

# **Orsu Metals Corporation**

Management's Discussion and Analysis of Results  
September 30<sup>th</sup> 2008 and 2007  
(in thousands of US Dollars)

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DR ALEXANDER YAKUBCHUK, Director of Exploration

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Alternative Investment Market, OSU  
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## **INTRODUCTION**

Orsu Metals Corporation (“Orsu” or the “Company”) 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 the Urals belt in northern Kazakhstan and exploring gold deposits in the Tien Shan gold belt in the Kyrgyz Republic and Rudny Altai belt in the Republic of Kazakhstan.

The Orsu group was formed on June 19 2008 upon the completion of the acquisition by European Minerals Corporation (“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 of 152,101,767 common shares of EMC). 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 100% owned 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 stage when mining and milling activities are operating at 65% of design capacity for a sustained period of not less than 30 days) during Q3 have been on average 73% of design capacity, compared to an average during Q2 of 60%.

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

The effective date of this MD&A is 13 November 2008 and the information contained herein is provided as at such date unless otherwise indicated.

## **QUARTER HIGHLIGHTS**

- Orsu settled in advance its September to December 2008 gold forward contract obligations
- Orsu announced changes to the Board of Directors
- Orsu announced plans to procure a secondary low cost screener and crusher at the Varvarinskoye plant
- Orsu announced being served with a Statement of Claim

## **POST QUARTER HIGHLIGHTS**

- Orsu announced an update regarding the Statement of Claim
- Orsu announced the reclamation of Rand 40.9 million (US\$3.65 million) MDM contractor advances.

## OVERALL PERFORMANCE

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

On October 31 2008, Orsu announced that it has successfully repatriated South African Rand ("Rand") 40.9 million (US\$3.65 million) of funds previously embargoed in South Africa pursuant to a legal application made by the liquidator of MDM Ferroman (Pty) Limited ("MDM").

On September 26 2008, Orsu announced the appointment of Mr Massimo Carello to the Orsu Board. Mr Massimo Carello held the position of Non-Executive Director of Lero Gold Corp. and currently holds non-executive positions with Uranium One Inc. and Canaccord Capital Inc. Mr Carello has over 30 years of international senior management and director level experience and was previously a director of Anker Systems plc and was a former Chairman and CEO of Fiat UK and Diners Club UK. The Company also announced it is implementing a plan to add a secondary low cost screener and crusher at Varvarinskoye.

On September 19 2008, Orsu announced that it had been served by Bernard Szuszkiewicz as a proposed representative plaintiff on behalf of persons who acquired securities of EMC during the period from May 16, 2007 until March 31, 2008 (collectively, the "Plaintiffs") with a Statement of Claim filed in the Ontario Superior Court of Justice. In an update to the initial announcement of this claim, the Company advised the market that that the previously announced class action claim has been withdrawn and, as Orsu directors understand, it is the intention of the proposed class counsel that this will simply replace the earlier action, complete with a new plaintiff. 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 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. On 31 October 2008, Orsu Metals Corporation announced that it became aware that the original claim is likely be replaced by a new claim similar in nature, and filed by a new plaintiff. As previously announced the Company's directors believe that the claim is without merit and have appointed legal counsel to defend and vigorously dispute it. This new claim has not been served on the Company. The Statement of Claim has not yet been certified as a class action and Orsu believes that such claim is without merit and intends to vigorously dispute such claim.

On July 14 2008, Orsu announced its common shares and listed warrants began trading on the TSX under its new name of Orsu Metals Corporation.

On July 10 2008, Orsu announced its first sale of copper-gold concentrate from Varvarinskoye.

On July 8 2008, Orsu announced Board and Committee appointments.

On July 4 2008, EMC announced that it changed its name to Orsu Metals Corporation and its common shares and listed warrants began trading on the AIM market of the London Stock Exchange under its new name of Orsu Metals Corporation.

