

Orsu Metals Corporation
Consolidated Financial Statements (Unaudited)
March 31, 2011 and 2010
(In thousands of US dollars)

Orsu Metals Corporation

Consolidated Balance Sheets (Unaudited)

(in thousands of US dollars)

	March 31 2011 \$	December 31 2010 \$	January 1 2010 \$
Assets			
Current assets			
Cash and cash equivalents	19,368	19,596	3,386
Current deferred consideration receivable (note 6)	1,500	1,500	-
Prepaid and receivables	1,234	1,217	1,860
	<u>22,102</u>	<u>22,313</u>	<u>5,246</u>
Non-current assets			
Deferred consideration receivable (note 6)	2,092	3,592	-
Exploration properties (note 7)	10,458	10,458	20,321
Property, plant and equipment	415	449	1,078
Equity investment in Talas Joint Venture (note 8)	10,111	10,221	-
Other assets	392	392	643
	<u>23,468</u>	<u>25,112</u>	<u>22,042</u>
Total assets	<u>45,570</u>	<u>47,425</u>	<u>27,288</u>
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	613	672	1,941
Current portion of derivative warrant liabilities (note 9)	-	-	2,676
	<u>613</u>	<u>672</u>	<u>4,617</u>
Non-current liabilities			
Derivative warrant liabilities (note 9)	2,899	6,245	8,552
Other liabilities	120	120	514
	<u>3,632</u>	<u>7,037</u>	<u>13,683</u>
Equity			
Share capital (note 10a)	380,145	380,145	361,440
Share purchase warrants (note 10b)	4,897	4,897	6,609
Share purchase options (note 10c)	6,066	5,904	12,550
Contributed surplus	22,483	22,483	11,177
Non-controlling interest (note 5)	(966)	(773)	-
Deficit (note 5)	(370,687)	(372,268)	(378,171)
	<u>41,938</u>	<u>40,388</u>	<u>13,605</u>
Total equity and liabilities	<u>45,570</u>	<u>47,425</u>	<u>27,288</u>

Commitments (note 14)
Subsequent event (note 16)

Approved by the Board of Directors

(signed) Sergey Kurzin Executive Chairman

(signed) Alexander Yakubchuk Director

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

Orsu Metals Corporation

Consolidated Statements of Net Income, and Comprehensive Income (Unaudited)

(in thousands of US dollars)

	Three months ended March 31,	
	2011	2010
	\$	\$
Income/ (expenses)		
Administration (note 5)	(770)	(717)
Legal and professional (note 5)	(291)	(324)
Exploration	(539)	(199)
Stock based compensation (note 10c)	(142)	(105)
Stock based compensation - non employees (note 10c)	(20)	-
Unrealized derivative gains (note 9)	3,346	10,216
Foreign exchange gains/ (losses)	97	(55)
Net income from operations	1,681	8,816
Company's share of Talas Joint Venture losses (note 8)	(310)	(214)
Finance income (note 5)	17	11
Finance expense (note 5)	-	(8)
Net income and comprehensive income for the period	1,388	8,605
Net income/ (losses) attributable to:		
Shareholders of the Company	1,581	8,652
Non-controlling interest	(193)	(47)
	1,388	8,605
Earnings per share		
Basic	\$0.01	\$0.19
Diluted	\$0.01	\$0.19
Weighted average number of common shares	157,696	45,696

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

Orsu Metals Corporation

Consolidated Statements of Cash Flows (Unaudited)

(in thousands of US dollars)

	Three months ended March 31,	
	2011	2010
	\$	\$
Operating activities		
Income for the period	1,388	8,605
Items not affecting cash:		
Company share of Talas Joint Venture losses (note 8)	310	214
Depreciation and amortization	33	39
Share-based payments (note 10c)	162	105
Unrealized foreign exchange losses	74	46
Unrealized derivative gains (note 9)	(3,346)	(10,216)
	(1,379)	(1,207)
Changes in non-cash working capital		
Accounts receivable and other assets	(251)	(1,114)
Accounts payable and accrued liabilities	(52)	746
Net cash used by the operating activities	(1,682)	(1,575)
Cash flows from investing activities		
Expenditures on property, plant and equipment	(2)	(2)
Proceeds from net investment in residual oil and gas interests	251	241
Deferred consideration received (note 6)	1,500	-
Funding of investment in Talas Joint Venture (note 8)	(200)	-
Net cash from investing activities	1,549	239
Effect of exchange rate changes on cash and cash equivalents	(95)	7
Net decrease in cash and cash equivalents	(228)	(1,329)
Cash and cash equivalents - Beginning of period	19,596	3,386
Cash and cash equivalents - End of period	19,368	2,057

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

Orsu Metals Corporation

Consolidated Statements of Changes in Equity (Unaudited)

(in thousands of US dollars)

Consolidated statement of changes to equity as at March 31, 2010:

	<u>Share capital</u>		Share	Share	Contributed	Non-	Deficit	Total
	Number	Share	purchase	purchase	surplus	controlling		equity
	of shares	capital	warrants	options		interest		
	(000s')	\$	\$	\$	\$	\$	\$	\$
Balance as at January 1, 2010 (note 5)	45,696	361,440	6,609	12,550	11,177	-	(378,171)	13,605
Share-based payments (note 10c)	-	-	-	105	-	-	-	105
Share options forfeited or lapsed (note 10c)	-	-	-	(2,170)	2,170	-	-	-
Net income/ (loss) for the period (note 5)	-	-	-	-	-	(47)	8,652	8,605
Balance as at March 31, 2010 (note 5)	45,696	361,440	6,609	10,485	13,347	(47)	(369,519)	22,315

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

Orsu Metals Corporation

Consolidated Statements of Changes in Equity (Unaudited)

(in thousands of US dollars)

Consolidated statements of changes to equity as at December 31, 2010 and March 31, 2011:

	Share capital		Share purchase warrants	Share purchase options	Contributed surplus	Non-controlling interest	Deficit	Total equity
	Number of shares (000s')	Share capital \$						
Balance as at January 1, 2010 (note 5)	45,696	361,440	6,609	12,550	11,177	-	(378,171)	13,605
Share issue (note 10a)	112,000	21,445	-	-	-	-	-	21,445
Share issue costs (note 10a)	-	(1,862)	-	-	-	-	-	(1,862)
Broker Warrant issue costs (note 10a)	-	(878)	-	-	-	-	-	(878)
Share-based payments (note 10c)	-	-	-	1,817	-	-	-	1,817
Share purchase warrants issued (note 10b)	-	-	1,131	-	-	-	-	1,131
Share purchase warrants lapsed (note 10b)	-	-	(2,843)	-	2,843	-	-	-
Share options forfeited or lapsed (note 10c)	-	-	-	(8,463)	8,463	-	-	-
Net income/ (loss) for the period (note 5)	-	-	-	-	-	(773)	5,903	5,130
Balance as at December 31, 2010 (note 5)	157,696	380,145	4,897	5,904	22,483	(773)	(372,268)	40,388
Share-based payments (Note 10c)	-	-	-	162	-	-	-	162
Net income/ (loss) for the period	-	-	-	-	-	(193)	1,581	1,388
Balance as at March 31, 2011	157,696	380,145	4,897	6,066	22,483	(966)	(370,687)	41,938

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

Orsu Metals Corporation

Notes to Consolidated Financial Statements

For the period ending March 31, 2011 (Unaudited)

(all tabular amounts are expressed in thousands of US dollars unless otherwise stated)

1. General information

Orsu Metals Corporation (“Orsu” or the “Company”), is a dual listed (AIM: OSU, TSX: OSU) base and precious metals exploration and development company, with its head office in London, whose principal activities are the mineral exploration and development of various license areas within the Republic of Kazakhstan (or “Kazakhstan”) and the Kyrgyz Republic (or “Kyrgyzstan”).

