2008 are as follows:-

US ($000s')

	Total	Less than 1 year	1-2 years	2-3 years	Beyond 3 years
Long term debt	52,974	30,654	22,320	-	-
Accounts payable and accrued liabilities	21,423	21,423	-	-	-
Asset Retirement obligations	12,060	-	-	-	12,060
Derivative obligation	135,170	19,443	27,367	29,988	58,372

Market risks

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

a) Commodity price risk

The Company is subject to price risk from fluctuations in the market prices of mainly copper and gold. The Company has a policy allowing active management of this exposure through the use of derivative financial instruments where appropriate. To date the Company has entered into derivative positions for gold sales only, as required by lending agreements.

The following table shows the impact on net earnings due to changes in the fair value of financial instruments from a 10% change in the copper price of $2.25 per lb, and contract forward gold prices of $914.75 to $1,074.88 per oz.

	September 30, 2008	Impact of price change on net earnings $000	
Derivative instruments		10% increase	10% decrease
Copper			
Accounts receivable (lbs)	4,314,883	971	(971)
Gold			
Forward ounces (oz)	372,468	(19,530)	19,530

b) Interest rate risk

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

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

The impact on net earnings for a three-month period of a 1% change in LIBOR would be as follows:-

	September 30, 2008	**Impact of LIBOR change on net earnings**	
		1% increase	1% decrease
Cash at bank ($000)	17,851	213	(213)
Long term debt ($000)	61,000	(610)	610

c) Foreign exchange risk

The Company's functional and reporting currency is U.S. dollars.

Foreign exchange risk arises from transactions denominated in currencies other than U.S. dollars. Commodity sales are denominated in U.S. dollars. All borrowings are denominated in U.S. dollars and the majority of operating expenses are denominated in U.S. dollars and Kazakh Tenge.

6 Inventory

	September 30, 2008 $000	December 31, 2007 $000
Stock piled ore	**13,293**	11,250
Work in progress	**1,377**	-
Finished goods	**2,142**	-
Materials and supplies	**9,530**	7,488
Total	**26,342**	18,738

Inventories were written down to reflect their net realisable values, in accordance with CICA 3031, at September 30, 2008 by the following amounts; stockpiles by $3.3 million, finished goods by $1.1million. The total amount of inventory recognized as an expense, including the aforementioned write downs, in the period was $20.1 million.

7 Contractor advances

In January 2006, further to the termination of the lump sum turnkey contract ("LSTK") with MDM, Orsu was notified that MDM was the subject of insolvency proceedings. Prior to being placed into provisional liquidation, MDM assigned all of its rights and obligations under its contracts with suppliers to the Company's 100% subsidiary JSCV under a cession agreement (the "Cession"). The liquidator of MDM claimed the Cession of sub-contracts under the LSTK gave rise to the Company receiving a benefit in preference to other creditors and claimed this could be set aside under South African insolvency law. As a result advances made by JSCV totalling Rand 28.2 million (excluding accrued interest) were embargoed.

On October 22, 2008 the embargoed funds of Rand 28.2 million along with accrued interest of Rand 12.7 million were remitted to the Company at a Rand to US($) exchange rate of 11.21. As a result the Company has at September 30 2008, recorded a realised foreign exchange loss of $1.7 million and accrued interest income of $1.1 million as shown on the table below:-

	September 30, 2008 $000	December 31, 2007 $000
Opening balance - January 1	**4,180**	4,003
Effect of translation of foreign currency	**(1,660)**	177
Accrued interest	**1,130**	-
Closing balance	**3,650**	4,180

8 Property, plant and equipment

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

Through the acquisition of Lero, the company also holds exploration licenses in Kyrgyzstan and Kazakhstan. The total property, plant and equipment for the Company are as follows:

