

# **Orsu Metals Corporation**

Consolidated Financial Statements  
**June 30, 2009 and 2008**  
(In thousands of US 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 ended June 30, 2009.

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

All tabular amounts are stated in thousands of US(\$ ) dollars unless otherwise stated.

# Orsu Metals Corporation

## Consolidated Balance Sheets

As at **June 30, 2009 (Unaudited)** and **December 31, 2008**

(in thousands of US dollars)

	June 30, 2009 \$	December 31, 2008 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	2,300	6,200
Other assets	1,572	1,296
Current assets related to discontinued operations (note 4)	29,324	26,280
	<u>33,196</u>	<u>33,776</u>
<b>Property, plant and equipment</b>	<b>28,341</b>	<b>28,827</b>
<b>Net investment in oil and gas residual interests</b>	<b>884</b>	<b>884</b>
<b>Long term assets related to discontinued operations</b> (note 4)	<b>43,970</b>	<b>43,170</b>
	<u>106,391</u>	<u>106,657</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	3,508	2,644
Current liabilities related to discontinued operations (note 4)	182,508	99,768
	<u>186,016</u>	<u>102,412</u>
<b>Future income tax</b>	<b>6,877</b>	<b>6,877</b>
<b>Long term liabilities related to discontinued operations</b> (note 4)	<b>13,735</b>	<b>106,130</b>
	<u>206,628</u>	<u>215,419</u>
<b>Shareholders' Deficiency</b>		
<b>Share capital</b> (note 8(a))	<b>361,440</b>	<b>361,440</b>
<b>Share purchase warrants</b> (note 8(b))	<b>48,650</b>	<b>48,650</b>
<b>Share purchase options</b> (note 8(c))	<b>19,800</b>	<b>19,000</b>
<b>Contributed surplus</b> (note 10)	<b>3,477</b>	<b>2,715</b>
<b>Deficit</b>	<b>(533,604)</b>	<b>(540,567)</b>
	<u>(100,237)</u>	<u>(108,762)</u>
	<u>106,391</u>	<u>106,657</u>
<b>Going concern</b> (note 2)		
<b>Commitments</b> (note 11)		
<b>Contingencies</b> (note 14)		

# Orsu Metals Corporation

## Consolidated Statements of Operations, Comprehensive Loss and Deficit

For the periods ended June 30, 2009 (Unaudited) and June 30, 2008 (Unaudited)

(in thousands of US dollars)

	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
	<i>(Restated see note 5)</i>		<i>(Restated see note 5)</i>	
	\$	\$	\$	\$
<b>(Expenses)/ income</b>				
General and administrative	(2,514)	(7,710)	(4,074)	(9,216)
Exploration	(158)	(60)	(373)	(59)
Stock-based compensation (note 9)	(762)	(109)	(1,562)	(247)
Interest expense	-	-	(67)	(344)
Interest income	37	1,392	38	223
Foreign exchange (losses)/ gains	347	383	(42)	(357)
<b>Loss from continuing operations</b>	<b>(3,050)</b>	<b>(6,104)</b>	<b>(6,080)</b>	<b>(10,000)</b>
<b>Net (loss)/ profit from discontinued operations</b> (note 4)	<b>5,755</b>	<b>(10,937)</b>	<b>(19,500)</b>	<b>(44,987)</b>
<b>(Loss)/ profit and comprehensive (loss)/ profit for the period</b>	<b>2,705</b>	<b>(17,041)</b>	<b>(25,580)</b>	<b>(54,987)</b>
<b>Deficit - Beginning of period – as previously stated</b>	<b>(568,852)</b>	<b>(255,901)</b>	<b>(540,567)</b>	<b>(217,955)</b>
Adjustment on adoption of EIC 173 (note 5)	32,543	-	32,543	-
<b>Deficit - Beginning of period – Restated</b>	<b>(536,309)</b>	<b>-</b>	<b>(508,024)</b>	<b>(217,955)</b>
<b>Deficit - End of period</b>	<b>(533,604)</b>	<b>(272,942)</b>	<b>(533,604)</b>	<b>(272,942)</b>
<b>(Loss) per common share</b>				
(Loss) per common share from Continued Operations	<b>\$(0.01)</b>	\$(0.02)	<b>\$(0.01)</b>	\$(0.03)
(Loss)/ gain per common share after Discontinued Operations	<b>\$0.01</b>	\$(0.05)	<b>\$(0.06)</b>	\$(0.18)
<b>Weighted average number of common shares</b>				
Basic and diluted	<b>456,959</b>	313,829	<b>456,959</b>	313,829

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

**Orsu Metals Corporation**  
**Consolidated Statements of Cash Flows**  
**For the periods ended June 30, 2009 (Unaudited) and June 30, 2008 (Unaudited)**  
(in thousands of US dollars)