As at March 31, 2011 the Company indirectly held a 70% interest in the Karchiga exploration property in Kazakhstan via its 73.9% interest in Eildon Enterprises Limited (“Eildon”), which holds a 94.75% interest in GRK MLD LLC (“MLD”) the holder the exploration license for the Karchiga exploration property. In April 2011, the Company increased its interest in MLD to 94.75% by completing the acquisition of the remaining 26.1% interest in Eildon for a cash consideration of \$6,187,500. As the acquisition was completed after the balance sheet date the Company has not accounted for this transaction in the financial statements as at March 31, 2011. In addition, the Company has a 40% minority interest in Talas Copper Gold LLC (“TCG LLC”) in Kyrgyzstan, via its 100% parent Kami Associates Limited (“Kami” or the “Talas Joint Venture Company”), the holder of four licenses which comprise the Talas exploration license area (see note 8). The Company is also the 100% owner of the Akdjol-Tokhtazan exploration property in Kyrgyzstan.

The Company is incorporated in the British Virgin Islands and domiciled in the United Kingdom.

These group consolidated financial statements were authorized by the board of directors on June 2, 2011.

2. Basis of preparation and first-time adoption of IFRS

The Company previously prepared its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants (“CICA Handbook”). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (“IFRS”), and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these interim consolidated financial statements. In these financial statements, the term “Canadian GAAP” refers to Canadian GAAP before the adoption of IFRS.

These interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 Interim Financial Reporting (“IAS 34”) and IFRS 1 First-time adoption of International Financial Reporting Standards (“IFRS 1”). Subject to certain transition elections disclosed below, the Company has consistently applied the same accounting policies in its opening IFRS consolidated balance sheet as at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 5 discloses the impact of the transition to IFRS on the Company's reported consolidated balance sheet, net income and comprehensive income and consolidated cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's audited consolidated financial statements for the year ended December 31, 2010.

The interim consolidated financial statements should be read in conjunction with the Company's Canadian GAAP annual financial statements for the year ended December 31, 2010.

First-time adoption exemptions applied

IFRS 1, which governs the first time adoption of IFRS, in general requires accounting policies to be applied retrospectively to determine the opening statement of financial position at the Company's transition date of January 1, 2010, and allows certain exemptions from retrospective application on the transition to IFRS. The exemptions which the Company has elected to apply and are considered significant to the Company are the following:

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(all tabular amounts are expressed in thousands of US dollars unless otherwise stated)

a) Business combinations

The Company has applied the business combination exemption in IFRS 1 and has not restated business combinations and the accounting thereof that took place prior to the January 1, 2010 transition date. This exemption applies to the acquisition of Lero Gold Corporation (“Lero”) in June 2008.

b) Share based payments

The Company has elected to apply the share-based payment exemption. It has applied IFRS 2 from January 1, 2010 onwards to those options that were issued after November 7, 2002 but that had not vested by January 1, 2010.

c) Revaluation of property, plant and equipment

Under IFRS 1 the Company may elect to revalue individual assets within its property, plant and equipment tangible assets at the transition date and use this fair value as the deemed transition cost. The Company has elected to measure property, plant and equipment at cost being the carrying value of property, plant and equipment as previously recorded.

3. Summary of significant IFRS accounting policies

The principal accounting policies applied in the preparation of these consolidated interim financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Consolidation

Subsidiaries are all entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

The principal subsidiaries of the Company as at March 31, 2011 which have been consolidated are as follows:

	% interest
European Minerals (UK) Limited (“EMUK”)	100
Kazminco Oil Limited (“Kazminco”)	100
Lisburne Holdings Limited (“Lisburne”)	55
Lero Gold Corporation (“Lero”)	100
Tournon Finance Limited (“Tournon”)	100
Eildon Enterprises Limited (“Eildon”)	73.9
Oriel In Kyrgyzstan LLC (“OIK”)	100
GRK MLD LLC (“MLD”)	70
Orsu Metals Kazakhstan LLC	100

All intercompany balances and transactions are eliminated upon consolidation.

Investment in associates

Associates are all entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Company

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accounts for its investments in companies over which it has significant influence using the equity basis of accounting whereby the investments are initially recorded at fair value and subsequently adjusted to recognize the Company's share of earnings or losses of the investee companies.

The Company assesses at each reporting period whether there is any objective evidence that its interests in associates are impaired. If impaired, the carrying value of the Company's share of the underlying assets of associates is written down to its estimated recoverable amount (being the higher of fair value less cost to sell and value in use) and charged to the statement of net income and comprehensive income.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Company's chief operating decision-maker. The chief operating decision-maker has been identified as the board of directors being the body responsible for allocating resources, assessing performance of the operating segments and making strategic decisions.

Foreign currency translation

(a) Functional and presentational currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ('the Functional Currency'). The Functional Currency of all the entities is the United States Dollar ("USD" or "US dollars"). The consolidated financial statements are presented in USD, which is the Company's presentational currency.

(b) Transactions and balances

Foreign currency transactions are translated into the Functional Currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Foreign exchange gains and losses that relate to cash and cash equivalents are presented in the income statement within 'finance income or expense'. All other foreign exchange gains and losses are presented in the income statement within 'foreign exchange gains/(losses)'.

The Company's foreign operations are translated from their local currencies into US dollars on consolidation. Items in the income statement are translated using an average exchange rate for the period that is a reasonable approximation to the exchange rates at the transaction dates. Monetary assets and liabilities on the balance sheet are translated at the spot exchange rate at the balance sheet date. The exchange differences on translation of the net assets of these operations are recognised in the income statement as foreign exchange gains or losses.

Property, plant and equipment

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

Office equipment is amortized on a straight line basis over 4 to 10 years.

Mineral properties and development costs

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

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Mineral properties

The Company reviews and evaluates its mineral property and development assets for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable. Under IFRS 6 the Company initially assesses where facts and circumstances indicate that the carrying amount of a mineral property may exceed its fair value. Facts and circumstances which indicate that the Company should test for impairment include expiry of the exploration license where renewal is not expected, substantive expenditure not planned for the foreseeable future, poor resource results or data which adequately shows that it is not economically viable. When facts and circumstance indicate that the carrying amount exceeds the recoverable amount, the Company will then estimate net future cash flows and write down any impairment.

Where estimates of future net cash flows are not available and where other conditions suggest impairment, management assesses whether the carrying value can be recovered. If an impairment is identified, the carrying value of the mineral property is written down to its estimated fair value.

Although the Company has taken steps to verify its title to mineral properties in which it has an interest, according to industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Such properties may be subject to prior undetected agreements or transfers and title may be affected by such defects.

Exploration and evaluation costs

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

Financial instruments

Financial assets and liabilities are recognised when the Company becomes a contractual party to a financial instrument. Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred all the risk and rewards of ownership.

Cash and cash equivalents

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

Accounts payables and accrued liabilities

Accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Accounts payable and accrued liabilities are reported at their carrying value at the balance sheet which reflects their fair value.

Derivative financial instruments

The Company's derivative instruments consist of derivative assets in the form of deferred consideration relating to its discontinued operations (its Varvarinskoye open pit gold-copper mine in Kazakhstan) (the "Varvarinskoye Project") and derivative liabilities in relation to its share purchase warrants.