**RESULTS OF OPERATIONS**

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

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

<b>Expressed in US \$'000 except where indicated</b>	<b>Sept 30 2008 (unaudited)</b>	June 30 2008 (unaudited)	March 31 2008 (unaudited)	December 31 2007 (unaudited)
<b>Sales revenues</b>				
Gold	11,955	-	-	-
Copper	3,557	-	-	-
	15,512	-	-	-
<b>Cost of Sales</b>				
Operating expenses	(20,603)	-	-	-
Selling and distribution costs	(2,215)	-	-	-
Depreciation, depletion, amortization	(4,560)	-	-	-
Accretion	(311)	-	-	-
	(27,689)	-	-	-
Interest income	1,132	52	204	218
Unrealized derivative gains/ (losses)	28,271	(567)	(22,265)	(32,523)
Realized derivative (losses)/gains	(9,219)	(5,081)	(6,200)	-
Investor relations	(68)	(191)	(93)	(85)
Administration	(3,877)	(6,602)	(1,221)	(2,351)
Legal and professional fees	(940)	(1,257)	(189)	(144)
Stock based compensation	(1,580)	(109)	(138)	48
Interest paid	(1,094)	818	(1,255)	-
Foreign exchange loss / (gains)	(1,678)	541	(926)	288
Mineral property, exploration & evaluation	(2,770)	(492)	(432)	(350)
Future income tax	(3)	(41)	-	-
Net loss for the period	(4,003)	(12,929)	(32,515)	(33,044)
Basic and diluted loss per common share	<b>\$(0.01)</b>	\$(0.04)	\$(0.11)	\$(0.12)
Weighted average number of common shares ('000) – Basic and diluted	310,152	313,829	303,329	285,975
Total assets	440,109	464,374	264,579	271,167
Total long-term debt	52,974	52,289	51,700	50,120
Shareholders equity	164,518	165,851	16,921	48,193

**RESULTS OF OPERATIONS**

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

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

<b>Expressed in US \$000s' except where indicated</b>	September 30 2007 (unaudited)  (as restated)	June 30 2007 (unaudited)  (as restated)	March 31 2007 (unaudited)  (as restated)	December 31 2006 (unaudited)
Interest income	429	463	231	421
Unrealized derivative (losses)/gains	(34,779)	5,554	(9,232)	-
Realized derivative (losses)/gains	-	-	-	-
Investor relations	(172)	(141)	(58)	(37)
Administration	(1,243)	(1,474)	(1,143)	(767)
Legal and professional fees	(211)	(153)	(135)	(143)
Stock based compensation	(517)	(2,232)	(218)	(952)
Write off of property, plant & equipment	-	-		(1,001)
Foreign exchange loss / (gains)	723	(201)	(90)	(1,193)
Mineral property, exploration & evaluation	(74)	(69)	(210)	(105)
<b>Net (loss) / profit for the period</b>	<b>(35,744)</b>	<b>1,747</b>	<b>(10,849)</b>	<b>(2,654)</b>
Basic and diluted loss per common share	\$(0.13)	\$0.01	\$(0.04)	\$(0.01)
Weighted average number of common shares ('000) – Basic and diluted	279,674	279,672	279,254	276,932
Total assets	227,717	210,270	195,414	194,225
Total long-term debt	44,293	33,691	28,117	13,832
Shareholders equity	58,136	89,333	83,592	163,393

## **FINANCIAL RESULTS FOR THE QUARTER ENDED SEPTEMBER 30 2008**

### **Summary**

For the three month period ended September 30 2008, the Company incurred a net loss of \$4.0 million (compared to a loss of \$35.7 million for the same period in 2007) and a nine month loss of \$49.4 million (compared to a loss of \$44.5 million for the same period in 2007).

The financial results of the operations for the three months ended September 30 2008 from the Varvarinskoye Project have been included into the consolidated statements of operations.

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) were 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; pre-commercial production metal revenues have been credited against capitalised costs.

During the quarter the Company recognized revenues of \$15.5 million and a net gain on derivative instruments of \$19.1 million. These were offset by operational costs of \$27.7 million, administration costs of \$4.9 million, exploration expenditure of \$2.7 million, foreign exchange losses of \$1.7 million and other charges of \$1.6 million.

### **Revenues**

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 month period September 30 2008. As a by product of the production process, a small amount silver was produced which generated sales totalling \$21,000.00. The Company does not recognise this as income and has been recorded as part of operating expenses.

### **Derivative instruments**

During the three month ended September 30, 2008 the Company settled gold hedge contracts in cash at a cost of \$9.2 million (Nil for the same period in 2007). These have been recorded in the income statement as realised derivative losses for the quarter. Of this, the Company settled future contract hedges for the period October to December 2008 at a cost of \$5.0 million at a forward gold sales settlement price of \$794.75 per ounce.