	Three months to June 30		Six months to June 30	
	2009	2008	2009	2008
<b>Cash flows from operating activities</b>	\$	\$	\$	\$
Loss for the period from continuing activities	(3,050)	(6,104)	(6,080)	(10,000)
Items not affecting cash				
Depreciation, amortization and deferred finance charges	61	21	103	22
Stock-based compensation (note 9)	762	27	1,562	165
Unrealized foreign exchange loss	-	(122)	-	562
Warrants issued to agents	-	186	-	186
	(2,227)	(5,992)	(4,415)	(9,065)
Change in non-cash working capital				
Increase in accounts receivable and other assets	333	(244)	(275)	140
Increase in accounts payable and accrued liabilities	1,193	5,295	1,050	3,555
<b>Cash flows used in continuing operations</b>	<b>(701)</b>	<b>(941)</b>	<b>(3,640)</b>	<b>(5,370)</b>
<b>Cash flows (used)/ from investing activities</b>				
Expenditures on property, plant and equipment	(260)	-	(260)	-
Acquisition of Lero, net of cash acquired	-	20,705	-	21,034
<b>Cash flows used in investing activities</b>	<b>(260)</b>	<b>20,705</b>	<b>(260)</b>	<b>21,034</b>
<b>Cash flows from/ (used) in financing activities</b>				
Proceeds from exercise of stock options (note 8(c))	-	232	-	1,222
Proceeds from debt	-	5,000	-	5,000
Funding to discontinued operation	-	(21,297)	-	(35,845)
Lero cash advances to EMC pre-acquisition	-	25,000	-	25,000
Repayment of debt	-	(5,000)	-	(5,000)
<b>Cash flows from/ (used) in financing activities</b>	<b>-</b>	<b>3,935</b>	<b>-</b>	<b>(9,623)</b>
<b><u>(Decrease) increase in cash and cash equivalents for continuing operations :-</u></b>				
<b>Continuing operations</b>	<b>(961)</b>	<b>23,699</b>	<b>(3,900)</b>	<b>6,041</b>
Discontinuing operations (see note 4)	<b>3,539</b>	<b>3,844</b>	<b>3,119</b>	<b>3,016</b>
<b><u>Cash and cash equivalents - Beginning of period:-</u></b>				
<b>Continuing operations</b>	<b>3,261</b>	<b>5,147</b>	<b>6,200</b>	<b>22,805</b>
Discontinuing operations (see note 4)	<b>1,154</b>	<b>1,617</b>	<b>1,574</b>	<b>2,445</b>
<b><u>Cash and cash equivalents - End of period :-</u></b>				
<b>Continuing operations</b>	<b>2,300</b>	<b>28,846</b>	<b>2,300</b>	<b>28,846</b>
Discontinuing operations (see note 4)	<b>4,693</b>	<b>5,461</b>	<b>4,693</b>	<b>5,461</b>
<b>Consolidated cash and cash equivalents at end of period</b>	<b>6,993</b>	<b>34,307</b>	<b>6,993</b>	<b>34,307</b>

# Orsu Metals Corporation

Notes to Consolidated Financial Statements

For the period ended June 30, 2009 (Unaudited)

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## 1 Nature of operations

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

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

On December 3, 2008 the Company entered into an agreement with Goldfields Orogen Holdings BVI Limited (“Gold Fields”) to further develop the Taldybulak-Talas property. Under the agreement Gold Fields became the project operator and has right to earn up to a 70% stake in the Talas property. For the six months ended June 30, 2009 Gold Fields had funded \$3.6 million for the project. Gold Fields had not earned any stake in the Talas property as at June 30, 2009.

Prior to signing the JV Agreement (and prior to the Company’s acquisition of Lero on June 19, 2008), Gold Fields participated in three private placement financings with Lero and currently holds a total of 11,349,195 common shares of Orsu, or 2.46% of the total issued common shares of Orsu.

The Varvarinskoye Project is a 100% owned gold-copper mine located in north-western Kazakhstan producing gold doré and copper-gold concentrate. The mine commenced production of gold doré in December 2007 and copper-gold concentrate in March 2008.

The Company entered into a sale and purchase agreement dated June 13, 2009 with Open Joint Stock Company Polymetal (“Polymetal”), a Russian-based mining company, pursuant to which the Company has agreed, subject to certain conditions, to sell to Polymetal all of its interest and obligations in the Varvarinskoye Project. At the annual and special meeting of shareholders held on July 10, 2009 the Company’s shareholders approved the resolution to authorize the sale by the Company. Following the completion of the sale of the Varvarinskoye Project, the Company will have no outstanding long-term debt and intends to use the proceeds from the sale of the Varvarinskoye Project to fund the Company’s operating costs and to fund ongoing exploration activities on its existing properties, as well as any new properties acquired by it.

Whilst the sale of the mine has not yet been completed the Company has in accordance with Canadian GAAP, CICA 3475 accounted for the financial results associated with the Varvarinskoye Project as at June 30, 2009 as discontinued operations in these financial statements (see Note 4 of the financial statements for further details).

# Orsu Metals Corporation

Notes to Consolidated Financial Statements

For the period ended June 30, 2009 (Unaudited)

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## 2 Going concern

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

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

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

The Company was unable to meet the first two repayment tranches under the long-term debt facility of \$16.65 million due on December 31, 2008 and \$19.4 million due on June 30, 2009, and payment of both tranches remains outstanding. As at February 24, 2009, the Company was in breach of its permitted indebtedness covenant with respect to trade creditors, both in respect of amounts and terms (“Permitted Indebtedness”). This arose primarily due to temporary delays in shipping concentrate for sale. No waiver has been obtained from the Lenders for this breach. The Company is forecasting that, in the absence of additional waivers or modification of the debt terms, it will remain unable to meet its 2009 scheduled repayment obligations, will remain in breach of its repayment terms and its Permitted Indebtedness covenants, and is likely to breach additional covenants of its long-term debt facility.

