

# **Orsu Metals Corporation**

Management's Discussion and Analysis of Results  
March 31, 2014 and 2013

(Figures in United States Dollars)

**CONTENTS**

This Management's Discussion and Analysis ("MD&A") contains the following information:

|                                   |    |
|-----------------------------------|----|
| Directors & Corporate Information | 3  |
| Introduction                      | 4  |
| Highlights                        | 4  |
| Core Asset                        | 6  |
| Other Activity & Other Asset      | 6  |
| Qualified Persons                 | 6  |
| Operational Review                | 7  |
| Results Of Operations             | 14 |
| Financial Review                  | 16 |
| Risks And Uncertainties           | 27 |
| Forward-Looking Information       | 38 |
| Controls And Procedures           | 39 |
| Other Information                 | 40 |

## Orsu Metals Corporation

### MD&A for the period ended March 31, 2014

---

#### DIRECTORS & CORPORATE INFORMATION

DR SERGEY V KURZIN, Executive Chairman  
DR ALEXANDER YAKUBCHUK, Director and Chief Operating Officer  
MARK CORRA, Non-Executive Director, Lead Independent Director  
MASSIMO CARELLO, Non-Executive Director  
TIMOTHY HANFORD, Non-Executive Director  
DAVID RHODES, Non-Executive Director

#### REGISTERED OFFICE

Nemours Chambers  
Qwomar Complex 4/F  
P.O. Box 3170  
Road Town, Tortola  
BRITISH VIRGIN ISLANDS

#### HEAD OFFICE

1 Red Place  
London  
W1K 6PL  
UNITED KINGDOM  
Telephone: +44 (0) 20 7518 3999  
Facsimile: +44 (0) 20 7518 3998

#### KAZAKHSTAN

Flat 4  
Building 28  
Baiganina Street  
Almaty 050008  
REPUBLIC OF KAZAKHSTAN

#### KYRGYZSTAN

Office 1  
33 Razzakova Street  
Bishkek, 720040  
KYRGYZ REPUBLIC

#### SOLICITORS

Norton Rose Fulbright Canada LLP  
Royal Bank Plaza,  
South Tower,  
Suite 3800  
200 Bay Street, P.O. Box 84  
Toronto  
M5J 2Z4  
CANADA

**WEBSITE:** [www.orsumetals.com](http://www.orsumetals.com)

**E-MAIL:** [info@orsumetals.com](mailto:info@orsumetals.com)

#### AUDITORS

PricewaterhouseCoopers LLP  
Chartered Accountants  
1 Embankment Place  
London  
WC2N 6RH  
UNITED KINGDOM

#### TRANSFER AGENT

Computershare Investor Services Inc.  
100 University Ave., 8<sup>th</sup> Floor  
Toronto  
M5J 2Y1  
CANADA  
Tel: +1 800 564 6253 (toll free Canada and the USA)  
Telephone: +1 514 982 7555  
[www.computershare.com](http://www.computershare.com)

#### STOCK EXCHANGES

Toronto Stock Exchange, OSU  
(Stock is quoted in Canadian Dollars)  
AIM Market of the London Stock Exchange, OSU  
(Stock is quoted in British Pence)

The effective date of this MD&A is May 13, 2014.

## **INTRODUCTION**

Orsu Metals Corporation (“Orsu” or the “Company”) is a dual listed (TSX: OSU; AIM: OSU) base and precious metals exploration and development company focusing on the acquisition and development of exploration licenses in countries of the Former Soviet Union (the “FSU”). The Company currently holds exploration licenses in the Republic of Kazakhstan (or “Kazakhstan”) and within the Kyrgyz Republic (or “Kyrgyzstan”) and is currently seeking to acquire and develop new exploration licenses in Kazakhstan.

The Company’s principal and most advanced project is the property, within Kazakhstan, comprising a license area in eastern Kazakhstan containing the Karchiga volcanogenic massive sulphide (“VMS”) deposit which is part of the Rudny Altai polymetallic belt (the “Karchiga Project”). The Karchiga Definitive Feasibility Study Report (as defined below) showed an initial capital expenditure requirement of \$115 million for the construction of a mine and processing facility at the Karchiga Project. In July 2012 to assist the Company in arranging finance for such expenditures the Company appointed Barclays Bank plc (“Barclays”) and UniCredit Bank AG (“UniCredit”) (together the “Mandated Lead Arrangers”) to use commercially reasonable efforts to secure debt financing of up to \$90 million (subject to commercially acceptable terms for the facility being agreed and the Mandated Lead Arrangers obtaining the necessary internal approvals). The Company is currently seeking to secure the remaining finance required, primarily in the form of secured debt but also from other sources, for the construction of mine and processing facilities at the Karchiga Project (see “Operational Review – Karchiga Copper Project, Kazakhstan” for details).

As part of the objective to acquire new exploration licenses in Kazakhstan, in March 2014 the Company entered into a new exclusivity agreement (the “Balkhash Agreement”), superseding the previously announced agreements made in November 2012, April 2013 and September 2013, with Asem Tas LLC (“Asem Tas”), a privately owned Kazakh registered company and holder of a license area in Eastern Kazakhstan, which is host to a 30km long Dzharlyk-Taisogan cluster of copper-polymetallic occurrences (the “Balkhash Project”). Under the Balkhash Agreement, the Company agreed to fund further exploration work of up to \$0.5 million, and in return the Company has the exclusive right, for a period ending in July 2014 (the “Exclusivity Period”), and subject to certain conditions and terms, to acquire an effective 55% interest in the Balkhash Project (see “Operational Review – Balkhash Project, Kazakhstan” for details regarding the Balkhash Project and the Balkhash Agreement).

The Company’s exploration interest in Kyrgyzstan consists of the Akdjol and Tokhtazan exploration licenses (the “Akdjol-Tokhtazan Project”) located in the Jelal-Abad Oblast, western Kyrgyzstan. In 2011 the Company determined the Akdjol-Tokhtazan Project to be a non core asset which is available for sale (see section entitled “Operational Review - Akdjol-Tokhtazan Project, Kyrgyzstan” for details). In the event of the sale of the Akdjol-Tokhtazan Project the Company will no longer have any exploration interests in Kyrgyzstan.

This MD&A contains management’s assessment and analysis of the operating results and financial condition of Orsu and should be read in conjunction with the interim consolidated financial statements for the three months ended March 31, 2014 and related notes, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (or “IASB”). All amounts are reported in United States Dollars (“\$” or “U.S. dollars”) unless otherwise indicated. Canadian Dollars are referred to herein as CAD\$ and British Pounds Sterling are referred to as GBP£.

## **2014 FIRST QUARTER HIGHLIGHTS**

January and February 2014 – the Company announced that an exclusivity agreement with David-Invest LLP (or “David-Invest”), a Kyrgyz registered company, and a related company, David Way Limited, a Hong Kong registered company, (together the “Potential Buyers”) for the potential sale of the Akdjol-Tokhtazan Project had expired after a non-refundable deposit of \$0.5 million which was due to be paid by the Potential Buyers to the Company by January 31, 2014 was not received. This exclusivity agreement followed the expiry on December 31, 2013 of a previous exclusivity agreement with David-Invest. Following the expiry of the exclusivity agreement the Company began discussions with both the Potential Buyers and other interested parties on a non-exclusive basis for the sale of the Akdjol-Tokhtazan Project. (see “Post Quarter Highlights” below and see section entitled “Operational Review - Akdjol-Tokhtazan Project, Kyrgyzstan”).