Following a decrease in the spot market and forward price of gold during the third quarter (spot price gold September 30 2008 \$884.50), the mark to market revaluation of the Company's remaining hedge contracts gave rise to unrealised derivative gains of \$28.3 million during the quarter (a loss of \$34.8 million for the same period in 2007).

### **Operational costs**

The operational costs during the quarter of \$27.7 million include mining, processing and site costs totalling \$20.6 million; selling and distribution costs of \$2.2 million; depreciation and amortisation charges of \$4.6 million and accretion charges of \$0.3 million. Included with these are inventory write offs of \$4.4 million.

### **Administration charges**

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

**Foreign exchange and interest income**

The Company successfully repatriated Rand 28.2 million in contractor advances (relating to MDM) along with accrued interest of Rand 12.7 million on October 22 2008 at an exchange rate of Rand to the US(\$) of 11.21, \$3.65 million. The advances had been previously been recorded by Company at an exchange rate of Rand to US(\$) 6.75. As at September 30 2008 the Company recorded a realised foreign exchange loss of \$1.7 million and accrued interest income of \$1.1 million.

## **LIQUIDITY AND CAPITAL RESOURCES**

At September 30 2008 the Company's main source of liquidity was unrestricted cash of \$17.9 million (2007 US\$25.2 million).

At September 30 2008, the Company's consolidated working capital was a deficit of \$1.7 million (September 30 2007 working capital surplus of \$8.2 million; December 31 2007 working capital deficit of \$1.6 million) comprising free cash, inventory, accounts receivable, prepayments, less accounts payable and current portion of the principal on long term debt. This represents a decrease of \$0.1 million versus December 31 2007 and a decrease of \$8.3 million versus September 30 2007. The movement during the nine months ended September 30 2008, in the Company's consolidated working capital comprised a decrease in unrestricted cash of \$7.4 million, increase in inventories \$7.6 million, increase in accounts receivable and prepayments \$5.2 million, less an increase in accounts payable \$7.3 million and decrease in the current portion on the principle long term debt of \$1.8 million.

### **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. In addition, the Company was served with a statement of claim in September 2008.

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 of \$16.65m due in December 2008 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 GAAP applicable to going concern, which contemplates the realisation 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.

### **Commitments**

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

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

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 licence area.

These costs are repayable in annual instalments after both of the following events have taken place:

- i) the first discovery of a reserve in the license area - complete as at June 30, 2007; and
- ii) the completion of the first year (not earlier than the year in which the discovery of a reserve occurs) during which the licensee has a net profit for tax purposes. As the Company has yet to complete a year in which a net profit for tax purposes is recorded, no liability has been recorded at September 30, 2008. If and when the liability crystallizes, payments under the terms of the SSUC will be charged to operations as incurred.

### **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 Corporation ("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).

## USE OF ACCOUNTING ESTIMATES

Management makes estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates are used for certain items such as fair values used to establish the purchase price allocation, reserve and production quantities, production costs, depletion, depreciation and amortization, impairment, asset retirement obligation assumptions, stock based compensation and the valuation of derivatives and contingencies.

## Changes in accounting policies

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

## 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.

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

## 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.

## Financial instruments

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

### **Fair Values**

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

### **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 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 period September 30 2008. As a by product of the production process, a small amount silver was produced which generated sales totalling \$21,000.00. 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-taker contract for its copper concentrate sales (Trafigura) and its gold Doré 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.

### **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.

#### **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 recognising the natural hedge arising from floating rate deposits.

#### **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.

### **Asset retirement obligations**

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

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

### **Income taxes**

The Company follows the liability method of accounting for income taxes. Under this method, current income taxes are recognised for the estimated income taxes payable for the current period. Future income tax assets and liabilities are recognised for temporary differences between the tax and accounting basis of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes. Future income tax assets are evaluated and if realization is not considered more likely than not, a valuation allowance is provided.

## CORE ASSETS

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

**Varvarinskoye Copper-Gold Mine, Kazakhstan** – Located in north-western Kazakhstan, the mine commenced production of gold doré and copper-gold concentrate during December 2007. During Q3 2008, the Varvarinskoye plant processed 768,663 tonnes of ore and produced a total of 375,022 grams (12,059 troy oz) of gold. Since production commenced, a total of 847,523 grams (27,231 troy oz) of gold has been produced. See “Review of Operations – Varvarinskoye Project Update” for further information.