Cost	Mineral property acquired $000	Mineral property development costs $000	Land and buildings $000	Plant and machinery $000	Other $000	Assets under construction $000	Total $000
Balance as at January 1 2008	-	38,765	48,559	73,314	2,351	67,902	230,891
Additions	153,309	7,243	1,063	751	447	14,586	177,399
Balance as at September 30 2008	**153,309**	**46,008**	**49,622**	**74,065**	**2,798**	**82,488**	**408,290**
Accumulated Depreciation							
Balance as at January 1 2008	-	-	(192)	(9,769)	(454)	-	(10,415)
Depreciation/ Amortisation	-	(1,633)	(2,797)	(8,654)	(147)	-	(13,231)
Balance as at September 30 2008	**-**	**(1,633)**	**(2,989)**	**(18,423)**	**(601)**	**-**	**(23,646)**
Net book value at December 31 2007	-	38,765	48,367	63,545	1,897	67,902	220,476
Net book value at September 30 2008	**153,309**	**44,375**	**46,633**	**55,642**	**2,197**	**82,488**	**384,644**

Mining, property and development costs are amortised using the units-of-production method from July 1st 2008 onwards. The assets are amortised based on the amount of ore mined in the period as a percentage of the total recoverable mineral reserves during the life of the mine.

9 Net investment in oil and gas residual interests

	September 30, 2008 $000	December 31, 2007 $000
Opening balance – January 1	**1,364**	1,693
Royalty income	**-**	(329)
Closing balance	**1,364**	1,364

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

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

10 Long-term debt

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

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

Under the renegotiated facility terms the principal repayments and interest rates are as follows:

Repayment Dates	**ECIC Loan $000**	**Commercial Loan $000**	**Convertible Loan $000**	**Total Principal $000**
December 31, 2008	9,050 (LIBOR+1.25%)	7,600 (LIBOR+2.8%)	-	**16,650**
June 30, 2009	8,100 (LIBOR+1.25%)	6,175 (LIBOR+2.8%) 4,225 (LIBOR+5.0%)	900 (LIBOR+2.8%)	**19,400**
December 30, 2009	6,250 (LIBOR+1.25%) 11,600 (LIBOR+2.5%)	-	3,275 (LIBOR+2.8%)	**21,125**
June 30, 2010	-	-	3,825 (LIBOR+2.8%)	**3,825**
Total Principal	**35,000**	**18,000**	**8,000**	**61,000**

During the period ended September 30, 2008, the Company incurred financing costs of $2.7 million (2007 - $3.2 million) with regard to the Facility.

Long –term debt and the attributable unamortized deferred financing costs as at September 30, 2008 are as follows based on the amended terms:-

	ECIC Loan $000	Commercial Loan $000	Convertible Loan $000	Total $000
Loans fully drawn down at September 30, 2008	35,000	18,000	8,000	61,000
Unamortized deferred financing costs	(4,814)	(1,980)	(1,232)	(8,026)
Net debt	30,186	16,020	6,768	52,974
Current portion of debt				
Principal	17,150	18,000	900	36,050
Deferred financing costs	(2,888)	(1,980)	(528)	(5,396)
Current portion of net debt	**14,262**	**16,020**	**372**	**30,654**
Long Term Debt				
Principal	17,850	-	7,100	24,950
Deferred financing costs	(1,926)	-	(704)	(2,630)
Included in long-term liabilities	**15,924**	**-**	**6,396**	**22,320**

11 Derivative instruments

The mark to market fair value is as follows:-	**September 30, 2008 $000**	December 31, 2007 $000
Derivative instruments	**135,170**	140,621
Less: Amounts due within one year	**(19,443)**	(19,185)
	115,727	121,436

During the nine month period ended September 30, 2008 the Company settled derivative contracts resulting in realized derivative losses of $20.5 million. Of this, in September 2008 the Company settled future contract hedges for the period October to December 2008 for a total cash cost of $5.0 million at a forward gold sales price of $794.75 per ounce.