In relation to the Varvarinskoye Project the Company has the ability to earn deferred consideration the fair value of which is partly dependent on future copper and gold metal prices and, for this reason, is classified

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as a derivative instrument (see note 6). The fair value of the deferred consideration receivable is measured at each balance sheet date, classified between current and long term, and is calculated as the discounted net present value of expected future deferred consideration cash flows taking into account the counterparty credit risk. The fair value of the derivative instrument is adjusted at each balance sheet date and represents the amount that the Company estimates it will receive from the counterparty in effect at the balance sheet date, with changes in fair value recorded in the determination of net income for the year.

In prior years the Company has issued listed share purchase warrants in conjunction with public offerings for the purchase of common shares of the Company. These share purchase warrants were issued with an exercise price in Canadian dollars, rather than US dollars (the reporting and Functional Currency of the Company), were only issued to participants in these public share offering, are not able to be tracked by the Company and are transferable by the warranty holder. Such share purchase warrants are considered to be derivative instruments and the Company is required to re-measure the fair value of these at the reporting date. The fair value of these listed share purchase warrants are re-measured at each balance sheet date using the Black Scholes model using the exchange rates at the balance sheet date and measured over their remaining life. Adjustments to the fair value of the Share purchase warrants as at the balance sheet date are recorded to the income statement. Share purchase warrants that have expired or have been forfeited are adjusted to the net income statement.

Income taxes

The Company's income tax is comprised of current and deferred tax. The Company follows the liability method of accounting for income taxes. Under this method, current income taxes are recognized as the estimated income taxes payable for the current period using tax rates enacted, or substantially enacted, at the end of the reporting period. Future income tax assets are deferred to future tax years and, where the Company considers that these are unlikely to be recognised a valuation allowance is provided.

Deferred tax assets and liabilities are recognised in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax assets are evaluated and where the Company considers that these are unlikely to be realised, a valuation allowance is provided.

Deferred income tax liabilities are presented as long term liabilities in the balance sheet.

Share based payments

The Company uses the fair value method for accounting for stock-based awards to employees and non-employees. Under the fair value method, compensation expenses attributed to the direct award of stock to employees are measured at the fair value of the award at the grant date using an option pricing model and are recognized over the vesting period of the award. Shared based payments to non employees are measured based on the fair value service received, at the date at which the Company receives the service. If and when the stock options are ultimately exercised, the applicable amounts of share purchase options are credited to share capital.

Share capital

Common shares issued are classified as equity. Incremental costs directly attributable to the issuance of common shares are recognised as a deduction from equity.

Share purchase warrants that are issued for services are initially accounted for under IFRS 2 as equity instruments (their initial fair value would be recognised as a share issuance cost). Subsequent to their issuance, share purchase warrants issued for services that can be tracked (are non-transferable) are considered as equity for their entire life. The fair value of such share purchase warrants are not re-measured.

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Where these share purchase warrants are ultimately exercised, the applicable amounts of share purchase warrants are credited to share capital. Where share purchase warrants expire or are forfeited then these are credited to contributed surplus.

Earnings/(loss) per share

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

Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In preparing these interim financial statements, the Company makes estimates and assumptions that affect the amounts reported. Significant estimates and areas where judgement is applied include fair values used to establish: mineral reserve quantities, if any, the valuation of deferred consideration assets, property plant and equipment lives, tax provisions, deferred tax balances and timing of their reversals, share purchase warrant liabilities and equity instruments. Actual results could differ from the Company's estimates.

4. Future accounting policies

International Financial Reporting Standard 9, Financial instruments ("IFRS 9")

IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new measurement model having only two categories: amortised costs and fair value through profit and loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognised at fair value through the profit and loss or at fair value through comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognised in profit and loss to the extent not clearly representing a return of investment, are recognised in profit and loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

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5. Transition to IFRS

Under IFRS 1 the Company is required to explain how the transition from the previous Canadian GAAP to IFRS has affected its consolidated balance sheets, statement of net income and comprehensive income and consolidated cash flows and consolidated statement of changes in equity.

To comply with this requirement the Company is required to prepare the reconciliations of its consolidated balance sheets as previously reported under Canadian GAAP to IFRS:

- a) As at the date of transition to IFRS of January 1, 2010;
- b) As at March 31, 2010 and;
- c) As at December 31, 2010.

Under IFRS 1, the Company is also required to prepare reconciliations for net income and comprehensive income for:

- a) The three months ended March 31, 2010 and;
- b) The year ended of December 31, 2010.

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Reconciliations of consolidated balance sheets

Reconciliations between the Canadian GAAP and IFRS consolidated balance sheets as at January 1, 2010 (date of transition to IFRS), March 31, 2010 and December 31, 2010 are:

	Note	January 1, 2010		
		Canadian GAAP	Effect of transition to IFRS	IFRS
Assets				
Current assets				
Cash and cash equivalents		3,386		3,386
Prepaid and receivables		1,860		1,860
		<u>5,246</u>		<u>5,246</u>
Non-current assets				
Exploration properties	1	27,198	(6,877)	20,321
Property, plant and equipment	3	1,078		1,078
Other assets		643		643
		<u>28,919</u>	<u>(6,877)</u>	<u>22,042</u>
Total assets		<u>34,165</u>	<u>(6,877)</u>	<u>27,288</u>
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		1,941		1,941
Current portion of derivative warrant liabilities	2	-	2,676	2,676
		<u>1,941</u>	<u>2,676</u>	<u>4,617</u>
Non-current liabilities				
Derivative warrant liabilities	2	-	8,552	8,552
Other liabilities		514		514
Deferred income tax	1	6,877	(6,877)	-
		<u>9,332</u>	<u>4,351</u>	<u>13,683</u>
Equity				
Share capital		361,440		361,440
Share purchase warrants	2	48,650	(42,041)	6,609
Share purchase options		12,550		12,550
Contributed surplus		11,177		11,177
Deficit	2	(408,984)	30,813	(378,171)
		<u>24,833</u>	<u>(11,228)</u>	<u>13,605</u>
Total liabilities and equity		<u>34,165</u>	<u>(6,877)</u>	<u>27,288</u>

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For the period ending March 31, 2011 (Unaudited)

(all tabular amounts are expressed in thousands of US dollars unless otherwise stated)

	Note	March 31, 2010		
		Canadian GAAP	Effect of transition to IFRS	IFRS
Assets				
Current assets				
Cash and cash equivalents		2,057		2,057
Prepaid and receivables		1,538		1,538
		<u>3,595</u>		<u>3,595</u>
Non-current assets				
Exploration properties	1	14,191	(3,733)	10,458
Property, plant and equipment	3	510		510
Equity investment in Talas Joint venture	1	10,364	-	10,364
Other assets		643		643
		<u>25,708</u>	<u>(3,733)</u>	<u>21,975</u>
Total assets		29,303	(3,733)	25,570
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		1,729		1,729
Derivative warrant liabilities	2	-	1,012	1,012
		<u>1,729</u>	<u>1,012</u>	<u>2,741</u>
Non-current liabilities				
Deferred income tax	1	3,733	(3,733)	-
Other liabilities		514	-	514
		<u>5,976</u>	<u>(2,721)</u>	<u>3,255</u>
Equity				
Share capital		361,440		361,440
Share purchase warrant	2	48,650	(42,041)	6,609
Share purchase options		10,485		10,485
Contributed surplus	2	13,347		13,347
Non-controlling interest	4	-	(47)	(47)
Deficit	2,4	(410,595)	41,076	(369,519)
		<u>23,327</u>	<u>(1,012)</u>	<u>22,315</u>
Total liabilities and equity		29,303	(3,733)	25,570

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(all tabular amounts are expressed in thousands of US dollars unless otherwise stated)