Total metal production revenue to 30 September 2008 is approximately US\$ 38.6 million.

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

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

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

## REVIEW OF OPERATIONS

### VARVARINSKOYE COPPER-GOLD MINE, KAZAKHSTAN

The 100% owned Varvarinskoye copper-gold mine is located 130km southwest of Kostanai in northern Kazakhstan. The mine produces for sale copper-gold concentrate and gold doré. Orsu's main focus has been the ramp-up of mining operations at Varvarinskoye where mining and milling activities are operating at or around 80% of design capacity.

### VARVARINSKOYE PROJECT UPDATE

#### Production

Varvarinskoye's production plant has seen significant increases in throughput and has now reached an operation capacity of 80% of design capacity. During Q3, the plant processed a total of 768,663 tonnes of ore compared to 634,485 tonnes in Q2 2008. The plant was not in operation during Q3 2007.

During Q3, Varvarinskoye mined a total of 3,930,900 tonnes compared to 2,319,200 tonnes mined in Q2. A total of 902,700 tonnes of ore was mined compared to a 596,400 tonnes in Q2 and approximately 400,000 tonnes in Q3 2007.

A total of 375,022 grams (12,059 troy oz) of gold was produced during Q3 compared to 349,522 grams (11,239 troy oz) in Q2. Gold grade of feed to the flotation circuit was 1.11g/t compared to 1.64g/t in Q2 and represents the main reason gold production was not significantly higher than Q2. Copper production during Q3 was 1,106 tonnes compared to 1,259 tonnes in Q2. Copper feed grade to the flotation circuit was 0.72% during the quarter compared to 0.99% in Q2. Gold feed grade to the leach circuit was 0.61g/t in the quarter compared to 0.60 in Q2.

Varvarinskoye Production	1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter	3 <sup>rd</sup> Quarter
	Actual	Actual	Actual
<b>Mining</b>			
Total mined tonnes	2,738,400	2,319,200	3,930,900
<b>Processing</b>			
<b>Flotation</b>			
Processed tonnes	62,698	184,948	187,603
Grade Cu %	0.46	0.99	0.72
Grade Au g/t	0.66	1.64	1.11
Recovery Cu to concentrate %	57.6%	68.9%	82.0%
Recovery Au to concentrate %	49.9%	51.3%	59.0%
<b>Leach</b>			
Processed tonnes	173,308	449,537	581,060
Grade Au g/t	0.79	0.60	0.61
Recovery Au (onto carbon) %	68.6	66.3	69.5
<b>Metal Produced</b>			
Concentrate tonnes	1,105	6,497	6,036
Cu recovered to concentrate tonnes	166	1259	1,106
Total gold produced grams	122,979	349,522	375,022

During Q3, the average ore hardness increased as feed from the mine was fresh un-weathered ore compared to the softer near-surface ore which was fed to the mill in Q2. The mill operated at an average of 73% of design capacity through the quarter compared to 60% in Q2.

Within the main pit, mining has reached a high-grade copper-gold zone and management believes grades of mined ore expected over the next two quarters are therefore expected to be significantly higher than those of Q3. In addition, four new Caterpillar 777 haul trucks are due to be delivered to the mine in Q4. The addition of these four trucks to the mining fleet is expected to increase Varvarinskoye's mining capacity from the current 1.3Mt/month to the targeted 2.0Mt/month, a planned increase of some 44%.

### **Low Cost Project Upgrade**

The Company is implementing a plan to add a secondary low cost screening and crushing plant at Varvarinskoye which is expected to significantly increase throughput in the leach and flotation grinding circuits. Orway Mineral Consultants Pty Ltd (Australia) ("Orway") has been working with Varvarinskoye engineers since May 2008 in making improvements to the grinding circuits. With the assistance of Orway, Orsu has determined that both grinding circuits are highly dependent on the size distribution of feed ore. Ore originating from the mine lacks in fineness over the middle fraction and the intention is to screen the coarse ore from the jaw-crusher into three sizes and further crush the middle fraction of the screened product.