The mark to market revaluation of the Company’s derivative instruments as at September 30, 2008 gave rise to unrealized derivative gain for the nine month period of $5.5million.

All derivative financial instruments are classified as held for trading and are measured at fair value. At December 31, 2007 and September 30, 2008, the Company’s derivative financial instruments were comprised solely of gold forward sales contracts.

As a condition of the debt facility, the Company implemented a hedging facility by entering into a monthly US dollar unmargined flat forward gold sales contract(the “Varvarinskoye Hedge”) over a term of 8 years. The Company has remaining 372,468 ounces of forward gold sales at a price of $574.25 per ounce as at September 30, 2008.

The Company estimates that the Varvarinskoye Hedge represents approximately 50% of the production during the term of the Hedging Facility, but only approximately 20% of the current estimates proven and probable reserves of gold.

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

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

As at September 30, 2008, the Company had the following open derivative positions:-

	Maturity 2008	**Maturity 2009**	**Maturity 2010**	**Maturity 2011**	**Maturity 2012 +**	**Total**
Gold						
Forward contracts (oz)	-	80,326	81,000	76,142	135,000	372,468
Price ($/oz)	-	574.25	574.25	574.25	574.25	574.25

12) Share capital

a) Authorized

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

Issued shares are:-

	September 30 2008	**September 30 2008**	December 31 2007	December 31 2007
	Number of shares 000's	**Amount US$000**	Number of shares 000's	Amount US$000
As at January 1	**302,804**	**204,553**	279,254	174,985
Common shares issued for cash	**-**	**-**	17,497	22,021
Common shares issued on acquisition	**152,102**	**154,624**	-	-
Exercise of warrants for cash	**-**	**-**	1,250	1,036
Exercise of stock options for cash	**1,800**	**1,433**	850	672
Exercise of Agent Units for cash	**-**	**-**	3,853	4,045
Transfer of fair value on exercise of stock options, warrants and Agent Units	**-**	**466**	-	2,382
Common shares issued for consulting services	**253**	**230**	100	159
Share issue costs	**-**	**-**	-	(747)
Balance end of period	**456,959**	**361,306**	302,804	204,553

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

At the completion of the transaction, Orsu had 456,959,226 common shares outstanding.

b) Share purchase warrants

A summary of the changes in the Company's share purchase warrants for the periods ended September 30, 2008 and December 31, 2007 is set out below:

	September 30 2008			December 31, 2007		
	Value assigned US$000	**Warrants outstanding 000's**	**Weighted average exercise price CAD($)**	Value assigned US$000	Warrants outstanding 000's	Weighted average exercise price CAD($)
As at January 1	**46,629**	**130,441**	**1.29**	46,346	129,765	1.55
Issued on exercise of Agent's Units	**-**	**-**	**-**	1,032	1,926	1.20
Issued to agent	**185**	**500**	**1.20**	-	-	-
Issued to debt facility Lenders	**742**	**2,000**	**1.00**	-	-	-
Issuance on acquisition	**1,978**	**3,105**	**0.85**	-	-	-
Exercised	**-**	**-**	**-**	(749)	(1,250)	0.88
Balance end of period	**49,534**	**136,046**	**1.28**	46,629	130,441	1.29

A summary of the share purchase warrants outstanding and exercisable as at September 30, 2008 and December 31, 2007 is set out below:

September 30, 2008 000's			December 31, 2007 000's		
Exercise price CAD($)	**Expiry date**	**Number**	Exercise price CAD($)	Expiry date	Number
1.20	**April 11, 2010**	**71,888**	1.20	April 11, 2010	71,888
1.00	**November 30, 2010**	**2,000**	1.00	November 30, 2010	2,000
1.55	**March 21, 2011**	**40,451**	1.55	March 21, 2011	40,451
1.20	**December 23, 2008**	**7,500**	1.20	December 23, 2008	7,500
0.92	**October 17, 2011**	**8,602**	0.92	October 17, 2011	8,602
1.00	**April 30, 2010**	**2,000**	-	-	-
1.20	**April 17, 2010**	**500**	-	-	-
0.85	**April 29, 2010**	**3,105**			
Total		**136,046**			130,441