	Note	December 31, 2010		
		Canadian GAAP	Effect of transition to IFRS	IFRS
Assets				
Current assets				
Cash and cash equivalents		19,596	-	19,596
Current deferred consideration receivable		1,500	-	1,500
Prepaid and receivables		1,217	-	1,217
		22,313	-	22,313
Non-current assets				
Deferred consideration receivable		3,592	-	3,592
Exploration properties	1	14,191	(3,733)	10,458
Property, plant and equipment	3	449	-	449
Equity investment in Talas Joint Venture		10,221	-	10,221
Other assets		392	-	392
		28,845	(3,733)	25,112
Total assets		51,158	(3,733)	47,425
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		672	-	672
		672	-	672
Non-current liabilities				
Derivative warrant liabilities	2	-	6,245	6,245
Deferred income tax	1	3,094	(3,094)	-
Other liabilities		120	-	120
		3,886	3,151	7,037
Equity				
Share capital		380,145	-	380,145
Share purchase warrants	2	24,133	(19,236)	4,897
Share purchase options		5,904	-	5,904
Contributed surplus	2	50,696	(28,213)	22,483
Non-controlling interest	4	-	(773)	(773)
Deficit	2,4	(413,606)	41,338	(372,268)
		47,272	(6,884)	40,388
Total liabilities and equity		51,158	(3,733)	47,425

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Notes to the reconciliations of consolidated balance sheets

The following notes explain the differences between Canadian GAAP and the IFRS accounting policies applied by the Company. These differences result in the adjustments in the tables above:

1) As a result of the purchase of Lero during the year ended December 31, 2008, the Company recognised a deferred tax liability under Canadian GAAP of \$6.9 million as at January 1, 2010 and March 31, 2010. Under Canadian GAAP the Company re-measured the deferred tax liability as at December 31, 2010 and reduced this to \$3.1 million. Under IFRS, IAS 12 prohibits the recognition of any deferred tax for the acquisition of assets that do not constitute a business combination. Accordingly on transition to IFRS, an adjustment has been made to derecognise both the deferred tax liability and the corresponding balance that was capitalised to mineral exploration properties. This decreased exploration properties by \$6.9 million on transition to IFRS as at January 1, 2010, by \$3.7 million as at March 31, 2010, and by \$3.1 million as at December 31, 2010.

The Company has applied IAS 8, also in Canadian GAAP, for the restatement of its equity investment in the Talas Joint Venture as at March 31, 2010 from a previously reported \$13,508K to \$10,364K and a previously reported deferred tax liability of \$3.1 million (also included as part of the \$6.9 million as at January 1, 2010 referred to above) to nil. Under Canadian GAAP the Company previously recognised a deferred tax liability of \$3.1 million related to the acquisition of the Talas asset. Following the change in accounting to the equity method for the investment in the Talas Joint Venture at March 31, 2010 under Canadian GAAP the Company did not derecognise this deferred tax liability against the value of the investment in the Talas Joint Venture as at March 31, 2010. As a result the Company has restated the value of its equity investment in the Talas Joint Venture to \$10,364K and deferred tax liability to nil as at March 31, 2010.

2) The Company has share purchase warrants outstanding that are exercisable in Canadian dollars. As the functional reporting currency is United States dollars, share purchase warrants with an exercise price in a different currency are considered a derivative instrument under IFRS (IAS 32) and are revalued and re-translated at each reporting date. Changes in fair value each period are recorded in the income statement. Under Canadian GAAP, these share purchase warrants were considered to be equity instruments. On transition to IFRS the Company recorded the following adjustments:

- As at January 1, 2010 the Company re-classified \$42.0 million on the balance sheet for share purchase warrants previously considered to be equity instruments under Canadian GAAP to derivative liabilities under IFRS. The Company then recorded an adjustment to retained earnings of \$30.8 million in relation to these derivative warrant liabilities as at January 1, 2010 made up of a \$35.4 million adjustment following the fair value re-measurement of the derivative warrant liabilities as at January 1, 2010, from an original fair value under Canadian GAAP of \$46.6 million to \$11.2 million under IFRS, partially offset by expensing previously capitalised issue costs of \$4.6 million;
- As at March 31, 2010, the Company then re-measured the above mentioned derivative warrant liabilities to a fair value of \$1 million which resulted in further net positive adjustment to retained earnings of \$10.2 million;
- Under Canadian GAAP the Company had reclassified \$31.1 million to contributed surplus from share purchase warrants in relation to share purchase warrants that had expired as at December 31, 2010. Of this amount, under IFRS the Company identified \$28.2 million relating to warrant derivative liabilities and recorded this as an adjustment to retained earnings.

3) The description of tangible fixed assets has been re-named from "Office, furniture and equipment" to "Property, plant and equipment" on transition to IFRS.

4) IFRS, IAS 1, requires presentation of non-controlling interests within equity, on the consolidated balance sheet and allocation of net income/ (loss) and comprehensive income/ (loss) attributable to the owners of the

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parent and non-controlling interests. The Company's non-controlling interests relate to a 45% interest in Lisburne, 26.1% interest in Eildon and 30% interest in MLD. Prior to adoption as at January 1, 2010, the Company had not attributed losses to non-controlling interests because their losses exceeded the carrying value amount of the non-controlling interests, and as such had not recognised non-controlling interest in equity as at January 1, 2010. IAS 27 requires that the Company prospectively attribute losses to non-controlling interests from January 1, 2010. For the three months ended March 31, 2010 and year ended December 31, 2010 the Company recognized losses relating to non-controlling interests of \$47,000 and \$772,616 respectively.

Reconciliation of total comprehensive income/ (loss)

Reconciliations between the Canadian GAAP and IFRS total comprehensive income for the year ended December 31, 2010 and for the three months ended March 31, 2010 are provided below. The Canadian GAAP statement of comprehensive loss has been represented, following adjustments for IFRS, in an IFRS consolidated statements of comprehensive income format.

		Three months ended March 31, 2010		
		Canadian	Effect of	
		GAAP	transition	IFRS
	Note		to IFRS	
Administration	1	(1,041)	324	(717)
Legal and professional	1	-	(324)	(324)
Exploration		(199)	-	(199)
Stock based compensation		(105)	-	(105)
Unrealized derivative gains	2	-	10,216	10,216
Net foreign exchange gains/ (losses)		(55)	-	(55)
Net income from operations		(1,400)	10,216	8,816
Company's share of Talas Joint Venture losses		(214)	-	(214)
Finance income		11	-	11
Finance expense		(8)	-	(8)
Net income/ (loss) and comprehensive income/ (loss) for the period		(1,611)	10,216	8,605
Net income/ (loss) attributable to:				
Shareholders of the Company	4	(1,611)	10,263	8,652
Non-controlling interest	4	-	(47)	(47)
		(1,611)	10,216	8,605

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		Year ended December 31, 2010		
		Canadian	Effect of	
	Note	GAAP	transition	IFRS
			to IFRS	
Administration	1	(4,578)	1,668	(2,910)
Legal and professional	1,2	-	(2,461)	(2,461)
Exploration		(2,907)	-	(2,907)
Stock based compensation		(1,785)	-	(1,785)
Unrealized derivative gains	2	-	11,184	11,184
Net foreign exchange gains/(losses)	3	410	(639)	(229)
Net (loss)/ income from operations		(8,860)	9,752	892
Deferred consideration income		5,092	-	5,092
Company's share of Talas Joint Venture losses		(970)	-	(970)
Finance income		117	-	117
Finance expense		(1)	-	(1)
Net income/ (loss) and comprehensive income/(loss) for the year		(4,622)	9,752	5,130
Net income/ (loss) attributable to:				
Shareholders of the Company	4	(4,622)	10,525	5,903
Non-controlling interest	4	-	(773)	(773)
		(4,622)	9,752	5,130

Notes to the reconciliation of total comprehensive income/ (loss):

1) The Company has adopted a nature of expense format for presentation of the consolidated statement of comprehensive income and has reclassified elements previously described under Canadian GAAP as "General and administration" expenses between "Administration" and "Legal and professional expenses" under IFRS.