# Orsu Metals Corporation

## Notes to Consolidated Financial Statements

### For the period ended June 30, 2009 (Unaudited)

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Failure to remedy existing or future breaches and to comply with the debt repayment terms will entitle the Lenders to demand immediate repayment of all amounts owing (see note 6).

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

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

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

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

To date, the Lenders have not taken, nor indicated that they intend to take, any action in respect of the defaults noted above, due to the previous ongoing refinancing discussions with the Company and, more recently, due to the ongoing discussions with the Company and Polymetal regarding the sale of the Varvarinskoye Project.

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

# **Orsu Metals Corporation**

## **Notes to Consolidated Financial Statements**

### **For the period ended June 30, 2009 (Unaudited)**

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

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

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

# Orsu Metals Corporation

Notes to Consolidated Financial Statements

**For the period ended June 30, 2009 (Unaudited)**

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## **3 Significant accounting policies**

### **Basis of presentation and principles of consolidation**

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) for interim financial information and they follow the same accounting policies and methods of application as the audited annual consolidated financial statements of the Company for the year ended December 31, 2008, except as described below and in Note 4. These unaudited interim consolidated financial statements do not include all the information and note disclosure required by Canadian GAAP for annual financial statements and therefore should be read in conjunction with the most recent audited annual consolidated financial statements.

In the opinion of management, all adjustments necessary to present fairly the financial position at June 30, 2009 and the results of operations and cash flows for all periods presented have been made. The interim results are not necessarily indicative of results for a full year.

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

# Orsu Metals Corporation

Notes to Consolidated Financial Statements

For the period ended June 30, 2009 (Unaudited)

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## 4 Discontinued operations

The Company entered into a sale and purchase agreement dated June 13, 2009 with Polymetal, a Russian-based mining company, pursuant to which the Company has agreed, subject to certain conditions, to sell to Polymetal all of its interest and obligations in the Varvarinskoye Project. At the annual and special meeting of shareholders held on July 10, 2009 the Company's shareholders approved the resolution to authorize the sale by the Company.

Under the terms of the SPA, 100% of the shares in Three K will be sold to Polymetal. Three K currently owns (directly and indirectly) JSC Varvarinskoye and will on completion hold (directly and indirectly) all debt and hedging obligations relating to the Varvarinskoye Project.

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

Assuming the satisfaction or waiver of the conditions mentioned above, the Company anticipates completing the sale during the third quarter of 2009. Under CICA 3475 the financial results of the Varvarinskoye project are considered as "Discontinued Operations" in these consolidated financial statements. The results of the Varvarinskoye Project have been reclassified and disclosed in the consolidated statements of operations as "Loss from discontinued operations" while cashflows related to these operations have been reclassified and disclosed in the consolidated statements of cashflows as "Cash flows used by discontinued operations". In addition, assets and liabilities of the Varvarinskoye Project have been reclassified and disclosed in the consolidated balance sheet as "assets or liabilities related to discontinued operations".

**Orsu Metals Corporation**  
Notes to Consolidated Financial Statements  
**For the period ended June 30, 2009 (Unaudited)**

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The following table shows the results from discontinued operations as of June 30, 2009 and 2008:-

	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
	<i>(Restated see note 5)</i>		<i>(Restated see note 5)</i>	
	\$	\$	\$	\$
<b>Sales revenues</b>				
Gold	19,630	6,536	27,529	8,796
Copper	12,865	6,689	14,764	6,689
	<u>32,495</u>	<u>13,225</u>	<u>42,293</u>	<u>15,485</u>
<b>Cost of sales</b>				
Operating expenses	(13,956)	(8,784)	(25,966)	(9,700)
Selling and distribution costs	(1,479)	(1,316)	(1,861)	(1,365)
Depreciation, depletion and amortization	(99)	(4,189)	(199)	(7,991)
Accretion	(192)	-	(379)	-
	<u>(15,726)</u>	<u>(14,289)</u>	<u>(28,405)</u>	<u>(19,056)</u>
<b>Other (expenses) income</b>				
Unrealized derivative (losses)/ gains (note 7)	504	(566)	(7,304)	(22,821)
Realized derivative losses (note 7)	(7,204)	(5,081)	(14,889)	(11,292)
General and administrative	(1,402)	(2,189)	(2,741)	(3,528)
Exploration	-	(432)	-	(865)
Interest expense	(2,577)	(1,659)	(5,480)	(2,915)
Interest income	-	2	-	32
Foreign exchange (losses)/ gains	(88)	52	(2,727)	(27)
Loss on disposal of assets	(247)	-	(247)	-
	<u>(11,014)</u>	<u>(9,873)</u>	<u>(33,388)</u>	<u>(41,416)</u>
<b>Net (loss)/ profit from discontinued operation</b>	<u>5,755</u>	<u>(10,937)</u>	<u>(19,500)</u>	<u>(44,987)</u>

**Orsu Metals Corporation**  
Notes to Consolidated Financial Statements  
**For the period ended June 30, 2009 (Unaudited)**

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The following table shows the net assets deficiency related to discontinued operations as at June 30, 2009 and December 31, 2008:-