In the nine month period ended September 30, 2008, warrants exercisable into 2,000,000 shares were issued to the lenders as part of the re-negotiation of the existing Varvarinskoye debt facilities. These warrants have an exercise price of CAD$1.00 and are exercisable until April 11, 2010. A further 500,000 warrants were issued to Endeavour Financial services for agents fees at an exercise price of CAD$1.20 exercisable until April 17, 2010. During June 2008, 3,105,881 warrants were issued to Canaccord Adams as part of Lero's private placement of gross proceeds CAD$66 million; these become outstanding as securities of Orsu and were part of the consideration assumed in the acquisition (see note2).

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

	Canaccord 2008 Warrants	**Endeavour 2008 Warrants**	**Warrants issued to JSCV Project Lenders**
Risk free interest rate	4.0%	4.0%	4.0%
Expected dividend yield	Nil	Nil	Nil
Expected stock price volatility	98.55%	98.55%	88.44%
Expected warrant life	2.5 years	2.5 years	2 years

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

c) Share purchase options

The Company maintains an incentive stock option plan (the "Plan") covering directors, officers, employees and consultants of the Company and its subsidiary companies. The exercise price of an option is determined by the Board of Directors on the basis of the closing market price of the Company's shares on the trading day prior to the date of issue of the option. The Plan provides that options may be granted for a maximum period of ten years and the aggregate number of shares which may be issued and sold under the Plan may not exceed 10% of the issued and outstanding common shares from time to time, less options exercised since shareholder approval was last granted in respect of the Plan. At September 30, 2008, a total of 43,740,000 options were reserved under the Plan with 1.6 million options available for granting.

A summary of the changes in the Company's share purchase options for the period ended September 30, 2008 and for the year ended December 31, 2007 is set out below:

	September 30, 2008			December 31, 2007		
	Value assigned US$000	**Number outstanding 000s'**	**Weighted average exercise price CAD($)**	Value assigned US$000	Number outstanding 000s'	Weighted average exercise price CAD($)
As at January 1	**13,567**	**24,265**	**0.94**	9,599	20,815	0.70
Issued	**1,744**	**16,125**	**0.82**	4,860	6,100	1.24
Issued on acquisition	**4,188**	**6,575**	**0.46**			
Exercised	**(572)**	**(1,800)**	**0.75**	(289)	(850)	0.83
Forfeited	**(557)**	**(1,425)**	**0.52**	(603)	(1,800)	1.04
Balance – end of period	**18,370**	**43,740**	**0.84**	13,567	24,265	0.94

A summary of the stock options outstanding and exercisable as at September 30, 2008 is set out below:

Range of prices CAD($)	**Number of options**	**Weighted average years to expiry**	**Weighted average exercise price CAD($)**	**Number of exercisable options**	**Weighted average exercise price CAD($)**
0.24 - 0.49	6,350,000	2.47	1.00	6,050,000	0.95
0.50 - 0.99	32,765,000	3.93	0.32	32,615,000	0.31
1.00 to 1.49	4,625,000	3.51	2.45	3,750,000	1.99
	43,740,000	3.72	0.84	42,415,000	0.81

13) Stock-based Compensation

The Company uses the fair value method of accounting for stock-based compensation. The fair value of stock options granted during the nine months ended September 30, 2008 was $1.7 million (2007 $4.8 million). Of these, $1.6 million (2007 $2.9 million) was related to non-Project personnel and was expensed in the statements of operations with the remaining amounts of $0.1 million (2007 $1.9 million) related to Project personnel and capitalised to Varvarinskoye property, plant and equipment.