March 2014 – the Company announced that it had entered into the Balkhash Agreement to continue joint exploration work with Asem Tas and had agreed to an initial work programme for 2014 (the “2014 Work Programme”). Under the terms of the Balkhash Agreement the Exclusivity Period ends in July 2014, subject to extension by mutual agreement of both parties (see “Operational Review - Balkhash Project, Kazakhstan” for full details).

## **Orsu Metals Corporation**

### **MD&A for the period ended March 31, 2014**

---

#### **POST QUARTER HIGHLIGHTS**

In April 2014 – the Company announced that following the receipt of a \$300,000 non-refundable deposit from the Potential Buyers it had entered into a new exclusivity agreement with the Potential Buyers with a view to the potential sale of the Akdjol-Tokhtazan Project. Under the terms of such exclusivity agreement the Potential Buyers were granted the exclusive right to indirectly acquire the Akdjol-Tokhtazan Project until July 1, 2014 (the “Akdjol-Tokhtazan Exclusivity Period”) (see section entitled “Operational Review - Akdjol-Tokhtazan Project, Kyrgyzstan”).

## CORE ASSET

**Karchiga Project, Kazakhstan** – Orsu's principal project is located in the extreme east of Kazakhstan, within 40km of the Chinese border and within the Rudny Altai belt which is ranked in the top four VMS belts in the world.

### *Karchiga Technical Report*

Wardell Armstrong International Limited ("WAI") was contracted by Orsu in early 2010 to complete an independent review and audit of Orsu's updated mineral resource estimate for the Karchiga Project, from which WAI completed its own mineral resource estimate. WAI's complete technical report titled "Updated Report on the Karchiga Property held by Orsu Metals Corporation, Kazakhstan", dated March 22, 2010 and prepared by M L Owen and L S Carroll (each of whom was a "qualified person" within the meaning of the predecessor to National Instrument 43-101 ("NI 43-101") and independent of Orsu) (the "Karchiga Technical Report"), can be viewed under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

### *Karchiga Scoping Study*

In May 2010, Micon International Co Limited ("Micon") completed a preliminary assessment or scoping study for the Karchiga Project on behalf of Orsu (the "Karchiga Scoping Study"), based upon the mineral resource estimates contained in the Karchiga Technical Report. Micon's complete technical report titled "Preliminary Assessment of the Karchiga Copper Project, East Kazakhstan Region, Kazakhstan", dated May 25, 2010 and prepared by L S Carroll, G W Harris, M L Owen, J Steedman and D T Wells (each of whom was a "qualified person" within the meaning of the predecessor to NI 43-101 and independent of Orsu), can be viewed under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

### *Karchiga Definitive Feasibility Study*

In September 2010, the Company commenced the definitive feasibility study for the Karchiga Project (the "Karchiga Definitive Feasibility Study"). During the process of completing and fulfilling the requirements of the Karchiga Definitive Feasibility Study the Company undertook associated exploration and test work programmes, the highlights of which include:

- In-fill resource drilling program 2010 (see the Company's press release dated December 7, 2010 available on the Company's website at [www.orsumetals.com](http://www.orsumetals.com) or on SEDAR at [www.sedar.com](http://www.sedar.com));
- Metallurgical test work April 2011 (see the Company's press release dated April 28, 2011 available on the Company's website at [www.orsumetals.com](http://www.orsumetals.com) or on SEDAR at [www.sedar.com](http://www.sedar.com));
- Pit constrained mineral resource estimates announced in May 2011 and December 2011 (the "December 2011 Pit-Constrained Mineral Resources Estimates") (see the Company's press releases dated May 11, 2011 and December 8, 2011 available on the Company's website at [www.orsumetals.com](http://www.orsumetals.com) or on SEDAR at [www.sedar.com](http://www.sedar.com)); and
- The Karchiga Definitive Feasibility Study and the 2012 Mineral Reserve Estimates (as defined below).

In February 2012, SRK Consulting (UK) Limited ("SRK") completed the Karchiga Definitive Feasibility Study and, in connection therewith, the report entitled the "Karchiga Feasibility Study, NI 43-101 Technical Report", and dated March 27, 2012 (referred to as the "Karchiga Definitive Feasibility Study Report") was prepared by Mr Michael Beare, Dr Michael Armitage and Ms Tracey Laight of SRK (each of whom is a "qualified person" within the meaning of NI 43-101 and independent of Orsu). A copy of the Karchiga Definitive Feasibility Study Report can be viewed under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

Further discussion about the Karchiga Project can be found in this MD&A beginning on page 7. Certain information contained in this MD&A regarding the Karchiga Project has been derived from, and additional information relating to the Karchiga Project can be found in the Karchiga Scoping Study, the Karchiga Technical Report and the Karchiga Definitive Feasibility Study Report.

## OTHER ACTIVITY

**Balkhash Project, Kazakhstan** – Further discussion about the Balkhash Project can be found on page 12 of this MD&A.

## OTHER ASSET

**Akdjol-Tokhtazan Project, Kyrgyzstan** – Orsu also holds exploration licenses relating to the Akdjol-Tokhtazan Project. The Akdjol-Tokhtazan Project is currently held for sale and is the subject of the Akdjol-Tokhtazan Exclusivity Agreement. Further discussion about the Akdjol-Tokhtazan Project can be found on page 13 of this MD&A.

## QUALIFIED PERSONS

Mr Michael Beare, Corporate Consultant with SRK, Dr Michael Armitage, CEng, CGeol, Group Chairman and Corporate Consultant (Resource Geology) with SRK, and Ms Tracey Laight, MSc, CGeol, FGS, Senior Consultant (Mining Geology) with SRK, all of whom are independent of Orsu and are "qualified persons" as such term is defined in NI 43-101, have reviewed and approved the information in this MD&A relating to the December 2011 Pit-Constrained Mineral Resources Estimates and the results of the Karchiga Definitive Feasibility Study Report.

**OPERATIONAL REVIEW**

During the three months ended March 31, 2014 the Company continued to jointly explore the Balkhash Project with Asem Tas as well as continuing to seek finance for and planning the construction of mine and processing facilities for the Karchiga Project.

The Company has continued to use, and will continue to use, its current working capital resources to satisfy the Company's expenditure obligations in respect of its corporate and administrative expenditures, as well as the obligations under the Balkhash Agreement and the acquisition of any new mineral exploration properties. However, the current working capital resources are not sufficient to meet the financing requirements relating to the construction of mine and processing facilities for the Karchiga Project, for which separate project financing is required and which is described below.

As at the date of this MD&A the Company continues with its efforts to secure finance for the Karchiga Project. Until such time as it is able to secure the required financing, the Company will not enter into any contracts to place advance orders for mining equipment or construction materials and will be unable to determine the expected timing for the commencement of construction (see the "Financial review – Liquidity and capital resources" and "Risks and uncertainties" sections below).

**KARCHIGA COPPER PROJECT, KAZAKHSTAN**

**License Information**

The Karchiga Project is the Company's most advanced project. The Karchiga Project is located in the extreme east of the Republic of Kazakhstan, within 40km of the Chinese border. The deposit at the Karchiga Project is situated within the north west striking, mid-Palaeozoic, Rudny Altai VMS belt, the host of numerous world class copper bearing polymetallic VMS deposits, including the Leninogorsk (also known as Ridder-Sokolnoye), Zyryanovskoye, and Maleevskoye deposits. The Rudny Altai is ranked in the top four VMS belts of the world.