	<b>June 30, 2009</b>	December 31, 2008
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	4,693	1,574
Inventory	24,147	21,461
Accounts receivable	88	507
Other assets	396	2,738
	<u>29,324</u>	<u>26,280</u>
<b>Other assets</b>	16,591	19,688
<b>Inventory</b>	8,057	6,419
<b>Restricted cash</b>	85	142
<b>Property, plant and equipment</b>	19,237	16,921
	<u>73,294</u>	<u>69,450</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	18,241	21,796
Current portion of long-term debt (note 6)	57,623	53,751
Current portion of derivative liabilities (note 7)	106,644	24,221
	<u>182,508</u>	<u>99,768</u>
<b>Derivative liabilities (note 7)</b>	-	92,773
<b>Asset retirement obligations</b>	13,735	13,357
	<u>196,243</u>	<u>205,898</u>
<b>Net Assets Deficiency</b>	<u>(122,949)</u>	<u>(136,448)</u>
	<u>73,294</u>	<u>69,450</u>

**Orsu Metals Corporation**  
Notes to Consolidated Financial Statements  
**For the period ended June 30, 2009 (Unaudited)**

The following table shows the cash flow statement for the discontinued activities as at June 30, 2009 and 2008:-

	Three months to June 30		Six months to June 30	
	2009	2008	2009	2008
<b>Cash flows from discontinuing operating activities</b>	\$	\$	\$	\$
Gain/ (Loss) for the period from discontinuing activities	5,755	(10,937)	(19,500)	(44,987)
Items not affecting cash				
Depreciation, amortization and deferred finance charges	1,770	2,741	4,327	8,492
Realized and unrealized derivative losses (note 7)	6,700	607	22,193	22,820
Unrealized foreign exchange loss	-	-	3,983	-
Inventory write-downs	-	-	6,488	-
	<b>14,225</b>	<b>(7,589)</b>	<b>17,491</b>	<b>(13,675)</b>
Change in non-cash working capital				
Increase in inventories	(5,078)	(1,624)	(10,811)	(10,618)
Increase/ (decrease) in accounts receivable and other assets	1,660	(2,498)	1,394	(2,682)
Decrease in accounts payable and accrued liabilities	(6,014)	(2,596)	(3,756)	(2,408)
<b>Cash flows (used)/ provided from discontinuing operating activities</b>	<b>4,793</b>	<b>(14,307)</b>	<b>4,318</b>	<b>(29,383)</b>
<b>Cash flows (used) in/ from investing in discontinuing activities</b>				
Expenditures on property, plant and equipment	(1,257)	(11,111)	(1,257)	(11,364)
Restricted cash	3	-	58	56
Acquisition of Lero, net of cash acquired	-	8,142	-	8,142
<b>Cash flows used in financing discontinuing operations</b>	<b>(1,254)</b>	<b>(17,276)</b>	<b>(1,199)</b>	<b>(32,549)</b>
<b>Cash flows from financing discontinuing activities</b>				
Proceeds from long-term debt	-	659	-	786
Funding from head office	-	21,297	-	35,845
Deferred financing costs	-	(836)	-	(1,066)
	-	21,120	-	35,565
<b>Increase in cash and cash equivalents</b>	<b>3,539</b>	<b>3,844</b>	<b>3,119</b>	<b>3,016</b>
<b>Cash and cash equivalents - Beginning of period</b>	<b>1,154</b>	<b>1,617</b>	<b>1,574</b>	<b>2,445</b>
<b>Cash and cash equivalents - End of period</b>	<b>4,693</b>	<b>5,461</b>	<b>4,693</b>	<b>5,461</b>

# Orsu Metals Corporation

Notes to Consolidated Financial Statements  
For the period ended June 30, 2009 (Unaudited)

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## 5 Accounting changes and accounting policy developments

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

### Accounting changes

#### *Goodwill and intangible assets*

In February 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets, replacing Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. In addition, EIC 27 is no longer applicable for companies upon adoption of Section 3064. Section 3064 establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets and provides guidance for the treatment of preproduction and start-up costs and requires that these costs be expensed as incurred. This Section is applicable to a company's reporting periods regarding interim and annual financial statements for fiscal years beginning on or after October 1, 2008.

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

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

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

# Orsu Metals Corporation

Notes to Consolidated Financial Statements

For the period ended June 30, 2009 (Unaudited)

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

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

### New accounting pronouncements

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

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

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

# Orsu Metals Corporation

## Notes to Consolidated Financial Statements

### For the period ended June 30, 2009 (Unaudited)

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Note 13, Credit Risk, sets out the potential impact on the fair value of the derivative liabilities in a change in the Company's own credit risk if different assumptions were used to reflect the Company's own credit risk.

#### *Business combinations*

In January 2009, the CICA issued Handbook Section 1582, Business Combinations, which replaces Section 1581, Business Combinations, and provides the equivalent to IFRS 3, Business Combinations (January 2008). The new Section expands the definition of a business subject to an acquisition and establishes significant new guidance on the measurement of consideration given, and the recognition and measurement of assets acquired and liabilities assumed in a business combination. The new Section requires that all business acquisitions be measured at the full fair value of the acquired entity at the acquisition date even if the business combination is achieved in stages, or if less than 100 % of the equity interest in the acquiree is owned at the acquisition date.

The measurement of equity consideration given in a business combination will no longer be based on the average of the fair value of the shares a few days before and after the day the terms and conditions have been agreed to and the acquisition announced, but rather at the acquisition date. Subsequent changes in fair value of contingent consideration classified as a liability will be recognized in earnings and not as an adjustment to the purchase price. Restructuring and other direct costs of a business combination are no longer considered part of the acquisition accounting.