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

	September 30, 2008	December 31,2007
Risk free interest rate	4.0% - 4.6%	4.0%-4.6%
Expected dividend yield	Nil	Nil
Expected stock price volatility	71.5% - 98.55%	66.8-69%
Expected option life in years	2 - 4	3

14) Contributed surplus

A summary of the changes in the Company's contributed surplus for the period ended September 30, 2008 and the year ended December 31, 2007, is set out below:

	September 30, 2008 $000	December 31, 2007 $000
Balance - beginning of the period	**1,399**	796
Transfer of fair value of forfeited incentive stock options	**557**	603
Balance - end of the period	**1,956**	1,399

15) Commitments

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

	Total $000	2008 $000	2009 $000	2010 $000
Long-term debt	61,000	16,650	40,525	3,825
Capital commitments	4,700	4,700	-	-

16) Contingencies

a. The Company was served by Bernard Szuszkiewicz, on 18 September 2008, as a proposed representative plaintiff on behalf of persons who acquired securities of EMC during the period from May 16 2007 to March 31 2008 with a statement of claim filed in the Ontario Superior court of Justice. The Claim relates to the announcement by EMC on March 31, 2008 that it was reviewing its accounting for derivatives to ensure compliance with certain provisions of the CICA handbook and that it anticipated that such review would result in a restatement of EMC's interim financial statements for the first three fiscal quarters of 2007. The financial statements were restated and were subsequently issued by EMC on April 11, 2008 and filed on SEDAR (www.sedar.com). The plaintiffs are claiming general and special damages in the amount of CAD$50,000,000 and punitive damages in the amount of CAD$5,000,000. The Company's directors have appointed legal counsel and are currently preparing their defence.

Subsequent to the original claim stated above, the Company has learned that both the original claim is likely to be replaced by another claim similar in nature and that the new claim will be filed by a new plaintiff. The claim has not yet been certified as a class action. Orsu believes that the Claim is without merit and intends to vigorously defend it. There have been no provisions made for any potential losses.

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

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

ii. the completion of the first year (not earlier than the year in which the discovery of a mineral reserve occurs) during which the licensee has a net profit for tax purposes. As the Company has yet to complete a year in which a net profit for tax purposes is recorded, no liability has been recorded at September 30, 2008.

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

c. The Company continues to be the subject of insolvency proceedings with MDM. In January 2006, the Company terminated the lump sum turnkey contract ("LSTK") with MDM in relation to the Varvarinskoye Project. At the time of the cancellation of the LSTK, various suppliers (the "Suppliers") were in various stages of providing the components that they had agreed to supply to MDM. Amounts remained owing by MDM to certain suppliers who had completed their obligations and to certain other suppliers with obligations outstanding who indicated that they would not do any further work without receiving satisfactory assurances that they would receive the balance of amounts owing to them. In November 2005, prior to being placed into provisional liquidation, MDM assigned all of its rights and obligations under its contracts with the Suppliers to JSCV under a cession agreement (the "Cession"). Virtually all suppliers advised JSCV they agreed to be bound by the Cession and dealt directly with JSCV thereafter. There is a risk that the liquidator appointed to oversee the affairs of MDM could apply to a court to set aside the Cession and/or pursue claims against JSCV and/or the Suppliers for damages. As a result, certain of the suppliers have requested indemnification from JSCV for any losses suffered by them based on claims by the liquidator. The liquidator has instituted action against the suppliers and it is extremely unlikely that the liquidator will do so. The liquidator has instituted initial proceedings to pursue a claim against JSCV in the South

African courts for Rand 45.5 million arising for the cession, and sought to embargo the funds in South Africa. The attempt to embargo funds was successfully apposed, and the funds repatriated to the Company. However, the liquidator may still issue summons in the South African courts for Rand 45.5 million but any judgement of a South African court will have to be recognised and enforced in Kazakhstan.

The Company continues to believe that the claim is of poor merit and grossly overstated. The Company intends to call for security for its costs if the liquidators are unsuccessful in their claim.