The Company's interest (through its indirect subsidiary, GRK MLD LLP (or "GRK")) in the Karchiga Project is governed by an exploration and production contract (the "Karchiga Project Contract"), as amended by the Karchiga Amendments (as defined below), granted to GRK by the former Ministry of Energy and Mineral Resources of the Republic of Kazakhstan (the "Former MEMR") until February 28, 2024. Pursuant to the Karchiga Project Contract, GRK has been granted the right to explore and produce copper within the boundary of the contract area.

On April 20, 2010 the first amendment to the Karchiga Project Contract, registration No. 3565 – TPI (the "First Amendment") was executed and registered with the Ministry of Industry and New Technologies of Kazakhstan (the "MINT") (the entity to which the Former MEMR's responsibilities in the regulation of the Kazakh mining industry have been transferred). The First Amendment included: (i) an approved increase to the work program under the Karchiga Project Contract; and (ii) a delay in the obligation to return parts of the contract area until the expiration of the exploration period (the "Return Date").

On June 28, 2010 the second amendment to the Karchiga Project Contract, registration No. 3647 of the Republic of Kazakhstan – TPI (the "Second Amendment", and the Second Amendment together with the First Amendment, the "Karchiga Amendments") was executed and registered with the MINT. The Second Amendment included, among other things, an extension of each of the exploration period under the Karchiga Project Contract and the Return Date to February 28, 2012. Under the terms of the Karchiga Project Contract, GRK has now received the license to mine within the Karchiga Project.

While each of the Karchiga Amendments was submitted to the Former MEMR by the relevant deadlines, their execution and registration by the MINT occurred after the applicable deadlines for doing so (as provided for in the Former MEMR's original approvals of such amendments).

All outstanding requirements under the Karchiga Project Contract, as amended, have been satisfied.

In April 2011, the Company received approval from the MINT to commence mineral extraction for copper at the Karchiga Project. This approval was the initial step in obtaining all of the necessary approvals and permits to commence mining operations. Subsequently, in August 2012 the Company received from the MINT an approval (the "Approval") for the Karchiga technical project (the "Karchiga Technical Project") relating to the development of a mining and processing complex at the Karchiga Project and is the principal document which confirms the compliance of the Karchiga Technical Project with technical, economic and environmental standards of Kazakhstan. The grant of the Approval allows for an amendment to the Karchiga Project Contract to permit the Company to commence construction and mining at the Karchiga Project.

In the first quarter of 2013 the Company received the remaining local regulatory approvals required for the commencement of mining and construction at the Karchiga Project. In addition the Company submitted a work program and expenditure for mining and construction to the Kazakh authorities for the Karchiga Project.

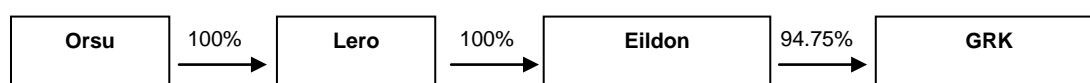
The past expenditures and obligations of GRK relating to the Karchiga Project are outlined in Table 1.

Table 1. Karchiga Project Contract Expenditures (2007-2010) and Expenditure Obligations (2011-2012)

| Year  | Expenditures |
|---|--------------|
| 2007 (Actual expenditures)                    | \$807,000    |
| 2008 (Actual expenditures)                    | \$2,700,000  |
| 2009 (Actual expenditures)                    | \$1,000,000  |
| 2010 <sup>(1)</sup> (Actual expenditures)     | \$2,528,000  |
| 2011 <sup>(1)</sup> (Expenditure obligations) | \$545,000    |
| 2012 <sup>(1)</sup> (Expenditure obligations) | \$80,000     |

<sup>(1)</sup> A condition of the Second Amendment is that the expenditure obligations of the Company on the Karchiga Project between 2010 and 2012 amount (in aggregate) to not less than \$850,000. As a result of the Company having incurred expenditures of \$2,528,000 during 2010 its expenditure obligations for all periods between 2010 to 2012 have been fulfilled.

The Company's interest in the Karchiga Project of 94.75% is held through its 100% interest in its subsidiaries Lero Gold Corp. ("Lero"), and Eildon Enterprises Limited ("Eildon"), the latter of which owns 94.75% of GRK.



### Karchiga Technical Report

A NI 43-101 compliant mineral resource estimate for the Karchiga Project was reported on March 22, 2010 in the Karchiga Technical Report. See "Core Asset – Karchiga Technical Report" above and the Karchiga Technical Report, a copy of which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

### Karchiga Scoping Study

In May 2010, Micon completed, at the request of Orsu, the Karchiga Scoping Study. See "Core Asset – Karchiga Scoping Study" above and the Karchiga Scoping Study, a copy of which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

### Karchiga Definitive Feasibility Study

In September 2010, the Company commenced the Karchiga Definitive Feasibility Study. During the process of completing and fulfilling the requirements of the Karchiga Definitive Feasibility Study the Company undertook associated exploration and test work programmes, the highlights of which include:

- In-fill resource drilling program 2010 (see the Company's press release dated December 7, 2010 available on the Company's website at [www.orsumetals.com](http://www.orsumetals.com) or on SEDAR at [www.sedar.com](http://www.sedar.com));
- Metallurgical test work April 2011 (see the Company's press release dated April 28, 2011 available on the Company's website at [www.orsumetals.com](http://www.orsumetals.com) or on SEDAR at [www.sedar.com](http://www.sedar.com));
- Pit constrained mineral resource estimates announced in May 2011 and the December 2011 Pit-Constrained Mineral Resources Estimates (see the Company's press releases dated May 11, 2011 and December 8, 2011 available on the Company's website at [www.orsumetals.com](http://www.orsumetals.com) or on SEDAR at [www.sedar.com](http://www.sedar.com)); and
- The Karchiga Definitive Feasibility Study and the 2012 Mineral Reserve Estimates.

In February 2012, SRK completed the Karchiga Definitive Feasibility Study. Using only the indicated mineral resource estimates forming part of the December 2011 Pit-Constrained Mineral Resource Estimates, the Karchiga Definitive Feasibility Study Report reported a probable mineral reserve estimate of 8.5 million tonnes of sulphide ore in the central and north east pits containing 145,227t (320 Mlb) of copper at an average grade of 1.71% Cu to be amenable to flotation ("FL") and additional 1.5 million tonnes of ore in the central pit containing 21,399t (47.2 Mlb) of copper at an average grade of 1.43% Cu to be amenable to heap leaching ("HL") (the "2012 Mineral Reserve Estimates"). See "Core Asset – Karchiga Definitive Feasibility Study".