Instead, such costs will be expensed as incurred, unless they constitute the costs associated with issuing debt or equity securities. The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier adoption is permitted. This new Section will only have an impact on the Company's consolidated financial statements for future acquisitions that will be made in periods subsequent to the date of adoption.

#### *Consolidated financial statements and non-controlling interests*

In January 2009, the CICA issued Handbook Section 1601, Consolidated Financial Statements, and Handbook Section 1602, Non-Controlling Interests, which together replace Section 1600, Consolidated Financial Statements. These two Sections are the equivalent to the corresponding provisions of International Accounting Standard 27, Consolidated and Separate Financial Statements (January 2008). Section 1602 applies to the accounting for non-controlling interests and transactions with non-controlling interest holders in consolidated financial statements. The new Sections require that, for each business combination, the acquirer measure any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. The new Sections also require non-controlling interest to be presented as a separate component of shareholders' equity.

Under Section 1602, non-controlling interest in income is not deducted in arriving at consolidated net income or other comprehensive income. Rather, net income and each component of other comprehensive income are allocated to the controlling and non-controlling interests based on

# **Orsu Metals Corporation**

Notes to Consolidated Financial Statements

**For the period ended June 30, 2009 (Unaudited)**

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relative ownership interests. These Sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011, and should be adopted concurrently with Section 1582. The Company is currently assessing the future impact of these new Sections on its consolidated financial statements.

# Orsu Metals Corporation

Notes to Consolidated Financial Statements

For the period ended June 30, 2009 (Unaudited)

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## 6 Long-term debt

As mentioned in note 2, “Going Concern”, the Company was in technical breach of its borrowing covenants as it was unable to repay the first two tranches of debt repayment of \$16.65 million due on December 31, 2008 and \$19.4 million due on June 30, 2009, and had not received waiver from all the Lenders as at the date of the financial statements. Payment of these tranches remains outstanding. In addition, as at February 24, 2009, the Company was in breach of its Permitted Indebtedness covenants with respect to trade creditors, both in amounts and terms. In addition, the Company is forecasting that, in the absence of additional waivers or modification of the debt terms, it will remain unable to meet its 2009 scheduled repayment obligations, will remain in breach of its repayment terms and its Permitted Indebtedness covenants, and is likely to breach other loan covenants. Failure to remedy such existing or future breaches and to comply with the debt repayment terms will entitle the Lenders to demand immediate repayment of all amounts owing. As a result, the entire debt amount has been classified as current.

## 7 Derivative instruments included in discontinued operations

	2009	2008
	\$	\$
Unsettled matured contracts	14,889	-
Risk adjusted mark to market fair value of derivative instruments	91,755	116,994
Less: Amounts due within one year	(106,644)	(24,221)
	<u>-</u>	<u>92,773</u>

As a condition of the Debt Facility, the Company entered into monthly US dollar unmargined flat forward gold sales contracts (the “Varvarinskoye Hedge”) over a term of 8 years ending in June 2014. The Company has 330,160 ounces of forward gold sales remaining at a price of \$574.25 per ounce as at June 30, 2009 (As at December 31, 2008 – 372,468 ounces).

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

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

# Orsu Metals Corporation

## Notes to Consolidated Financial Statements

### For the period ended June 30, 2009 (Unaudited)

For the six months ended June 30, 2009 the Company booked realised derivative losses of \$14.9 million (2008 – \$20.5 million) representing 42,308 ounces of gold, which remained unpaid at the end of the quarter.

The risk adjusted mark to market revaluation of the Company's derivative liabilities, from a strike price of \$574.25 per oz, as at June 30, 2009 at an average forward gold price of \$852 per oz and a risk adjusted rate for the Company in the range of 14% to 17 % per annum, depending on the remaining term of the derivative liability contracts, gave rise to an unrealized derivative loss for the quarter of \$7.3 million.

As mentioned in note 2, "Going concern", at June 30, 2009 the Company was in default on payments as they fell due under the gold forward contract obligations and the hedge counterparties are entitled to terminate any open derivative positions and seek full repayment for all unsettled derivative obligations. For this reason all derivative liabilities have been classified as current liabilities at June 30, 2009.

In previous financial statements the derivative financial instruments were classified as held for trading and are measured at fair value. In view of the proposed disposal of the Varvarinskoye Project, at June 30, 2009 these have been reclassified as held for sale. At June 30, 2009 and December 31 2008, the Company's derivative liabilities were comprised solely of gold forward sales contracts.

In addition to the closed derivative liabilities mentioned above the Company had the following open derivative positions as at June 30, 2009 and December 31, 2008:

	<b>June 30, 2009</b>					
	<b>Maturity 2009</b>	<b>Maturity 2010</b>	<b>Maturity 2011</b>	<b>Maturity 2012</b>	<b>Maturity 2013 to 2014</b>	<b>Total</b>
<b>Gold</b>						
Forward contracts (oz)	38,018	81,000	76,142	62,000	73,000	330,160
Price (\$/oz)	574.25	574.25	574.25	574.25	574.25	574.25
	<b>December 31, 2008</b>					
	<b>Maturity 2009</b>	<b>Maturity 2010</b>	<b>Maturity 2011</b>	<b>Maturity 2012</b>	<b>Maturity 2013 to 2014</b>	<b>Total</b>
<b>Gold</b>						
Forward contracts (oz)	80,326	81,000	76,142	62,000	73,000	372,468
Price (\$/oz)	574.25	574.25	574.25	574.25	574.25	574.25