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

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

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

### **Varvarinskoye hedge settlement**

As previously announced, on 3 September 2008 the Company settled in advance its September to December 2008 gold forward contract obligations (a total of 27,340 ozs) at a settlement price of USD\$794.75/oz, resulting in a settlement payment of USD\$6,028,000 net of the forward sales price of USD\$574.25/oz.

### **Update on production ramp up**

- Leach circuit grinding has been running at over 90% throughput with some days having achieved 100% throughput. Throughput is highly dependent on feed size distribution.
- Flotation circuit grinding appears to be limited to 110 tonnes per hour ("tph") compared to designed capacity of 155tph. This is due to the mentioned feed size distribution and the hardness of ore, along with the mill design which was marginal for the required design throughput.

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 will be switched according to feed available from the mine.

Varvarinskoye's open pit continues to operate on a normal basis and steps are being taken to improve overall productivity by optimising truck positioning around the excavators and maximise the hours worked per day. Mine grades were lower in Q3 due to a lack of waste mining in the first two quarters of the year when previous management focused on high-grade ore production and shut down one of two shifts to conserve cash. This necessitated an increase in waste mining during Q3 and is expected to expose higher-grade ore for extraction in Q4, 2008.

Over the next few months, the operation is expected to continue with its ramp up by:

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

The mineral resource and mineral reserve estimates at Varvarinskoye were completed by William Kennedy a former director of the Company (EMC's President and Chief Executive Officer at the time) and a qualified person as defined by Canada's National Instrument 43-101 ("NI 43-101").

The preparation of all scientific and technical information within this MD&A has been supervised by Matthew Boyes (Mineral Resources Manager, Orsu), a qualified person as defined by NI 43-101.

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

The Company is also exploring and developing several advanced staged gold and copper deposits in the Tien Shan metallogenic belt in Kyrgyzstan and the Rudny Altai metallogenic belt in Kazakhstan. The Tien Shan gold belt is host to some of the world's largest copper-gold porphyries, including a 93 Moz porphyry cluster at Almalyk in Uzbekistan. These exploration projects are held by Orsu through Lero.

### **TALAS EXPLORATION LICENCES, KYRGYZSTAN**

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

For avoidance of confusion;

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

### **TALDYBULAK-TALAS PROJECT (100% owned by Orsu 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.

#### **3rd Quarter Activity and Proposed Programme for 4th Quarter**

Q3 2008 saw Orsu finalise the drilling contracts with Spektra Jeotek, Turkey and Altyn Jilga, Kyrgyzstan, which has enabled the continuation of drilling with a total of 17,000m due to be completed in Q1 2009.

**Table 1: Proposed drilling within Taldybulak-Talas Exploration Licence**

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

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

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

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

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

The preparation of all scientific and technical information within this MD&A has been supervised by Matthew Boyes (Mineral Resources Manager, Orsu), a qualified person as defined by NI 43-101.

## **KENTASH PROJECT (100% owned by Orsu via Talas Copper Gold LLP)**

### **Targeted Mineralisation**

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

### **Q3 Activity and Proposed Programme for Q4**

Within the Kentash licence 3 PD-IP lines totalling 9.55km were completed over the SW anomaly. Two lines of DD-IP totalling 9.85km were completed within the Barkol licence. Year-to-date IP totals over 106km.

Approximately 1,000m in three drill holes IS planned for Q4 2008.

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

**Targeted Mineralisation**

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

**Q3 Activity and Proposed Programme for Q4**

A 15km<sup>2</sup> ground magnetic survey over the NW extents of the Korgontash license has been 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 focussed on the area west of the Aktash exclusion zone is being planned. Location of drill sites for the Q4 programme will be decided on this basis.

**BARKOL EXPLORATION LICENCE, KYRGYZSTAN**  
**(100% owned by Orsu via Talas Copper Gold LLP)**

**Targeted Mineralisation**

Copper-gold porphyry mineralisation.

**Q3 Activity and Proposed Programme for Q4**

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

All results from the geochemical programme completed in Q4 2007 have been received and outlined several anomalies, which are due to be investigated during Q4 2008.

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

Core drilling is planned for Q4 2008.

**TOKHTAZAN EXPLORATION LICENCE, KYRGYZSTAN**

**Tokhtazan Project**

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

**Q3 Activity and Proposed Programme for Q4**

Access road construction was conducted during Q3 2008. A diamond drilling programme, consisting of approximately 2,500m, commenced during Q3 2008.