## Orsu Metals Corporation

MD&A for the period ended March 31, 2014

**Table 2. Probable Mineral Reserves Estimates as of February 18, 2012**

| Orebody      | Ore Type | Tonnes (Mt) | Cu % | Au g/t | Cu Metal (kt) | Cu Metal (Mlb) | Au Metal (Koz) |
|--------------|----------|-------------|------|--------|---------------|----------------|----------------|
| Central      | HL       | 1.5         | 1.43 | 0.06   | 21.4          | 47.2           | 3.0            |
| Central      | FL       | 3.8         | 1.78 | 0.12   | 68.2          | 150.2          | 15.2           |
| North East   | FL       | 4.7         | 1.64 | 0.18   | 77.0          | 169.8          | 27.4           |
| <b>Total</b> |          | 10.0        | 1.67 | 0.14   | 166.6         | 367.2          | 45.6           |

All figures are on a 100% ownership basis

Pit designs and the final NI 43-101 mineral reserve estimates dated February 18, 2012 were completed using two types of software; Whittle 4X optimisation software was used to generate optimal pit shells which were designed in detail using Vulcan software.

Key optimisation parameters are presented in Table 3 below.

**Table 3. Whittle Input Parameters**

| OVERALL SLOPE ANGLES           | PARAMETER  |
|--------------------------------|--|
| CENTRAL PIT                    |  |
| HANGING WALL                   | 49°  |
| FOOTWALL                       | 47°  |
| NORTH-EASTERN PIT              |  |
| HANGING WALL                   | 51°  |
| FOOTWALL                       | 45°  |
| NORTHERN WALL                  | 47°  |
| <b>MINING &amp; PROCESSING</b> |  |
| MINING RECOVERY                | 95%  |
| MINING DILUTION                | 5%   |
| FRESH CU PROCESSING RECOVERY   | 94.0%  |
| OXIDE CU PROCESSING RECOVERY   | 55.0%  |
| <b>COSTS</b>                   |  |
| MINING COST                    |  |
| ORE                            | 1.80 \$/t  |
| OXIDE                          | 1.30 \$/t  |
| WASTE                          | 1.60 \$/t  |
| FRESH PROCESSING COST          | 9.00 \$/t ore                                      |
| OXIDE PROCESSING COST          | 22.57 \$/t ore                                     |
| GENERAL & ADMINISTRATIVE COST  | 5.00 \$/t ore                                      |
| ROYALTY                        | 5.7% of RoM Metal Value (above 0.7% Cu head grade) |
| <b>PRICE</b>                   |  |
| CU SELLING PRICE               | 6,600 \$/t Cu                                      |
| NSR                            | 83% (For Fresh Rock only)                          |

### Capital Expenditure

The estimated total project capital expenditure ("CAPEX") over the mine life of \$147 million, including the solvent extraction with electro winning ("SXEW") plant to treat the oxide ores, is made up as follows:

- \$21.5 million for mining equipment
- \$40.1 million for copper in concentrate processing plant and equipment
- \$26.3 million for SXEW plant
- \$21.7 million for mine site facilities and infrastructure
- \$26.3 million for sustaining capital & closure costs
- \$11.3 million for contingency

**MD&A for the period ended March 31, 2014**

The estimated initial CAPEX is \$115 million, which excludes the SXEW plant, sustaining capital & closure costs but includes pre-production development costs.

The Company estimates that a 12 to 15 month period is sufficient for the construction of the processing facilities and pre-production development at the Karchiga Project.

**Mine Plan**

The open pit mining schedule produced by SRK calculated a producing mine life of 11.5 years. The mining schedule envisages the mining of 10 Mt of sulphide and oxide ore and 124 Mt of waste with a stripping ratio of 1:12.4 over the mine life. The average mining rate of the operation is 750kt per annum.

For the first 2.25 years of the mine life, the mining schedule includes open pit mining of the Central sulphide ore body alone in order to maximise the sulphide copper grade and hence sulphide copper recovery. The optimised mine schedule has been developed to minimise the stripping ratio in the initial three years of the mine life. In addition, the use of stockpiling has enabled the Company to increase the processed ore grade. From Year 4 until Year 7, sulphide ore will be mined from both the Central and North East open pits. From Year 8 until the end of mine life in Year 12, all mining will continue in the North East pit.

The average mining cost over the mine life is \$1.71 per tonne of material moved.

**Processing Plan and Economic Model**

The plant is designed to process approximately 750,000 tonnes per annum of sulphide ore. A conventional processing route was chosen using relatively fine grinding and selective sulphide flotation to produce a 27.9% bulk concentrate. The Company is currently seeking to secure finance for the Karchiga Project, and the timing for the start of construction is dependent thereon.

Copper from the oxide ore will be extracted using SXEW process. The oxides will be treated over a period of 4.5 years starting in 2020 at an annual production rate of 360,000 tonnes and is expected to produce an average of 2.8kt (6.22Mlb) of copper cathode per annum over that period. Production of cathode copper will continue until 2024.

In order to reduce the initial CAPEX, the SXEW plant construction has been delayed until after the initial capital expenditure payback period (which is anticipated to be 2.75 years). The plant has been designed to treat an average of 30,000 tonnes of leachable oxide ore per month.

The results of the Karchiga Definitive Feasibility Study demonstrate that economically the best option is to delay the SXEW construction until after the initial CAPEX payback period of 2.75 years, allowing the cost of construction to be financed from the revenue generated by the sulphide ore treatment.

The project key performance indicators are shown in Table 4 below.

**Table 4. Key Performance Indicators**

| Parameter  | Units       | Key Performance Indicator |
|--|-------------|---------------------------|
| Average annual mining rate                             | Tonnes      | 750,000                   |
| Average mining cost                                    | \$/t of ore | 22.99                     |
| Annual processing rate (FL)                            | Tonnes      | 750,000                   |
| Mine life (FL)   | Years       | 11.5                      |
| Processing cost (FL)                                   | \$/t of ore | 8.91                      |
| Metallurgical recovery (FL)                            | %           | 93.4                      |
| Average annual copper production, over 11.5 years (FL) | '000 tonnes | 11.82                     |
| Average annual copper production (FL)                  | Mlb         | 26.1                      |
| Annual processing rate (HL)                            | Tonnes      | 360,000                   |
| Mine life (HL)   | Years       | 4.5                       |
| Processing cost (HL)                                   | \$/t of ore | 18.7                      |
| Metallurgical recovery (HL)                            | %           | 61.1                      |
| Average annual copper production, over 4.5 years (HL)  | '000 tonnes | 2.8                       |
| Average annual copper production (HL)                  | Mlb         | 6.2                       |
| Cash operating cost over the mine life (pre tax)       | \$/lb Cu    | 1.47                      |

The mine is expected to produce a total of 149kt (328 Mlb) of payable copper, with an average of 12,957t (28.57 Mlb) of copper production per annum.

## Orsu Metals Corporation

### MD&A for the period ended March 31, 2014

The Karchiga Project site is located 10 km from the main road and a 110 kV national power grid and is expected to be connected to the same as part of construction. An adequate supply of water can be sourced from the River Kalzhir as well as from aquifers in the immediate vicinity of the designed project facilities.

The project key economic indicators are shown in Table 5 below.

**Table 5. Key Economic Indicators**

| Parameter                                      | Units | Key Economic Indicator |
|--|-------|------------------------|
| Total project CAPEX                            | \$m   | 147                    |
| Initial CAPEX                                  | \$m   | 115                    |
| Total Net Smelter Revenue                      | \$m   | 971                    |
| <b>Sulphide and Oxide Case @ \$3.25/lb Cu:</b> |       |                        |
| - Post-Tax NPV <sub>7.5</sub>                  | \$m   | 150                    |
| - Post-Tax IRR                                 | %     | 30                     |
| - Payback period                               | Years | 2.75                   |
| <b>Sulphide and Oxide Case @ \$3.00/lb Cu:</b> |       |                        |
| - Post-Tax NPV <sub>7.5</sub>                  | \$m   | 113                    |
| - Post-Tax IRR                                 | %     | 25                     |
| - Payback period                               | Years | 3.0                    |

*All figures are on a 100% ownership basis*

The figures for net present value ("NPV"), internal rate of return ("IRR") and payback in Table 5 assume 100% equity financing for the Karchiga Project and a discount rate of 7.5% was used to derive the NPV. The Environmental and Social Impact Assessment study for the Karchiga Project was successfully completed by WAI on January 31, 2012.