2) The Company has share purchase warrants outstanding that are exercisable in Canadian dollars. As the functional reporting currency is United States dollars, share purchase warrants with an exercise price in a different currency are considered a derivative instrument under IFRS (IAS 32) and are revalued and re-translated at each reporting period. Changes in fair value at each reporting period are recorded in the income statement. In addition under IFRS, warrant issue costs associated with derivative warrant liabilities are expensed. Under Canadian GAAP, these share purchase warrants were considered to be equity instruments and their associated issue costs capitalised as equity. On transition to IFRS, the Company recorded the following:

- The Company re-measured the above mentioned derivative warrant liabilities which resulted in a net unrealized derivative gain of \$10.2 million for the three months ended March 31, 2010;
- The Company re-measured the above mentioned derivative warrant liabilities which resulted in a net unrealized derivative gain of \$11.2 million for the year ended December 31, 2010;
- an adjustment of \$0.8 million to expense previously capitalised warrant issue costs to "Legal and professional" expenses for the year ended December 31, 2010.

3) Under Canadian GAAP the Company re-measured the deferred tax liabilities on its mineral properties for changes in exchange rate and recorded a foreign exchange gain of \$0.6 million for the year ended December 31, 2010. Under IFRS, IAS 12 prohibits the recognition of any deferred tax for the acquisition of

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assets that do not constitute a business combination. Accordingly on transition to IFRS, the Company has reversed this adjustment between the net income and deferred tax liabilities on the balance sheet as at December 31, 2010.

- 4) IFRS, IAS 1, requires presentation of non-controlling interests within equity, on the consolidated balance sheet and allocation of net income/ (loss) and comprehensive income/ (loss) attributable to the owners of the parent and non-controlling interests. The Company's non-controlling interests relate to a 45% interest in Lisburne, 26.1% interest in Eildon and 30% interest in MLD. Prior to adoption as at January 1, 2010, the Company had not attributed losses to non-controlling interests because their losses exceeded the carrying value amount of the non-controlling interests, and as such had not recognised non-controlling interest in equity as at January 1, 2010. IAS 27 requires that the Company prospectively attribute losses to non-controlling interests from January 1, 2010. For the three months ended March 31, 2010 and year ended December 31, 2010 the Company recognized losses relating to non-controlling interests of \$47,000 and \$772,616 respectively.

Statement of consolidated cash flows

Upon transition to IFRS, no reclassifications or adjustments were required to the statements of cash flows.

Presentation changes to the financial statements

The transition to IFRS has resulted in a number of changes in the presentation of the financial statements, in particular to the Statement of net income and comprehensive income. The changes to the balance relate to the re-classification of the share purchase warrants from equity to long term liabilities and the re-classification of liabilities between current and long term liabilities.

The following is a summary of the significant presentational changes to the consolidated financial statements:

- a) Reporting of expenses by function and nature. The income statement reports the expenses by nature. The Company now has a choice to report the expenses by significant function or significant nature depending on what provides the most relevant information to the user. Accordingly the Company has now reclassified under IFRS elements previously described under Canadian GAAP as "General and administration" expenses between "Administration" and "Legal and professional expenses".
- b) Finance income. Under IFRS this now shown separately and includes bank interest income and foreign exchange gains on the revaluation of the Company's cash and cash equivalent assets;
- c) Finance expenses. Under IFRS finance expense includes bank interest.

6. Deferred consideration income and receivable

	March 31, 2011	December 31, 2010
	\$	\$
Deferred consideration receivable – beginning of period	3,592	-
Deferred consideration for the period (note a)	-	5,092
Less: current deferred consideration receivable (note b)	(1,500)	(1,500)
Deferred consideration receivable – end of period	<u>2,092</u>	<u>3,592</u>

The Company entered into a sale and purchase agreement (the "SPA"), dated June 13, 2009 with OJSC Polymetal ("Polymetal") to sell 100% of its interest in the Varvarinskoye Project for an initial consideration

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of \$8 million and deferred consideration of up to \$12 million. On October 30, 2009, the Company completed the sale of its Varvarinskoye Project to Polymetal and, as a result, the Company was released from all of its financial and guarantor obligations relating to the Varvarinskoye Project.

a) Deferred consideration income

For the year ended December 31, 2010, the Company estimated the fair value of the deferred consideration receivable to be \$5.1 million.

The deferred consideration earnings are calculated annually for each calendar year from January 1, 2010 (each year referred to as a Deferred Consideration Period or “DCP”) in accordance with the formula and related provisions set out in the SPA and is contingent upon the average gold and copper metal price levels during each DCP compared to gold and copper metal benchmark prices of \$1,130 per ounce for gold and \$6,527 per tonne for copper, effective as at the date of a hedging program entered into by Polymetal.

b) Deferred consideration receivable

As at December 31, 2010, the Company recognized a deferred consideration receivable asset of \$5.1 million, representing the net present value of the Company’s estimated future deferred consideration earnings, based upon the Company’s forecast of future gold and copper metal prices and adjusted for counterparty credit risk. The Company’s forecast gold price range was from \$1,067 per ounce to \$1,285 per ounce and forecast copper price range was from \$6,292 per tonne to \$8,318 per tonne.

Pursuant to the SPA, the maximum amount of any deferred consideration earnings payable to the Company in any one year is limited to \$1.5 million. Any amounts earned but unpaid are carried forward to future years, together with accrued interest at LIBOR + 2%.

The net present value of the estimated future deferred consideration earnings which the Company recognised as at December 31, 2010 represents the maximum the Company may earn for deferred consideration after taking into account the limit of \$1.5 million it may receive for any one year and accruing interest on any amounts carried forward as mentioned. For this reason, the Company has not recorded any deferred income for the three months to March 31, 2011.

As at March 31, 2011 the Company had a total of \$3.6 million deferred consideration receivable asset, of which it recorded \$1.5 million as a current deferred consideration receivable and classified the balance of \$2.1 million as a long-term deferred consideration receivable asset.

7. Exploration properties

The exploration licences held by the Company are as follows:

	March 31, 2011	December 31, 2010
Karchiga (note a)	4,404	4,404
Akdjol-Tokhtazan (note b)	6,054	6,054
	<u>10,458</u>	<u>10,458</u>

a) Karchiga exploration license area, Kazakhstan

The Karchiga exploration license area contains the Karchiga Volcanic Massive Sulphide (“VMS”) copper deposit and is located in the northeast of Kazakhstan. The Karchiga license expires on February 28, 2012. On May 20, 2010, the Company entered into a sale and purchase agreement to acquire the remaining 26.1% of Eildon, which is the owner of a 94.75% interest MLD. In April 2011, the Company completed the

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acquisition a cash consideration of \$6,187,500 and as a result holds 94.75% of MLD the holder of the Karchiga exploration license.

b) Akdjol-Tokhtazan exploration license area, Kyrgyzstan

The Akdjol-Tokhtazan exploration license area is located in the Jalal-Abad Oblast, western Kyrgyzstan and comprises the Akdjol license and Tokhtazan license. During 2010, the company identified the Akdjol license area as a gold-silver epithermal prospect and the Tokhtazan license area as a gold prospect. The Akdjol and Tokhtazan licenses expire on December 31, 2012.