**Akdzhol Project**

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

**Q3 Activity and Proposed Programme for Q4**

Access road construction was conducted during Q3 2008. A trenching programme, consisting of approximately 500m, started on the Kurpsai area within the licence area during Q3 2008. This will be supplemented by ground DD-IP geophysical survey.

## **KARCHIGA EXPLORATION LICENCE, KAZAKHSTAN**

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

#### **Targeted Mineralisation**

Copper Volcanogenic Massive Sulphide ("VMS")

#### **Q3 Activity and Proposed Programme for Q4**

Drilling works during the period focused on the Main and Northeast lodes of Karchiga. The primary scope of the 2008 programme is to upgrade the previously reported mineral resource at the Karchiga project to Measured and Indicated categories under 43-101. The total drilling programme consists of 11,000m, of which 9,000m is to be drilled at Karchiga's Central and Northeast lodes, with additional 2,000m planned to test new exploration targets. By the end of Q3 2008, Orsu completed 8,000m of diamond drilling. All drilling works within the Main lode of Karchiga have been completed by the end of Q3 2008. Within the Main lode, data from 46 drill holes completed to date confirms that the general structure of the lode conforms to that of the Soviet data. At the same time, it revealed a number of peculiar characteristics, which may be of considerable importance. The new drilling works demonstrated that the total strike length of the Northeast lode is continuous for 659m, which was only partly included into the April resource model.

Trenching work commenced during the period to sample the oxide mineralization in the Main lode at Karchiga. This work is due to be completed early Q4 2008. Early results demonstrate that an oxidized zone was locally worked by ancient miners to a depth of 18 meters.

Sampling has been carried out, with 1,000 core samples due to arrive at the Alex Stewart's Karabalta lab (Kyrgyzstan), while geochemical samples have been already been sent to Australia.

Geochemistry has been completed over the entire license area on soils on 100x20m grid. Samples have been sent to Ultratrace lab in Australia. An IP and resistivity survey was completed on 18 profiles during the period, totalling 63.55km. A preliminary interpretation was received in September and was used for positioning the exploration drill holes in two anomalous zones, similar to Karchiga, where a non-outcropping area of mineralisation is being targeted. The identification of these new targets is based on historical work plus recently acquired geochemical and induced polarization ("IP") geophysical data carried out by Orsu since obtaining the licence in 2006. The target areas lie approximately 5km along strike from the Central zone with the area exhibiting very similar geological terrain and structural characteristics. The Company started exploration drilling of the new anomalies in Q4 2008.

Metallurgical test work on Karchiga sulphide ores has been completed by the VNIITvsetMet Institute in Ust-Kamenogorsk with positive results suggesting that a 15.9% Cu concentrate can be produced from the Karchiga ores at 98% recovery. This result requires optimization of concentrate grade versus recovery. For the purposes of the feasibility study, three 400kg metallurgical samples are due to be collected. These samples will represent the three types of Karchiga ore (oxidized, primary disseminated and massive). The analysis of primary ores at Karchiga showed that 18% of ores are massive (1m average) and 82% of ores is disseminated (4.5 m average). It is also planned to study a variability of these ore types throughout the deposit. Metallurgical sampling is scheduled for the latter half of October 2008, with results of metallurgical test-work due approximately Q2 2009.

In September 2008, Micon International Co Limited was contracted to carry out a preliminary assessment (scoping study) of the Karchiga massive sulphide copper project. The scoping study is expected to be completed by mid December 2008 and is targeted to provide a preliminary estimate of resource/reserve conversion, an estimate of costs including capital costs, as well as preliminary estimate of environmental aspects of the project.

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

## **RISKS AND UNCERTAINTIES**

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

The risk factors include risks associated with the estimate of mineral reserves, mineral resources and production; risks of development, construction and mining operations; exploration and mining risks; risk of changes to applicable government regulations relating to the mining industry or to their application or shifts in political conditions in foreign countries; risks of changes to environmental legislation; risks associated with the political and legal environment in Kazakhstan and Kyrgyzstan; risks associated with doing business in Kazakhstan and Kyrgyzstan; risks associated with the acquisition of title to mineral properties; risks associated with non-compliance with environmental and regulatory requirements; fluctuations in the price of gold, copper and foreign currency fluctuations; risks of obtaining required financing and operating permits on a timely basis; and the inability to economically or fully insure against certain risks. Additional risks not currently known to the Company, or that the Company currently deems immaterial, may also adversely materially affect or impair the Company's operations and results of operations. The Company is also subject to a number of risk factors due to the nature of the resource business in which it is engaged. The Company seeks to counter these risks as much as possible by selecting exploration, production and development areas on the basis of their recognised geological, production and potential to host economic returns.