#### Karchiga Project expenditure

The Company incurred cumulative expenditure on the Karchiga Definitive Feasibility Study of \$8.6 million from August 2010 to March 2012 which the Company considered to be exploration expenditure.

Following the filing of the Karchiga Definitive Feasibility Study Report in March 2012, which validated the technical and economic viability of the Karchiga Project, expenditures incurred from April 2012 have been considered by the Company to be development expenditures and relate to the future construction of the mine and processing facilities at the Karchiga Project (see "Financial Review – Karchiga Project pre-production and deferred finance costs"). These expenditures have been accounted for by the Company as property, plant and equipment. For the three months ended March 31, 2014 the Company incurred \$41,000 for development expenditure (\$0.4 million for the three months ended March 31, 2013). Cumulatively, development costs as at March 31, 2014 are \$8.2 million (\$7.0 million as at March 31, 2013). Until such time as the Company is able to secure the required financing for the Karchiga Project the Company will not enter into contracts for equipment or services in relation to mining equipment or construction materials.

#### Other matters

Following the completion of the Karchiga Definitive Feasibility Study the Company began the process of identifying companies and contractors to complete the detailed design work going forward into the start of construction. In addition the Company continues to identify potential off-takers for the copper concentrate internationally, including amongst others, the People's Republic of China ("China") and Kazakhstan. However, as stated above the Company will not enter into any contract agreements until it is able to secure finance for the Karchiga Project. The Karchiga Project is favourably located approximately 220 km south east of the regional centre, Ust-Kamenogorsk, and approximately 40 km from the Chinese border to the east. The nearest copper mining operation in China at the Ashele VMS deposit, containing 1 million tonnes of copper, is located approximately 85 km east-southeast from the Karchiga Project.

**BALKHASH PROJECT, KAZAKHSTAN**

In March 2014 the Company announced that it had entered into the Balkhash Agreement. The Balkhash Agreement replaces the initial exclusivity agreement which the Company previously announced in November 2012 and the subsequent successor agreements announced on April 22, 2013 and September 20, 2013 (all previous agreements together being the "Predecessor Agreements").

The key terms of the Balkhash Agreement with Asem Tas are summarised below:

- 1) Orsu has been granted the further exclusive right for a period of 120 days ending in July 2014 (the previous agreements expired in April 2013, September 2013 and March 2014) subject to extension by mutual agreement of the parties, to explore and participate in the Balkhash Project;
- 2) During the Exclusivity Period:
  - a. Orsu and Asem Tas will continue to jointly explore the Balkhash Project, including geophysical works and verification drilling of exploration targets;
  - b. Orsu will initially provide funding for exploration works at the Balkhash Project in an amount of up to \$0.5 million under the 2014 Work Programme, and
  - c. Subject to the Company exercising its right to participate in the project (see point 4 below), Asem Tas will apply to transfer the exploration license for the Balkhash Project to a newly formed Kazakh legal entity jointly owned by Orsu and Asem Tas (the "Joint Venture Company"), which will be a subsidiary of Orsu, with Orsu holding an effective interest of 55%. A transfer of the exploration license to the Joint Venture Company will be conditional upon obtaining a formal waiver of the Kazakh Government's pre-emptive right.
- 3) The Company has agreed to pay Asem Tas:
  - a. up to \$1.5 million to compensate Asem Tas for historical exploration costs incurred prior to 2012 (excluding any costs funded by the Company) on effective transfer of the license,
  - b. \$20 per tonne of economically extractable copper equivalent, up to a maximum of \$10 million, less any amount paid under item 3) a. above, on or before completion of a positive preliminary economic assessment study, and
  - c. \$20 per additional tonne of economically extractable copper equivalent, up to a maximum of \$15 million, less any amounts paid under 3) a. and 3) b. above, on completion of a positive definitive feasibility study.
- 4) Orsu may terminate its funding at any point before the earlier of the effective transfer of the exploration license or the end of the Exclusivity Period. Where the approval of the relevant authorities for the transfer of the license is not received due to a breach by Asem Tas, or the Kazakh Government exercises its pre-emptive right to acquire the license during the transfer process, Asem Tas is required to refund Orsu for its expenditure in connection with the Predecessor Agreements.
- 5) Should Orsu decide to continue to its participation in the joint exploration of the Balkhash Project, the minimum expenditure required under the 2014 contract work programme is \$2.165 million (including the amounts expended on the 2014 Work Programme).
- 6) Subject to any early termination, following the effective transfer of the exploration license, Orsu will finance the works until completion of the definitive feasibility study and will be responsible for arranging project finance for any future development of the Balkhash Project.
- 7) Under the terms of the Balkhash Agreement, Orsu will have the right to buy-out all or part of the interest of Asem Tas in the Joint Venture Company, for cash or shares, at a price determined by an independent expert.

**AKDJOL-TOKHTAZAN PROJECT, KYRGYZSTAN**

**License Information**

The Akdjol-Tokhtazan Project contains the Akdjol (108km<sup>2</sup>) and Tokhtazan (4km<sup>2</sup>) exploration licenses, both of which are held by Oriel in Kyrgyzstan LLC ("OiK") in which the Company holds an indirect 100% interest through its wholly owned subsidiary, Tournon Finance Limited ("Tournon").

In December 2012, the Akdjol and Tokhtazan licenses were extended until December 31, 2015 by the Agency for Geology and Mineral Resources of the Kyrgyz Republic.

The exploration licenses can be further extended by agreement of a work program with the Agency for Geology and Mineral Resources of the Kyrgyz Republic.

The expenditure obligations on the Tokhtazan and Akdjol licenses are shown below:

**Table 6: Tokhtazan and Akdjol license obligations (2013-2015)**

| Year | Tokhtazan License Obligations | Akdjol License Obligations |
|------|-------------------------------|----------------------------|
| 2013 | \$583,500                     | \$1,340,200                |
| 2014 | \$1,215,000                   | \$993,400                  |
| 2015 | \$300,000                     | \$416,000                  |

During 2010, the Company classified the Akdjol license area as a gold-silver epithermal prospect and the Tokhtazan license area as a gold prospect.

**Potential disposal of the Akdjol-Tokhtazan Project**

In 2011, the Company determined the Akdjol-Tokhtazan Project to be a non core asset which was made available for sale. Subsequently, in November 2012 the Company entered into an exclusivity agreement with David-Invest for the potential sale of the Company's interest in the Akdjol-Tokhtazan Project which expired on September 1, 2013 and a successor exclusivity agreement which expired on December 31, 2013. Thereafter, in February 2014 the Company announced the expiry of an exclusivity agreement entered into with the Potential Buyers after a non-refundable deposit of \$0.5 million which was due to be paid to the Company by January 31, 2014 had not been received. Following the expiry of such exclusivity agreement the Company began discussions with both the Potential Buyers and other interested parties on a non-exclusive basis for the sale of the Akdjol-Tokhtazan Project.