8. Equity investment in Talas Joint Venture

The Talas exploration license area comprises the Taldybulak, Kentash, Barkol and Korgontash licenses in Kyrgyzstan. The primary exploration property within the Talas exploration license area is the Taldybulak copper-gold-molybdenum porphyry deposit. The Taldybulak license expires on December 31, 2015 and the Barkol license expires on December 31, 2013. The Kentash and Korgontash licenses expire on December 31, 2012.

In December 2008 the Company entered into a joint venture agreement (the "JV Agreement") to further develop the Talas licence area with Goldfields Orogen Holdings BVI Limited ("Gold Fields") and, under the terms of the JV Agreement, Gold Fields became the project operator. In January 2010, Gold Fields earned a 60% interest in the Talas Joint Venture Company and, in doing so, earned the ability to unilaterally control the operational, financial and investment decisions of the Talas Joint Venture Company. For this reason the Company's 40% minority interest in the Talas and has been accounted for as an associate under the equity method.

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A summary of the carrying value of the Company's equity investment in the Talas Joint Venture is set out below:

	March 31, 2011	December 31, 2010
	\$	\$
Fair value of equity investment as at January 1	10,221	10,240
Funding providing by the Company during period	200	951
Less: Company's 40% share of operating losses in the period	(310)	(970)
Fair value of equity investment at end of period	<u>10,111</u>	<u>10,221</u>

9. Derivative warrant liability

A summary of the changes in the Company's listed share purchase warrants for the period ended March 31, 2011 and for the year ended December 31, 2010 (restated from Canadian GAAP to IFRS see note 3) is set out below:

	<u>March 31, 2011</u>			<u>December 31, 2010</u>		
	Value Assigned \$	Warrants Outstanding 000's	Average exercise price CAD\$	Value Assigned \$	Warrants Outstanding 000's	Average exercise price CAD\$
Balance as at January 1 st	6,245	60,045	0.57	11,228	11,234	1.33
Warranted granted	-	-		6,201	56,000	
Fair value re-measurement in period	(3,346)	-		(8,508)	-	
Warrants expired	-	(4,045)		(2,676)	(7,189)	
Balance – End of period	<u>2,899</u>	<u>56,000</u>	0.50	<u>6,245</u>	<u>60,045</u>	0.57

A summary of the share purchase warrants outstanding and exercisable as at March 31, 2011 is set out below:

Exercise Price CAD\$	Expiry date	Number 000's	Value \$000s
0.50	April 16, 2012	56,000	2,899
		<u>56,000</u>	<u>2,899</u>

The initial fair value on recognition of the Share Purchase Warrants was calculated using the Black-Scholes pricing model, using the assumptions in the following table. Subsequent to their initial recognition, the share purchase warrants liability is re-measured and re-translated each reporting period in accordance with IAS 32.

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	As at March 31, 2011	As at December 31, 2010	Original fair value
Exchange rate at date of fair value	0.9728	0.9937	1.0128
Risk free interest rate	1.37%	1.40%	1.78%
Expected dividend yield	Nil	Nil	Nil
Expected stock price volatility	87.75%	101.72%	149.95%
Expected warrant life	1 years	1.3 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.

10. Shareholders equity

a) Authorized Share capital

The Company is authorized to issue 100,000,000,000 common shares of no par value. As at March 31, 2011 the total issued share capital of the Company was 157,696,049 common shares.

A summary of the changes in the Company's issued share capital for the three months ended March 31, 2011, the year ended December 31, 2010 and as at January 1, 2010 are set out below:

	<u>March 31, 2011</u>		<u>December 31, 2010</u>	
	Number of shares 000's	Amount \$	Number of shares 000's	Amount \$
Balance - Beginning of period	157,696	380,145	45,696	361,440
Gross proceeds from offering (Note i)	-	-	112,000	21,445
Share issue costs (note ii)	-	-	-	(1,862)
Broker warrants (note iii)	-	-	-	(878)
Balance – End of period	<u>157,696</u>	<u>380,145</u>	<u>157,696</u>	<u>380,145</u>

Notes:

- i. On April 16, 2010, the Company completed a public offering of its units (each a "Unit") and sold 112 million Units at a Unit price of CAD\$0.25 raising gross proceeds of \$27.6 million (CAD\$28 million), (the "Offering"). Each unit comprised one common share of the Company and a one half of one common share purchase warrant (each whole warrant a "Warrant") with an exercise price of CAD\$0.50 for each Warrant. The Company has allocated the Offering of \$27.6 million on a pro rata basis between Share Capital and Share Purchase Warrants;

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- ii. In relation to the Offering the Company incurred share issue costs of \$2.4 million in total. This was made up of a payment of CAD\$1,680,000 Agent's fee and legal and professional costs of \$0.7 million. As these costs related to the issue of the Units and the Warrants have also been allocated on a pro rata basis. Under IFRS the allocated cost for the Warrants has been charged to net income;
- iii. Also in relation to the Offering the Company granted 6,720,000 non transferrable warrants ("Broker Warrants") equal to 6% of the total Units sold to the Agent at an exercise price of CAD\$0.25 per Broker Warrant. The Company calculated the fair value for these Broker Warrants, using the Black Scholes model, to be \$1.1 million and allocated the charge on a pro rata basis. Under IFRS the allocated cost for the Warrants has been charged to net income;
- iv. Also in relation to the Offering the Company granted 6,720,000 non transferrable warrants ("Broker warrants") equal to 6% of the total Units sold to the Agent at an exercise price of CAD\$0.25 per Broker warrant. The Company calculated the fair value for these Broker Warrants, using the Black Scholes model, to be \$1.1 million and allocated the charge on a pro rata basis. Under IFRS the allocated cost for the Warrants has been charged to net income;

b) Share Purchase Warrants

A summary of the changes in the Company's Share purchase warrants recognised in equity for the three months ended March 31, 2011 and year ended December 31, 2010 (restated from Canadian GAAP to IFRS) is set out below:

	2011			2010		
	Warrants outstanding 000's	Value assigned US\$	Average exercise price CAD\$	Warrants outstanding 000's	Value assigned US\$	Average exercise price CAD\$
Balance - Beginning of the period	7,580	4,897	0.33	1,621	6,609	0.96
Broker Warrants issued (note i)	-	-		6,720	1,131	
Share purchase warrants expired (note ii)	-	-		(761)	(2,843)	
Balance - End of the period	<u>7,580</u>	<u>4,897</u>	0.33	<u>7,580</u>	<u>4,897</u>	0.33

Notes:

- i. In relation to the Offering the Company granted 6,720,000 Broker Warrants to the Agent. Each Broker warrant entitles the Agent to acquire one Common Share of the Company at an exercise price of CAD\$0.25 per Broker warrant for a period of two years following the closing date of the Offering. The Company calculated the fair value of these Broker warrants, using the Black Scholes model, to be \$1.1 million and allocated this on a pro rata basis between Share Capital, \$878,000, and net income, \$253,000;
- ii. As at December 31, 2010, 761,000 share purchase warrants previously issued to lenders of debt and equity holders between 2005 and 2008 in relation to the Varvarinskoye Project expired.

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A summary of the Broker warrants outstanding and exercisable as at March 31, 2011 is set out below:

2011		
Exercise Price CAD\$	Expiry date	Number 000's
9.20	October 17, 2011	860
0.25	April 16, 2012	<u>6,720</u>
		<u>7,580</u>

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

	Broker warrants issued in 2010	Broker warrants issued to debt lenders issued from 2006
Risk free interest rate	1.78%	2.72%
Expected dividend yield	nil	nil
Expected stock price volatility	149.95%	57.42%
Expected warrant life	2 years	2 years

Pricing models require the input of highly subjective assumptions, including the expected price volatility.