17) Related party transactions

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

Dragon Management International Services Limited (“DIS”) charged the Company a total of $1,699,752 (2007 - $450,576) in respect of the provision of office facilities, general office overheads and re-charged costs incurred on behalf of the Company. A. J. Williams, former Chairman and director of the Company, beneficially owns DIS.

Endeavour Financial Corp (“EFC”) charged the Company a total of $3,612,391 (2007 - $124,227) in respect of the provision of consulting services and related expenses of which $3,539,778 has been recognised in the purchase consideration. A.J. Williams, former Chairman and director of the Company, is a shareholder of EFC. In addition, on April 18, 2008, EFC made a bridging loan of $5 million to the Company for working capital purposes, which was then subsequently repaid to EFC. A total of 254,479 shares were issued to EFC as part of the fee for providing the bridging loan. EFC were also issued 500,000 purchase warrants, at an exercise price of CAD$1.20, for advisory work on the Varvarinskoye debt renegotiation.

During the period ended September 30, 2008 Lero was charged $357,000 for rent and service charges from Oriel PLC a company on which Sergey Kurzin, Executive Chairman of Orsu, served as a director (resigned September 19 2008).

18) Segmented reporting

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

Segmental information for the **nine month** period ended **September 30, 2008** is as follows:-

$000's	Varvarinskoye mining, exploration and development	Mineral exploration and development	Corporate	Total
Revenues				
Gold	11,955	-	-	11,955
Copper	3,557	-	-	3,557
	15,512	-	-	15,512
Cost of sales	(28,049)	-	-	(28,049)
Other costs	(20,739)	(3,697)	(13,818)	(38,254)
Other income	1,179	-	208	1,387
Segmented loss before income tax	(32,097)	(3,697)	(13,610)	(49,404)
Income taxes	(43)	-	-	(43)
Segmented loss before income tax	(32,140)	(3,697)	(13,610)	(49,447)
Property, plant and equipment	230,421	153,889	334	384,644
Total assets	267,949	154,296	17,864	440,109
Capital expenditures	23,068	672	350	24,090

Segmental information for the **three month** period ended **September 30, 2008** is as follows:-

$000's	Varvarinskoye mining, exploration and development	Mineral exploration and development	Corporate	Total
Revenues				
Gold	11,955	-	-	11,955
Copper	3,557	-	-	3,557
	15,512	-	-	15,512
Cost of sales	(27,689)	-	-	(27,689)
Other costs	13,931	(2,029)	(4,857)	7,045
Other income	1,105	27	-	1,132
Segmented loss before income tax	2,859	(2,002)	(4,857)	(4,000)
Income taxes	(3)	-	-	(3)
Segmented loss before income tax	2,856	(2,002)	(4,857)	(4,003)
Property, plant and equipment	230,421	153,889	334	384,644
Total assets	267,949	154,296	17,864	440,109
Capital expenditures	1,518	197	-	1,715

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

$000's	Varvarinskoye mining, exploration and development	Mineral exploration and development	Corporate	Total
Revenues				
Gold	-	-	-	-
Copper	-	-	-	-
Silver	-	-	-	-
	-	-	-	-
Cost of sales	-	-	-	-
Other costs	(75,676)	-	(5,075)	(80,751)
Other income	1,066	-	275	1,341
Segmented loss before income tax	(74,610)	-	(4,800)	(79,410)
Income taxes	1,820	-	-	1,820
Segmented loss before income tax	(72,790)	-	(4,800)	(77,590)
Property, plant and equipment	181,762	-	19	181,761
Total assets	248,818	-	22,350	271,168
Capital expenditures	87,251	-	11	87,262

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

19) Subsequent events

(a) On October 22 2208, the Company successfully repatriated Rand 40.9 million, US($) 3.6 million, in relation to the on going liquidation proceedings as per Notes 7 and 16 (c).

ENDS