# Orsu Metals Corporation

Notes to Consolidated Financial Statements

For the period ended June 30, 2009 (Unaudited)

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## 8 Share capital

### a) Authorized

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

Issued

	2009		2008	
	Number of shares 000's	Amount \$	Number of shares 000's	Amount \$
Balance - Beginning of period	456,959	361,440	302,804	204,553
Common shares issued on acquisition i)	-	-	152,102	154,624
Exercise of stock options for cash	-	-	1,800	1,331
Transfer of fair value on exercise of stock options, warrants and Agent Units	-	-	-	702
Common shares issued for consulting services	-	-	253	230
Balance - End of period	456,959	361,440	456,959	361,440

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

**Orsu Metals Corporation**  
Notes to Consolidated Financial Statements  
**For the period ended June 30, 2009 (Unaudited)**

b) Share purchase warrants

A summary of the changes in the Company's share purchase warrants for the six months ended June 30, 2009 and for the year ended December 31, 2008 is set out below:

	2009			2008		
	Value Assigned US\$	Warrants Outstanding 000's	Weighted average exercise price CAD\$	Value Assigned US\$	Warrants Outstanding 000's	Weighted average exercise price CAD\$
Balance - Beginning of period	48,650	128,547	1.28	46,629	130,441	1.16
Issued on exercise of Agent's Units	-	-	-	-	-	-
Issued to agent	-	-	-	82	500	1.20
Fair value of warrants assumed from Lero	-	-	-	1,394	3,106	0.85
Issued to debt facility Lenders	-	-	-	545	2,000	1.00
Exercised	-	-	-	-	-	-
Forfeited	-	-	-	-	(7,500)	1.20
Balance - End of period	<u>48,650</u>	<u>128,547</u>	<u>1.28</u>	<u>48,650</u>	<u>128,547</u>	<u>1.28</u>

A summary of the share purchase warrants outstanding and exercisable as at June 30, 2009 and December 31, 2008 is set out below:

2009			2008		
Exercise Price CAD\$	Expiry date	Number 000's	Exercise Price CAD\$	Expiry date	Number 000's
1.20	April 11, 2010	71,888	1.20	April 11, 2010	71,888
1.00	November 30, 2010	2,000	1.00	November 30, 2010	2,000
1.55	March 21, 2011	40,451	1.55	March 21, 2011	40,451
0.92	October 17, 2011	8,602	0.92	October 17, 2011	8,602
1.00	May 9, 2010	2,000	1.00	May 9, 2010	2,000
1.20	April 17, 2010	500	1.20	April 17, 2010	500
0.85	April 29, 2010	<u>3,106</u>	0.85	April 29, 2010	<u>3,106</u>
		<u>128,547</u>			<u>128,547</u>

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

A summary of the assumptions used in the valuation of share purchase warrants issued are set out below:

# Orsu Metals Corporation

Notes to Consolidated Financial Statements

For the period ended June 30, 2009 (Unaudited)

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

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

c) Share purchase options

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

A summary of the changes in the Company's share purchase options for years ended June 30, 2009 and December 31, 2008 is set out below:

	2009			2008		
	Value Assigned US\$	Options Outstanding 000's	Weighted average exercise price CAD\$	Value Assigned US\$	Options Outstanding 000's	Weighted average exercise price CAD\$
Balance - Beginning of period	19,000	41,890	0.83	13,567	24,265	0.83
Issued	-	-	-	3,105	16,125	0.82
Amounts vesting in period	1,562	-	-	-	-	-
Fair value of options assumed from Lero	-	-	-	4,346	6,575	0.46
Exercised	-	-	-	(702)	(1,800)	0.75
Forfeited	(762)	(1,890)	-	(1,316)	(3,275)	0.65
Balance - End of period	19,800	40,000	0.84	19,000	41,890	0.84

A summary of the stock options outstanding and exercisable as at June 30, 2009 is set out below:

# Orsu Metals Corporation

Notes to Consolidated Financial Statements

For the period ended June 30, 2009 (Unaudited)

Range of prices CAD\$	Number of options	Weighted average years to expire	Weighted average exercise price CAD\$	Number of exercisable options	Weighted average exercise price CAD\$
0.24 - 0.49	4,050,000	2.95	0.37	4,050,000	0.37
0.50 - 0.99	31,600,000	3.77	0.81	31,450,000	0.81
1.00 - 1.49	<u>4,350,000</u>	3.26	1.16	<u>3,475,000</u>	1.16
	<u>40,000,000</u>	3.68	0.84	<u>38,975,000</u>	0.84

## 9 Stock-based compensation

The Company uses the fair value method of accounting for stock-based compensation. During the six months ended June 30, 2009, the Company expensed fair value of stock-based compensation of \$1.6 million (2008 - \$0.1 million) for stock options of which 3.2 million vested in the period.