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.

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A summary of the changes in the Company's share purchase options for the three months ended March 31, 2011 and year ended December 31, 2010 is set out below:

	2011			2010		
	Options outstanding 000's	Value assigned \$	Average exercise price \$	Options outstanding 000's	Value assigned \$	Average exercise price \$
Balance – Beginning of period	14,708	5,904	0.45	2,085	12,550	8.08
Options granted February 2011 (note i)	75	2		-	-	
Options granted April 2010 (note ii)	-	90		13,250	1,532	
Options granted April 2010 forfeited	-	-		(713)	(68)	
Options granted June 2010 advisors (note iii)	-	3		200	13	
Options granted August 2010 (note iv)	-	5		500	24	
Options granted October 2010 advisors (note v)	-	19		300	19	
Options granted October 2010 (note vi)	-	21		500	32	
Options granted December 2010 (note vii)	-	22		500	10	
Options vested	-	-		-	255	
Options forfeited	-	-		(647)	(2,461)	
Options lapsed	-	-		(30)	(620)	
Options cancelled (note viii)	-	-		(1,237)	(5,382)	
Balance – End of period	14,783	6,066	0.45	14,708	5,904	0.45

Notes:

- i. On February 22, 2011, the Company granted 75,000 options to a consultant of the Company for a period five years at an exercise price of CAD\$0.30 and vesting between August 22, 2011 and February 22, 2013;
- ii. On April 16, 2010, the Company granted 13,250,000 options to directors, employees and consultants of the Company for a period of 5 years at an exercise price of CAD\$0.25 and vesting between October 16, 2010 and April 16, 2012;
- iii. On June 29, 2010, the Company granted 200,000 options to Vanguard Inc. as an advisory fee, for a period of 3 years at an exercise price of CAD\$0.25 and vesting between December 29, 2010 and June 29, 2012;
- iv. On August 10, 2010, the Company granted 500,000 options to an employee of the Company for a period of 5 years at an exercise price of CAD\$0.25 and vesting between January 1, 2011 and July 1, 2012;
- v. On October 4, 2010, the Company granted 300,000 options to Vanguard Inc. as an advisory fee, for a period of 3 years at an exercise price of CAD\$0.32 and vesting between April 1, 2011 and October 1, 2012;
- vi. On October 4, 2010, the Company granted 500,000 options to an employee of the Company for a period of 5 years at an exercise price of CAD\$0.32 and vesting between April 1, 2011 and October 1, 2012;
- vii. On December 7, 2010, the Company granted 500,000 options to a director of the Company for a period of 5 years at an exercise price of CAD\$0.30 and vesting between June 7, 2011 and December 7, 2012;
- viii. On December 7, 2010, the Company cancelled 1,237,500 options previously granted to directors and employees of the Company. As a result the Company reclassified the fair value of \$5.4 million from stock purchase options to contributed surplus as at December 31, 2010.

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Information relating to share options outstanding at March 31, 2011 is as follows:

Range of prices CAD\$	Number of options	Weighted average years to expire	Average exercise price CAD\$	Number of exercisable options	Average exercise price CAD\$
0.25 – 2.39	14,375,000	4.28	0.26	3,250,000	0.25
2.40 – 4.99	95,000	1.99	3.20	95,000	3.20
5.00 – 9.99	292,500	4.04	8.26	292,500	8.26
10.00 – 14.90	20,000	1.26	12.60	20,000	12.60
	<u>14,782,500</u>	4.26	0.45	<u>3,657,500</u>	1.04

The fair value of the share options granted are based on the Black-Scholes option-pricing model using the following assumptions:

	March 31, 2011 \$	March 31, 2010 \$
Average exercise price	C\$0.45	C\$1.08
Dividend yield	Nil	Nil
Risk free interest rate	0%-2.37%	0%-3.33%
Expected options life	2.8 – 3.0 years	2.8 – 3.0 years
Expected stock price volatility	132% – 140%	58.58% – 158.28%

The expected stock price volatility is measured using the daily closing stock price, in CAD\$, over a period equivalent to the vesting period of the stock options from the date of grant.

11. Related party transactions

(a) Contributions

	3 months ended March 31, 2011 \$	2010 \$
Contribution to Talas Joint Venture	200	338

The related party transaction relates to the Company is pro-rata funding of its 40% share in the Talas Joint Venture with Gold Fields.

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(b) Key management compensation

Key management includes directors and officers. The compensation paid or payable to key management for employee services is shown below.

	3 months to March 31,	
	2011	2010
	\$	\$
Salaries and other short-term employee benefits	320	234
Other long-term benefits	2	2
	<u>322</u>	<u>236</u>

12. Financial and capital risk management

(a) Financial risk management

The Company's activities expose it to a variety of financial risks, which include credit risk, liquidity risk, currency risk, interest rate risk, and commodity price risk.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its obligations. The financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents and the deferred consideration receivable.

The Company's maximum exposure to credit risk as at March 31, 2011 is as follows:

	March 31, 2011	December 31, 2010
	\$	\$
Cash and cash equivalents		
Cash	14,011	14,009
Term deposits for 90 days or less	5,357	5,587
Deferred consideration receivable		
Currently due	1,500	1,500
Due greater than 12 months	2,092	3,592

The Company's maximum exposure to credit risk at the balance sheet date under its financial instruments is limited to cash and cash equivalents of \$19.4 million (\$19.6 million as at December 31, 2010) and its deferred consideration receivable of \$3.6 million (\$5.1 million as at December 31, 2010). The Company's cash and short-term deposits are all held at banks with a minimum credit rating (as defined by recognized credit agencies) of "A-1" and as such, the Company believes that these banks do not have a significant exposure to credit risk. The financial instrument which exposes the Company to credit risk is its deferred consideration receivable, the counterparty being Polymetal pursuant to the SPA (see note 6).

Liquidity risk

The Company's policy is to manage liquidity risk by maintaining cash and cash equivalent balances sufficient to meet its short-term and long-term obligations.

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As at March 31, 2011, the Company's short-term and long-term obligations were as follows:

	Total \$	Less than 1 year \$	1-2 years \$	2-3 years \$	Beyond 3 years \$
Accounts payable and accrued liabilities	733	613	-	-	120

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. The majority of operating expenses are denominated in US Dollars, UK Sterling, Kazakh Tenge and Kyrgyz Som.

Based on the operational expenditures to March 31, 2011 (including exploration expenditures) the impact on earnings (reported in US Dollars) of a 10% appreciation or depreciation in currencies is as follows:

	10% depreciation \$000s	10% appreciation \$000s
UK Sterling	84	(84)
Kazakhstan Tenge	47	(58)
Kyrgyzstan Som	36	(44)

Interest rate risk

The Company's interest rate risk arises primarily from bank interest received on cash deposits. The variable bank interest rate for cash deposits exposes the Company to cash flow interest rate risk.

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

	March 31, 2011 \$	Impact of LIBOR change on net earnings 1% increase \$	1% decrease \$
Cash at bank	19,297	193	(193)

The cash at bank balance above only includes interest bearing accounts held by the Company's head office in London. Local overseas accounts are non interest bearing.

Commodity price risk

The carrying value of the Company's deferred consideration receivable is subject to price risk from fluctuations in the market price of copper and gold metals.