Subsequently, the Company entered into a new exclusivity agreement, dated March 28, 2014 (the "Akdjol-Tokhtazan Exclusivity Agreement") with the Potential Buyers for the potential sale of the Akdjol-Tokhtazan Project. On April 1, 2014, the Company received a non refundable deposit in the amount of \$300,000 from the Potential Buyers pursuant to the terms of the Akdjol-Tokhtazan Exclusivity Agreement.

The key terms of the Akdjol-Tokhtazan Exclusivity Agreement are:

- David-Invest will fund the exploration programme for the Akdjol-Tokhtazan gold exploration licenses on a non-refundable basis until the end of the Akdjol-Tokhtazan Exclusivity Period; and
- the Potential Buyers have the option to purchase the entire share capital of Tournon or OiK at any time on or before the expiry of the Exclusivity Period for consideration of US\$4.5 million (including the \$300,000 deposit), which total amount is unchanged from the previous exclusivity agreements.

Other than as described above, there have been no significant changes to the terms of the previous exclusivity agreements signed in 2012 and 2013.

See "Financial review - Asset held for sale" below.

**Orsu Metals Corporation**

**MD&A for the period ended March 31, 2014**

**SUMMARY OF THE QUARTERLY RESULTS FOR 2014 AND 2013**

(Prepared in accordance with IFRS)

| Expressed in \$000s' except where indicated                           | March 31<br>2014<br>(Unaudited) | December 31<br>2013<br>(Unaudited) | September 30<br>2013<br>(Unaudited) | June 30<br>2013<br>(Unaudited) |
|---|---------------------------------|------------------------------------|-------------------------------------|--------------------------------|
| Net loss from operations  | (1,010)                         | (1,429)                            | (2,412)                             | (768)                          |
| <b>Net loss and comprehensive loss for the period</b>                 | <b>(1,010)</b>                  | <b>(1,429)</b>                     | <b>(2,412)</b>                      | <b>(768)</b>                   |
| <b>Net loss attributable to:</b>                                      |                                 |                                    |                                     |                                |
| Shareholders of the Company   | (995)                           | (1,420)                            | (2,401)                             | (752)                          |
| Non-controlling interest  | (15)                            | (9)                                | (11)                                | (16)                           |
|   | <b>(710)</b>                    | <b>(1,429)</b>                     | <b>(2,412)</b>                      | <b>(768)</b>                   |
| <b>Loss per Common Share (in \$/Common Share)</b>                     |                                 |                                    |                                     |                                |
| Loss per Common Share from operations                                 | \$(0.01)                        | \$(0.01)                           | \$(0.01)                            | \$(0.00)                       |
| Net loss per Common Share attributable to shareholders of the Company | \$(0.01)                        | \$(0.01)                           | \$(0.01)                            | \$(0.00)                       |
| Weighted average number of Common Shares (in thousands) (note 1)      | 182,696                         | 182,696                            | 176,174                             | 157,696                        |

Note 1: Weighted average number of Common Shares of the Company includes basic and diluted.

**Orsu Metals Corporation**

**MD&A for the period ended March 31, 2014**

**SUMMARY OF THE QUARTERLY RESULTS FOR 2013 AND 2012**

(Prepared in accordance with IFRS)

| Expressed in \$000s' except where indicated                                       | March 31<br>2013<br>(Unaudited) | December 31<br>2012<br>(Unaudited) | September 30<br>2012<br>(Unaudited) | June 30<br>2012<br>(Unaudited) |
|---|---------------------------------|------------------------------------|-------------------------------------|--------------------------------|
| Net (loss)/ income from operations  | (1,177)                         | (1,936)                            | 3,768                               | (1,714)                        |
| <b>Net (loss)/ income and comprehensive (loss)/ income for the period</b>         | <b>(1,177)</b>                  | <b>(1,936)</b>                     | <b>3,768</b>                        | <b>(1,714)</b>                 |
| <b>Net (loss)/ income attributable to:</b>  |                                 |                                    |                                     |                                |
| Shareholders of the Company   | (1,160)                         | (1,912)                            | 3,764                               | (1,704)                        |
| Non-controlling interests   | (17)                            | (24)                               | 4                                   | (10)                           |
|   | <b>(1,177)</b>                  | <b>(1,936)</b>                     | <b>3,768</b>                        | <b>(1,714)</b>                 |
| <b>(Loss)/ earnings per Common Share (in \$/Common Share)</b>                     |                                 |                                    |                                     |                                |
| (Loss)/ earnings per Common Share from operations                                 | \$(0.01)                        | \$(0.01)                           | \$0.02                              | \$(0.01)                       |
| Net (loss)/ earnings per Common Share attributable to shareholders of the Company | \$(0.01)                        | \$(0.01)                           | \$0.02                              | \$(0.01)                       |
| Weighted average number of Common Shares (in thousands) (note 1)                  | 157,696                         | 157,696                            | 157,696                             | 157,696                        |

Note 1: Weighted average number of Common Shares includes basic and diluted.

**FINANCIAL REVIEW**

For the three months ended March 31, 2014 the Company reported a net loss of \$1.0 million, compared to a net loss of \$1.2 million for the three months ended March 31, 2013.

The Company entered into the Akdjol-Tokhtazan Exclusivity Agreement, dated March 28, 2014, for the potential sale of the Akdjol-Tokhtazan Project and subsequently received a non-refundable deposit of \$0.3 million from the Potential Buyers under such agreement on April 1, 2014. In the interim financial statements as at March 31, 2014 the Company accrued a receivable of \$300,000 as well as an accrued liability in relation to deferred income of \$300,000.

During the three months ended March 31, 2014 capitalised development expenditure in relation to the Karchiga Project was \$41,000 (\$0.4 million for the three months ended March 31, 2013).

As at March 31, 2014 the Company had net assets of \$25.7 million (\$26.4 million as at December 31, 2013) of which \$10.2 million was cash and cash equivalents (\$11.3 million as at December 31, 2013).

**RESULTS FOR THE QUARTERS ENDED MARCH 31, 2014 AND MARCH 31, 2013**

For the three months ended March 31, 2014 the Company reported a net loss of \$1.0 million compared to a net loss of \$1.2 million for the three months ended March 31, 2013.

The net loss of \$1.0 million for the three months ended March 31, 2014 consisted of: administrative costs of \$0.7 million (\$1.0 million for the three months ended March 31, 2013), exploration costs of \$0.1 million (\$0.2 million for the three months ended March 31, 2013) and a net foreign exchange loss of \$0.2 million (nil for the three months ended March 31, 2013). For the three months ended March 31, 2013 the Company incurred additional charges of \$0.2 million for legal and professional costs which were partially offset by a gain on derivative receivables of \$0.2 million on the then outstanding Subscription (defined below).

The Company's administrative costs decreased quarter on quarter by \$0.3 million. This reflects the steps taken during 2013 and 2014 to reduce expenditures in order to preserve the Company's cash assets through the reduction of headcount at its offices in Kazakhstan, primarily in relation to the Karchiga Project, and at the corporate head office in London.

Exploration expenditure decreased quarter on quarter by \$0.1 million was due to a reduction in the exploration work programme for 2014 compared to 2013 at the Balkhash Project.