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

The exploration and development of mineral deposits involves significant financial risks over a prolonged period of time, which even with a combination of careful evaluation, experience and knowledge may not eliminate. While discovery of a mineral 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.

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

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

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

## **Development Projects**

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

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

## **Expansion Targets and Operational Delays**

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

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

The profitability of any precious or base metal mining operation in which the Company has or may in the future acquire an interest will be significantly affected by changes in the market price of precious and base metals. Precious and base metal prices fluctuate on a daily basis and are affected by numerous factors which will be beyond the Company's control. The level of interest rates, the rate of inflation, world supply of precious and base metals and stability of exchange rates, among others, can all cause significant fluctuations in precious and base metal prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems and political developments. The price of precious and base metals has historically fluctuated widely and future serious price declines could cause commercial production to be uneconomic. Depending on the price of precious or base metals, cash flow from mining operations may not be sufficient. If, as a result of a decline in precious or base metal prices, revenues from metal sales were to fall below cash operating costs, production if started, might be discontinued.

## **Limited Operating History**

The Company's Varvarinskoye mine has only recently reached commercial production levels. Also, the Company is still working towards developing properties into operations that would be capable of producing positive cash flows in the future. The Company's ultimate success will depend on its ability to continue to generate cash flows from active mining operations in the future and its ability to access equity or debt markets for its further development requirements if and when needed.

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

## **Additional Financing**

The Company is required to fund its share of approved exploration expenditure on certain of the properties on which it has exploration rights, failing which the Company's exploration rights in the relevant 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. There is no assurance that the Company will be successful in generating or raising sufficient funds to commence future mining operations or to meet its obligations with respect to the exploration properties in which it has or may acquire exploration rights.

## **Key Personnel**

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

## **Political Risk**

The Company will conduct its exploration and development activities primarily in the Commonwealth of Independent States. The directors of the Company are hopeful that the governments of the Russian Federation, Republic of Kazakhstan and the Kyrgyz Republic and other republics in the region will support the development of natural resources by foreign operators, but there have been cases of mineral licences being revoked in the past. Mineral exploration and mining activities may be affected in varying degrees by political stability 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, nationalization, expropriation and other areas, each of which may affect both the Company's ability to undertake exploration and development activities in respect of future properties in the manner currently contemplated, as well as its ability to continue to explore and develop those properties in respect of which it has obtained exploration and development rights to date.

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

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

## **Environmental Factors**

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

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

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

## **Competition**

The mineral exploration and mining business is competitive in all of its phases. The Company will compete with numerous other companies and individuals, including competitors with greater financial, technical and other resources than the Company, in the search for and acquisition of exploration and development rights on attractive mineral properties. The Company's ability to acquire exploration and development rights on properties in the future will depend not only on its ability to develop the properties on which it currently has exploration and development rights, but also on its ability to select and acquire exploration and development rights on suitable properties for exploration and development. There is no assurance that the Company will be able to compete successfully with its competitors in acquiring exploration and development rights on such properties.

## **Currency Risk**

Currency fluctuations may affect the cash flow that the Company may realize from its operations, as minerals and base metals are sold and traded on the world markets in United States Dollars. The Company's costs are incurred primarily in United States Dollars, British Pounds Sterling, 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.