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

	2009	2008
Risk free rate	2.9%-3.33%	2.9%-3.33%
Expected dividend yield	Nil	Nil
Expected stock price volatility	58.58%-65.19%	58.58%-65.19%
Expected options life	2.8 years	2.8 years

## 10 Contributed surplus

A summary of the changes in the Company's contributed surplus for the six months ended June 30, 2009 and for the year ended December 31, 2008 is set out below:

	2009 \$	2008 \$
Balance - Beginning of year	2,715	1,399
Transfer of fair value of cancelled incentive stock options	<u>762</u>	<u>1,316</u>
Balance - End of year	<u>3,477</u>	<u>2,715</u>

# Orsu Metals Corporation

Notes to Consolidated Financial Statements

For the period ended June 30, 2009 (Unaudited)

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## 11 Commitments

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

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

## 12 Capital disclosures

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

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

## 13 Financial risk management

### Fair values

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

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

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

# Orsu Metals Corporation

## Notes to Consolidated Financial Statements

### For the period ended June 30, 2009 (Unaudited)

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The following provides a summary of the carrying values of each classification of financial instrument as at June 30, 2009:

	<b>Loans and receivables</b>	<b>Held for sale</b>	<b>Held-for- trading</b>	<b>Other financial liabilities</b>	<b>Total carrying amount</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Financial assets</b>					
Cash and cash equivalents	-	4,693	2,300	-	<b>6,993</b>
Restricted cash	-	85	-	-	<b>85</b>
Accounts receivable	-	88	-	-	<b>88</b>
<b>Financial liabilities</b>					
Accounts payable and accrued liabilities and accrued liabilities	-	18,241	3,508	-	<b>21,749</b>
Derivative liabilities	-	106,644	-	-	<b>106,644</b>
Long-term debt - net of issue costs	-	57,623	-	-	<b>57,623</b>

The fair value of the Company's accounts payable and accrued liabilities and long-term debt balances are significantly lower than carrying value due to the Company's current financial condition. The Company's derivative liabilities are stated at fair value reflecting the Company's own credit risk (see note 7).

The fair value of accounts receivable approximates to their carrying values due to their immediate maturity as at June 30, 2009.

# Orsu Metals Corporation

## Notes to Consolidated Financial Statements

### For the period ended June 30, 2009 (Unaudited)

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

	<b>Loans and receivables \$</b>	<b>Held for sale \$</b>	<b>Held-for- trading \$</b>	<b>Other financial liabilities \$</b>	<b>Total carrying amount \$</b>
<b>Financial assets</b>					
Cash and cash equivalents	-	1,574	6,200	-	<b>7,774</b>
Restricted cash	-	142	-	-	<b>142</b>
Accounts receivable	-	507	-	-	<b>507</b>
<b>Financial liabilities</b>					
Accounts payable and accrued liabilities	-	2,644	21,796	-	<b>24,440</b>
Derivative liabilities		116,994	-	-	<b>116,994</b>
Long-term debt - net of issue costs	-	53,751	-	-	<b>53,751</b>

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

#### Accounts receivable

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

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

At each financial period end, the Company estimates the expected final metal sales value based upon forward metal prices applicable to the relevant quotational periods and makes the appropriate adjustment to reported revenues to reflect the expected final metal sales values. As at June 30, 2009, these adjustments resulted in a recorded estimated liability of \$93,000 payable (December 31, 2008 \$7.0 million payable) to Trafigura for future metal price settlements, which is included in accounts payable and accrued liabilities.

# Orsu Metals Corporation

## Notes to Consolidated Financial Statements

### For the period ended June 30, 2009 (Unaudited)

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For the six months to June 30, 2009 the Company invoiced sales of \$43.4 million plus a future metal price settlement adjustment of \$2.1 million less treatment and refining charges of \$3.2 million, resulting in reported revenues for the year of \$42.3 million.

Finally, the Company recognises sales on gold and copper concentrate as revenues. As a by product of the production process, a small amount of silver was produced which generated sales totalling \$33,299 for the six months to June 30, 2009. The Company recognizes this as a credit against operating expenses.

#### **Credit risk**

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

#### Accounts receivable

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

#### Derivative liabilities

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

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

# Orsu Metals Corporation

## Notes to Consolidated Financial Statements

### For the period ended June 30, 2009 (Unaudited)

The following table summarises the impact on the fair value of the derivative liability of a 1% change to the Company's own credit risk:-

Derivative instruments	<b>Impact of Company credit risk on the fair value of derivatives and net earnings</b>		
	<b>June 30, 2009</b>	<b>1% increase</b>	<b>1% decrease</b>
	\$	\$	\$
Gold forward sales contracts	91,755	1,927	(1,927)

### Liquidity risk

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

As at June 30, 2009, the Company's short-term and long-term obligations were as follows:

	<b>Total</b>	<b>Less than</b>	<b>1-2</b>	<b>2-3</b>	<b>Beyond</b>
	<b>\$</b>	<b>1 year</b>	<b>years</b>	<b>years</b>	<b>3 years</b>
		<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Accounts payable and accrued liabilities	4,430	4,430	-	-	-

As at June 30, 2009, the Company's short-term and long-term obligations relating to discontinued operation were as follows:

	<b>Total</b>	<b>Less than</b>	<b>1-2</b>	<b>2-3</b>	<b>Beyond</b>
	<b>\$</b>	<b>1 year</b>	<b>years</b>	<b>years</b>	<b>3 years</b>
		<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Current portion of long-term debt	57,502	57,502	-	-	-
Accounts payable and accrued liabilities	17,547	17,547	-	-	-
Asset Retirement obligations	13,735	-	-	-	13,735
Derivative obligation	106,644	106,644	-	-	-

### Currency risk

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

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

# Orsu Metals Corporation

Notes to Consolidated Financial Statements

For the period ended June 30, 2009 (Unaudited)