For the three months ended March 31, 2014 the Company incurred a net foreign exchange loss of \$0.2 million. In February 2014 the National Bank of Kazakhstan decided to stop maintaining, at the same level, the exchange rate for the Kazakh Tenge against the U.S. dollar. This resulted in an 18.5% devaluation in the Tenge to U.S. dollar exchange rate from an exchange rate of 153.61 Tenge/ U.S.\$ as at December 31, 2013 to an exchange rate of 182.04 Tenge/ U.S.\$ as at March 31, 2014. The impact of the devaluation on the Company's Kazakh monetary assets as at March 31, 2014 was an exchange loss of \$0.2 million.

The Company's legal and professional costs quarter on quarter decreased by \$0.2 million due to reduced corporate and head office expenditure incurred in relation to the Karchiga Project while the Company continues to seek to secure the project finance required for the Karchiga Project.

For the three months ended March 31, 2014 the Company capitalised Karchiga Project development expenditures of \$41,000 (\$0.4 million for the three months ended March 31, 2013) incurred for the prospective construction of a mining and processing facility as property, plant and machinery. The decrease in development expenditure was due to a reduction in development work while the Company continued in its efforts to secure the project finance for the construction of a mine and processing facility at the Karchiga Project.

The Company's cash and cash equivalents decreased in the three months ended March 31, 2014 by \$1.1 million to \$10.2 million compared to a decrease of \$2.7 million for the three months ended March 31, 2013. The decrease was due primarily to corporate and exploration expenditure of \$0.8 million, (\$1.3 million for the three months ended March 31, 2013), a net increase in working capital of \$0.3 million (an increase of \$1.0 million for the three months ended March 31, 2013) and expenditure on property, plant and equipment of \$41,000 (\$0.4 million for the three months ended March 31, 2013) due to capitalised development expenditure of the Karchiga Project.

**COMPARISON OF QUARTERLY RESULTS FOR 2013 AND 2012**

A comparison of the quarter on quarter results between 2013 and 2012 show that the net losses were lower in 2013 compared to 2012 with the exception of the third quarter 2013 compared to the third quarter of 2012. For the third quarter 2012 the Company reported a net income of \$3.8 million which included a net gain on the Sale of \$7.8 million. Excluding this net gain there was a net loss of \$4 million for the third quarter of 2012 compared to a net loss of \$2.4 million for the third quarter of 2013.

During 2013 and 2012 whilst the Company continued to seek to secure the remaining finance required for the Karchiga Project the quarterly expenditures related to administrative and office expenditures and exploration expenditures primarily in relation to the Balkhash Project. The quarterly losses for 2013 were lower than for 2012



**MD&A for the period ended March 31, 2014**

---

because the Company took steps to reduce expenditures at both the Karchiga Project and the corporate head office. Primarily the Company reduced the headcount at the Karchiga Project and at the corporate head office. In addition corporate head office quarterly expenditures were lower in 2013 compared to 2012 due to non recurring administrative, legal and professional expenditures in 2012 in relation to the Sale (defined below), the Akdjol-Tokhtazan Project and the Karchiga Project.

In addition, in 2012 the Company incurred a fourth quarter impairment charge of \$1.3 million in relation to the Akdjol-Tokhtazan Project.

**FINANCIAL POSITION AS AT MARCH 31, 2014 AND DECEMBER 31, 2013**

As at March 31, 2014 the Company's net assets were \$25.4 million, compared with \$26.4 million as at December 31, 2013, of which \$10.2 million consisted of cash and cash equivalents (\$11.3 million as at December 31, 2013).

The decrease in net assets of \$1.0 million was due primarily to corporate and exploration expenditure in the quarter of \$0.8 million and a net increase in working capital of \$0.3 million due to an increase in prepaid and receivables of \$0.5 million due to an increase at head office in relation outstanding receivables from Equus (defined below) and the non-fundable deposit from the Potential Buyers of the Akdjol-Tokhtazan Project as at March 31, 2014 (see below "Asset held for sale") partially offset by a net increase in the accounts payable and accrued liabilities of \$0.2 million due primarily to accrued deferred income (see below "Asset held for sale").

**KARCHIGA PROJECT DEVELOPMENT AND DEFERRED FINANCE COSTS**

**a) Karchiga Development Costs**

In March 2012, the Company successfully completed the Karchiga Definitive Feasibility Study. At the same time and subsequently the Company incurred costs related to the construction of a mining and processing facility at the Karchiga Project. Under IFRS, IAS 16 "*Property, Plant and Equipment*", costs are capitalized during the development phase, defined as being from the date that an economic study is completed and the date the asset is deemed to be available for use (or the "development costs") and are those that can be directly attributable to bringing the asset to the condition necessary for it to be capable of operating in the manner intended by the Company. Under IAS 16, these development costs are capitalized, as they meet the criteria for the capitalization for a basic asset.

These and future costs will be recorded as "Property, Plant and Equipment" until such time when the asset is "available for use" (defined as when commercial levels of production are capable of being achieved). In the three months ended March 31, 2014 the Company incurred \$41,000 of development costs (\$0.4 million for the three months ended March 31, 2013).

**b) Deferred Finance Costs**

In relation to the Karchiga Project, following the successful completion of the Karchiga Definitive Feasibility Study in March 2012 the Company began the process of seeking to secure debt financing for the construction of a mining and processing facility. As a result under IFRS, IAS 39 *Financial Instruments: Recognition and Measurement*, the legal and professional fees incurred in the process of arranging the debt finance have been capitalised. These capitalised costs along with future capitalised financing costs will be amortised over the term of any proposed debt. As at March 31, 2014 the Company had capitalised in total \$1.1 million (\$1.1 million as at December 31, 2013) of costs incurred in the process of securing debt finance for the Karchiga Project. In the event that the costs no longer meet the criteria for deferral, then the capitalised amount as at the relevant time will be written off.

**ASSET HELD FOR SALE**

In 2011, the Company decided to focus its resources and activities on the development the Karchiga Project and as such, determined the Akdjol-Tokhtazan Project to be a non core asset which would be available for sale. Under IFRS 5, "Non-current Assets Held For Sale and Discontinued Operations", the Company classified the assets and liabilities related to the Akdjol-Tokhtazan Project (the disposal group) as held for sale as at December 31, 2011 and derived a fair value less costs to sell for the Akdjol-Tokhtazan Project, with a resultant impairment loss of \$331,000 recognized upon the initial classification of the disposal group as held for sale in the consolidated statement of net loss and comprehensive loss for the year ended December 31, 2011. As at December 31, 2012, the Company considered that the Akdjol-Tokhtazan Project to have met the criteria to be classified as "held for sale" and as a result of re-measuring the fair value less costs to sell of the disposal group, recognised an impairment loss of \$1.3 million for the three months ended March 31, 2013.

In November 2012 the Company entered into an exclusivity agreement with David-Invest for the potential sale of the Akdjol-Tokhtazan Project for consideration of \$4.5 million which expired on September 1, 2013 and a successor exclusivity agreement which expired on December 31, 2013.

In January 2014, the Company entered into a new exclusivity agreement with the Potential Buyers for the potential sale of the Akdjol-Tokhtazan Project on the same terms as the previous exclusivity agreements between the Company and David-Invest, but required the Potential Buyers to pay to the Company a non refundable deposit in the amount of \$0.5 million by January 31, 2014. The Company did not receive the deposit and as a result this exclusivity agreement with the Potential Buyers expired.