The following table shows the impact on net earnings due to changes in the fair value of the deferred consideration receivable arising from a 10% change in copper and gold metal prices:

	March 31, 2011 \$	Impact of price changes on net earnings 10% increase \$	10% decrease \$
Deferred consideration receivable	3,592	-	(346)

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Pursuant to the SPA, the value of the deferred consideration receivable asset as at March 31, 2011 (\$5.1 million as at December 31, 2010) already reflects the maximum potential deferred consideration earnings of \$12 million which the Company is entitled to receive and, as a result, there is a nil impact on the Company's net earning when copper and gold metal prices increase. The net present value of the estimated future deferred consideration earnings which the Company recognised as at December 31, 2010 represents the maximum the Company may earn for deferred consideration after taking into account the limit of \$1.5 million it may receive for any one year and accruing interest on any amounts carried forward. For this reason, the Company has not recorded any deferred income for the three months to March 31, 2011.

(b) Capital risk management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern, to provide an adequate return on investment to shareholders, and to maintain a flexible capital structure that optimizes the cost of capital at acceptable risk.

13. Financial instruments by category

Fair values

Under IFRS the Company is required to disclose information about the fair value of its financial instruments.

The Company's financial instruments consist of cash and cash equivalents, derivative assets, share purchase warrants and accounts payable and accrued liabilities. Financial instruments are initially recognized at fair value with subsequent re-measurement depending on classification as described below. Classification of financial instruments depends on the purpose for which the financial instruments were acquired or issued, their characteristics, and the Company's designation of such instruments.

Cash and cash equivalents are recorded at fair value in local currency. Where cash and cash equivalents are held in currency other than US Dollars then the exchange rate as at the balance sheet is used to translate to US Dollars and changes in the fair value are recorded in net earnings.

Derivative assets are recorded at fair value determined by the use of valuation models which use actual and forecast metal prices and adjusted for the counterparty's own credit risk. 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 derivative instruments are recorded in net earnings.

The Company estimates that carrying values of its accounts payable and accrued liabilities approximate their fair values and changes in their fair value are recorded in net earnings.

The fair value of the Company's derivative liabilities are measured at the balance sheet date using valuation models which incorporates the exchange rates, share price, expected remaining life and volatility and risk free rates. Changes in fair value of derivative instruments are recorded in net earnings.

Further to the requirements of IFRS, the Company has classified the financial assets using a fair value hierarchy that reflects the significance of the inputs in determining their fair value. The fair value hierarchy consists of the following levels which classify these inputs:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability and,

Level 3 – inputs for the asset or liability that are not based on observable market data.

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As at March 31, 2011, the carrying value and fair value of financial instruments held at fair value are as follows:

	Carrying Value	Fair Value	Fair Value hierarchy Level
Financial assets			
Cash and cash equivalents	19,368	19,368	2
Deferred consideration receivable	3,592	3,592	3
Financial liabilities			
Accounts payable and accrued liabilities	733	733	2
Derivative warrant liabilities	2,899	2,899	2

As at December 31, 2010, the carrying value and fair value of financial instruments held at fair value are as follows:

	Carrying Value	Fair Value	Fair Value hierarchy Level
Financial assets			
Cash and cash equivalents	19,596	19,596	2
Deferred consideration receivable	5,092	5,092	3
Financial liabilities			
Accounts payable and accrued liabilities	792	792	2
Derivative warrant liabilities	6,245	6,245	2

The Company classifies its financial assets and liabilities as either held for trading, derivative instruments or other financial liabilities.

Held for trading financial assets are recorded at fair value in local currency. Where cash and cash equivalents are held in currency other than US Dollars then the exchange rate as at the balance sheet is used to translate to US Dollars and changes in the fair value are recorded in net earnings.

Derivative assets are recorded at fair value and are determined through the use of valuation models which use actual and forecast metal prices and consider the counterparty's own credit risk. 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 derivative instruments are recorded in net earnings.

Derivative liabilities are recorded at fair value and are determined through the use of valuation models which use exchange rates, stock price and market data as at the balance sheet date. Changes in fair value of derivative instruments are recorded in net earnings.

The Company estimates that carrying values of other financial liabilities approximate their fair values. Changes in the fair value of the other financial liabilities are recorded in net earnings.

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The following provides a summary of the carrying values of each classification of financial instrument as at March 31, 2011:

	Derivative instrument	Held-for- trading	Other financial liabilities	Total carrying amount
	\$	\$	\$	\$
Financial assets				
Cash and cash equivalents	-	19,368	-	19,368
Deferred consideration receivable	3,592	-	-	3,592
Financial liabilities				
Accounts payable and accrued liabilities	-	613	120	733
Derivative warrant liabilities	2,899	-	-	2,899

The following provides a summary of the carrying values of each classification of financial instrument as at December 31, 2010:

	Derivative instrument	Held-for- trading	Other financial liabilities	Total carrying amount
	\$	\$	\$	\$
Financial assets				
Cash and cash equivalents	-	19,596	-	19,596
Deferred consideration receivable	5,092	-	-	5,092
Financial liabilities				
Accounts payable and accrued liabilities	-	672	120	792
Derivative warrant liabilities	6,245	-	-	6,245

14. Commitments

The following table summarizes the commitments of the Company as at March 31, 2011:

	2011	2012	2013	2014	2015 +	Total
	\$	\$	\$	\$	\$	\$
Capital commitments	6,188	-	-	-	-	6,188
Lease obligations	258	344	344	344	344	1,634

The Company's lease obligations are for its London head office property rents, payable under a lease agreement expiring in 2016. The rent payable is subject to an ongoing rent review, which affect the future lease obligations from February 2011 onwards.

The Company's capital commitment is for the acquisition of the remaining minority interest in Eildon for a cash consideration of \$6,187,500. This was completed in April 2011 but has not been reflected in these financial statements.

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15. Segment information

Operating segments are based on the reports reviewed by the board of directors that are used to make strategic decisions.

The segment information provided to the board for the reportable segments for the 3 months ended March 31, 2011 is as follows:

	Mineral exploration and development (Kazakhstan) \$	Mineral exploration and development (Kyrgyzstan) \$	Corporate (UK) \$	Total \$
Administrative	(79)	(39)	(652)	(770)
Legal and professional	-	-	(291)	(291)
Exploration	(477)	(62)	-	(539)
Talas Joint Venture losses	-	(310)	-	(310)
Stock-based compensation	-	-	(162)	(162)
Unrealized derivative gains	-	-	3,346	3,346
Net foreign exchange gains	-	-	97	97
Net off finance income and expense	-	-	17	17
Net income for the period	<u>(556)</u>	<u>(411)</u>	<u>2,355</u>	<u>1,388</u>
Property, plant and equipment	155	-	260	415
Total assets	5,492	16,165	23,913	45,570
Capital expenditure	-	-	2	2

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The segment information for the 3 months ended March 31, 2010 is as follows:

	Mineral exploration and development (Kazakhstan)	Mineral exploration and development (Kyrgyzstan)	Corporate (UK)	Total
	\$	\$	\$	\$
Administrative	-	(11)	(706)	(717)
Legal and professional	-	-	(324)	(324)
Exploration	(199)	-	-	(199)
Talas Joint Venture losses	-	(214)	-	(214)
Stock-based compensation	-	-	(105)	(105)
Unrealized derivative gains	-	-	10,216	10,216
Net foreign exchange gains	-	22	(77)	(55)
Net of finance income and expense	-	-	3	3
Net income for the period	<u>(199)</u>	<u>(203)</u>	<u>9,007</u>	<u>8,605</u>
Property, plant and equipment	-	176	334	510
Total assets	4,454	17,005	4,111	25,570
Capital expenditure	-	1	1	2

The amounts provided to the board with respect to total assets are measured in a manner consistent with that of the financial statements.

16. Subsequent event

In April 2011 the Company completed the acquisition of the remaining minority interest in Eildon for a cash consideration of \$6,187,500, and as such the Company indirectly owns 94.75% of the Karchiga exploration property.