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	<b>10% devaluation \$</b>	<b>10% appreciation \$</b>
Kazakhstan Tenge	3,184	(3,891)
Kyrgyzstan Som	(59)	72
Canadian Dollar	(28)	34

## Interest rate risk

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

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

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

	<b>June 30, 2009 \$</b>	<b>Impact of LIBOR change on net earnings</b>	
		<b>1% increase \$</b>	<b>1% decrease \$</b>
Cash at bank	6,065	33	(33)
Long-term debt (pre issue costs)	60,296	(603)	603

## Commodity price risk

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

# Orsu Metals Corporation

## Notes to Consolidated Financial Statements

For the period ended June 30, 2009 (Unaudited)

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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 metal prices (based upon a quarter end weighted average copper metal price of \$1.879 per lb and gold metal price of \$885 per oz) and contract forward gold prices (based upon a quarter end weighted average gold metal price of \$950 per oz).

Derivative instruments	June 30, 2009	Impact of price change on net earnings	
		10% increase	10% decrease
		\$	\$
<u>Embedded derivative - accounts receivable (payable)</u>			
Copper	15,613,968 lb	2,934	(2,934)
Gold	21,863 oz	1,934	(1,934)
<u>Gold</u>			
Forward sales contracts	330,160 oz	(18,095)	18,095

## 14 Contingencies

### a) Legal claim

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

Subsequently on December 5, 2008, the Company was served by new claim which effectively replaced the original claim stated above. The new claim was similar in nature to the original but by a new plaintiff. A hearing is scheduled on October 19, 2009, to decide if the motion is a class action. Orsu believes that the Claim is without merit and intends to vigorously defend it. There have been no provisions made for any potential losses which may arise under this claim.

# Orsu Metals Corporation

## Notes to Consolidated Financial Statements

**For the period ended June 30, 2009 (Unaudited)**

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

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

### **15 Related party transactions**

For the six months ended June 30, 2009 and 2008, the Company was party to the following transactions involving related parties, all of which have been recorded at the exchange amount:

Dragon Management International Services Limited (“DIS”) charged the Company a total of \$41,259 (2008 - \$1,573,638) in respect of the provision of office facilities, general office overheads and re-charged costs incurred on behalf of the Company, ceased as at March 31, 2009. A former Chairman and director of the Company, beneficially owns DIS.

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

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

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

# Orsu Metals Corporation

Notes to Consolidated Financial Statements

For the period ended June 30, 2009 (Unaudited)

## 16 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 six month period ended June 30, 2009 is as follows:

	Discontinued operations \$	(Kazakhstan and Kyrgyzstan) Mineral exploration and development \$	(UK) Corporate \$	Total \$
<b>Revenues</b>				
Gold	27,529	-	-	<b>27,529</b>
Copper	14,764	-	-	<b>14,764</b>
	42,293	-	-	<b>42,293</b>
<b>Cost of sales</b>	(28,405)	-	-	<b>(28,405)</b>
<b>Other costs</b>				
Derivative losses	(22,193)	-	-	<b>(22,193)</b>
Stock-based compensation	-	-	(1,562)	<b>(1,562)</b>
Foreign exchange	(2,727)	-	(68)	<b>(2,795)</b>
Exploration expenses	-	(373)	-	<b>(373)</b>
Interest expense	(1,232)	-	(41)	<b>(1,273)</b>
Loss of disposal of assets	(247)	-	-	<b>(247)</b>
General and administrative	(6,989)	(434)	(3,640)	<b>(11,063)</b>
	(33,388)	(807)	(5,311)	<b>(39,506)</b>
<b>Interest income</b>	-	4	34	<b>38</b>
<b>Segmented loss before income taxes</b>	(19,500)	(803)	(5,277)	<b>(25,580)</b>

# Orsu Metals Corporation

Notes to Consolidated Financial Statements

For the period ended June 30, 2009 (Unaudited)

Segmental information for the 12 month period ended December 31, 2008 is as follows:

	Discontinued operations \$	(Kazakhstan and Kyrgyzstan) Mineral exploration and development \$	(UK) Corporate \$	Total \$
<b>Revenues</b>				
Gold	22,768	-	-	22,768
Copper	4,366	-	-	4,366
	27,134	-	-	27,134
<b>Cost of sales</b>	(51,621)	-	-	(51,621)
<b>Other costs</b>				
Derivative losses	3,115	-	-	3,115
Stock-based compensation	-	-	(3,095)	(3,095)
Foreign exchange	(1,900)	-	(585)	(2,485)
Exploration expenses	-	(4,072)	-	(4,072)
Interest expense	(5,534)	-	(429)	(5,963)
General and administrative	-	-	(3,880)	(3,880)
Gain on disposal of mineral properties	(3,873)	(195)	(12,523)	(16,591)
	(8,192)	(4,267)	(20,512)	(32,971)
<b>Interest income</b>	1,186	-	398	1,584
<b>Segmented loss before the following</b>	(31,493)	(4,267)	(20,114)	(55,874)
Write-off of mineral properties	-	(119,550)	-	(119,550)
Write-off of Varvarinskoye assets	(189,013)	-	-	(189,013)
<b>Segmented loss before income taxes</b>	(220,506)	(123,817)	(20,114)	(364,437)
<b>Property, plant and equipment</b>	16,921	28,351	476	45,748
<b>Total assets</b>	69,450	28,919	8,288	106,657

During the first quarter of 2008, 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.