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

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

## **Uninsured Risks**

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

## **Geology, Resources and Reserves**

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

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

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

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

## **FORWARD LOOKING INFORMATION**

This MD&A contains or refers to forward-looking information. All information, other than information regarding historical fact that addresses activities, events or developments that the Company believes, expects or anticipates will or may occur in the future is forward-looking information. Such forward-looking information includes, without limitation, the Company's anticipated rates of production and revenue there from; including expected levels of operating profits; the Company's planned implementation of a second low cost screener and crusher at Varvarinskoye and the expected increase in throughput expected; the estimated costs associated with the proposed upgrade to the screener and crusher; Management's expectations of increased grades of mined ore at Varvarinskoye over the next two financial quarters; the estimated value of gold-copper concentrate produced from Varvarinskoye; the expected levels of ore that will be treated at the Varvarinskoye mine; Management's beliefs with respect to the extent of potential which exists for the discovery of the additional mineralization at the Karchiga copper project; the Company's expectations with respect to its planned operations over the next few months at Varvarinskoye and its other projects; the anticipated timing for completion of the Taldybulak-Talas drilling programme underway; completion of the follow-up work at Korgontash being planned; the expected timing of the commencement of investigations of the anomalies identified at Barkol and the Barkol core drilling programme; at Tokhtazan the diamond drilling programme; and at Akdzhol: undertaking of geophysical survey and completion of trenching programme; the expected timing of the completion of the scoping study at Karchiga and anticipated results; development and operational plans and objectives; the Company's expectation of reaching a satisfactory joint venture agreement ensuring Gold Fields' participation and financial support with respect to the Barkol, Kentash, Taldybulak and Korgontash licences; estimates of mineral resources and reserves; the proposed work programs for the Company's exploration properties and their respective costs and timing and the Company's expectations concerning the outcome of the pending litigation.

The forward-looking information in this MD&A reflects the current expectations, assumptions or beliefs of the Company based on information currently available to the Company. With respect to forward looking information contained in this MD&A, the Company has made assumptions regarding, among other things, the Company's ability to generate sufficient cash flow from operations and capital markets to meet its future obligations, the regulatory framework in Kazakhstan and Kyrgyzstan with respect to, among other things, permits, licences, authorisations, royalties, taxes and environmental matters, the ability of management to establish a commercial mining operation at Varvarinskoye, and the Company's ability to continue to obtain qualified staff and equipment in a timely and cost-efficient manner to meet the Company's demand.

Forward-looking information is subject to a number of risks and uncertainties that may cause the actual results of the Company to differ materially from those discussed in the forward-looking information, and even if such actual results are 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; capital and operating costs varying significantly from estimates; inflation; changes in exchange rates; fluctuations in commodity prices; delays in the development of, and the commencement of operations at, Varvarinskoye caused by unavailability of equipment, labour or supplies, climatic conditions, delays in the delivery and installation of plant and equipment or otherwise; termination or suspension of the Company's debt facility; uncertainty of the outcome of any litigation; inability to delineate additional mineral resources or reserves; and other factors including, but not limited to, those listed under "Risk and Uncertainties" in this MD&A.

Any forward-looking information speaks only as of the date on which it is made and, except as may be required by applicable securities laws, the Company disclaims any intent or obligation to update any forward-looking information, whether as a result of new information, future events or results or otherwise. Although the Company believes that the assumptions inherent in the forward-looking information are reasonable, forward-looking information is not a guarantee of future performance and accordingly undue reliance should not be put on such information due to the inherent uncertainty therein.

Any mineral resource and mineral reserve figures referred to in this MD&A are estimates and no assurances can be given that the indicated levels of minerals will be produced. Such estimates are expressions of judgment based on knowledge, mining experience, analysis of drilling results and industry practices. Valid estimates made at a given time may significantly change when new information becomes available. While the Company believes that the resource and reserve estimates referred to in this MD&A are well established, by their nature resource and reserve estimates are imprecise and depend, to a certain extent, upon statistical inferences which may ultimately prove unreliable. If such estimates are inaccurate or are reduced in the future, this could have a material adverse impact on the Company. Due to the uncertainty that may be attached to inferred mineral resources, it cannot be assumed that all or any part of an inferred mineral resource will be upgraded to an indicated or measured mineral resource as a result of continued exploration.

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

## **OTHER INFORMATION**

### **Additional information:**

Additional information relating to the Company, including the Company's Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com)

### ***Disclosure of Outstanding Share Data:***

The following table sets forth information concerning the outstanding securities of the Company as at 13 November 2008:

<b>Common shares of no par value ("Shares")</b>	<b>Number in issue</b>
Shares	456,959,226
Share purchase options <sup>(1)</sup>	43,540,000
Warrants outstanding <sup>(1)</sup>	136,047,520

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

Orsu is authorised to issue 100 billion shares

**ENDS**