## Orsu Metals Corporation

### MD&A for the period ended March 31, 2014

Subsequently, the Company entered into a new exclusivity agreement, dated March 28, 2014, expiring on July 1, 2014 with the Potential Buyers for the potential sale of the Akdjol-Tokhtazan Project on the same terms as the previous exclusivity agreement after the Company received on April 1, 2014 a non refundable deposit in the amount of \$300,000 from the Potential Buyers. As at March 31, 2014, the Company accrued a receivable of \$300,000 as well as an accrued liability in relation to deferred income of \$300,000.

As at March 31, 2014 the Company considers that this asset continued to meet the criteria to be classified as "held for sale" and under IFRS 5, "Non-current Assets Held For Sale and Discontinued Operations", and has continued to classify the assets and liabilities related to the Akdjol-Tokhtazan Project (the disposal group) as held for sale. At December 31, 2013 the Company re-measured the assets at the estimated fair value, less cost to sell, at \$4.5 million based on the lower end of a range of prospective sale prices discussed with the Potential Buyers and other interested parties, taking into account current and future forecast gold prices and the good standing of the license. As at March 31, 2014 the Company continues to consider the fair value to be \$4.5 million. The Directors are confident that a sale of the asset within the year is probable, but not certain.

The net gains/ (losses) pertaining to the disposal group included in the consolidated statement of net loss and comprehensive loss for the three months ended March 31, 2014 and 2013 are shown below:

|  | 2014  | 2013  |
|--|-------|-------|
|  | \$000 | \$000 |
| Administration expenses                            | (17)  | (27)  |
| Other income                                       | 59    | -     |
| Foreign exchange (loss)/ gain                      | (19)  | 7     |
| Net gain/ (loss) from disposal group held for sale | 23    | (20)  |

The net assets of the disposal group as at March 31, 2014 and December 31, 2013 are shown below:

|  | 2014  | 2013  |
|--|-------|-------|
|  | \$000 | \$000 |
| Cash and cash equivalents                  | 1     | 1     |
| Prepayments                                | 150   | 155   |
| Mineral properties                         | 4,392 | 4,392 |
| Property, plant and equipment              | 29    | 30    |
| Total Assets                               | 4,572 | 4,578 |
| Accounts payable and accrued liabilities   | (68)  | (99)  |
| Net assets of disposal group held for sale | 4,504 | 4,479 |

### LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2014 the Company's main source of liquidity was unrestricted cash and cash equivalents of \$10.2 million, compared with \$11.3 million as at December 31, 2013.

The Company measures its consolidated working capital as comprising free cash, accounts receivable, prepayments and other receivables, less accounts payable and accrued liabilities. As at March 31, 2014 the Company's consolidated working capital was \$10.6 million (compared with a consolidated working capital of \$11.5 million as at December 31, 2013).

In the past the Company has raised finance to fund the development of its exploration licenses, potentially acquire new exploration licenses as well as its corporate and administration requirements, through either equity raised finance or through the sale of its interest in an exploration or investment property. This has included the funding of exploration expenditure in relation to the Karchiga Project up to the filing of the Karchiga Definitive Feasibility Study Report in March 2012, and thereafter development expenditure at the Karchiga Project, contributing its pro-rata share of exploration costs to its then 40% interest in the Talas Project (as defined below) before the Sale (as defined below) in July 2012 and the funding of exploration costs at the Akdjol-Tokhtazan Project until the Company entered into an exclusivity agreement with David Invest in November 2012. The Company has utilized its funds to potentially acquire new projects by funding exploration work at the Balkhash Project as part of the Balkhash Agreement.

During 2012 the Company raised finance by the sale of its 40% interest in the Talas Project in July 2012, for \$10 million, and thereafter a further CAD\$10 million in July 2013 following the completion of the Subscription (as defined below) with Gold Fields (as defined below). In addition in April 2014, the Company received \$300,000, as a non-refundable deposit, from the Potential Buyers in the relation to potential sale of the Akdjol-Tokhtazan Project which may potentially raise in total \$4.5 million in the event of the sale of the Akdjol-Tokhtazan Project to the Potential Buyers.

## Orsu Metals Corporation

### MD&A for the period ended March 31, 2014

In relation to its operating activities, the Company's administration and exploration cash expenditures were \$6.6 million and \$6.7 million in 2013 and 2012 respectively (as set out in the audited consolidated financial statements as at December 31, 2013). In addition the Company incurred capital expenditures of \$1.5 million and \$2.4 million for 2013 and 2012 respectively primarily in relation to development expenditure for the Karchiga Project. However, as the Company sought to secure project finance for the construction of a mine and processing facility at the Karchiga Project, during 2013 the Company implemented a number of steps to reduce its corporate and administration expenditures which included the reduction of headcount at its offices in both Kazakhstan and UK head office as well reduction of its legal and professional advisory expenditures in order to preserve the Company cash assets.

The Company's working capital needs as at March 31, 2014 included the funding for its exploration and development activities, including its expenditure obligations under the Balkhash Agreement, the acquisition of new mineral exploration properties, its corporate and administrative expenditures requirements and potential contributions towards project finance, if and when arranged, in relation to the Karchiga Project, as deemed appropriate. The Company expects to fund its working capital requirements for 2014, other than as set out below for the Karchiga Project, and be able to contribute towards the pursuit of future growth opportunities (which may include acquiring one or more additional assets), if and when such opportunities arise, from its unrestricted cash of \$10.2 million as at March 31, 2014 and potential net proceeds, if any, from the sale of the Akdjol-Tokhtazan Project (as discussed above).

During the three months ended March 31, 2014 the net cash used by the Company's operating expenditures were \$1.1 million, \$2.7 million for the three months ended March 31, 2013, (set out in the interim consolidated financial statements as at March 31, 2014). The steps taken to reduce cash expenditures during the 2013 are reflected in a reduction in the forecast expenditures for 2014 in relation to corporate and administration costs, the funding of exploration work at the Balkhash Project and the maintenance the Karchiga Project. The minimum working capital the Company estimates for the year is set out below:

|   |              |
|---|--------------|
| <u>Estimated working capital requirements for 2014</u>                    | \$000        |
| Estimated corporate and administration expenditure <sup>(1)</sup>         | 3,500        |
| Estimated exploration expenditure for the Balkhash Project <sup>(2)</sup> | 500          |
| Total   | <u>4,000</u> |

#### Notes:

- (1) Includes office expenditure at the Karchiga Project.
- (2) Excludes any obligation under the Balkhash Agreement should the Company decide to exercise its option to take an effective 55% interest in the Balkhash Project (see section "Operational review – Balkhash Project, Kazakhstan" on page 12). Should the Company decide to exercise its option to take an effective 55% interest in the Balkhash Project, the Company will then fund its obligations under the Balkhash Agreement through either its available working capital at the time and/ or the raising of further finance from other external sources dependent on market conditions or other factors at that time.

In the Company's view, the consolidated working capital as at March 31, 2014 is sufficient to satisfy its working capital needs, other than as described below in relation to the Karchiga Project, for at least the next twelve months.

In order to achieve the Company's planned construction of mining facilities and commencement of mining operations at the Karchiga Project, if any, the Company will require an estimated initial CAPEX of \$115 million (see "Operational review – Karchiga copper project, Kazakhstan") for which the Company will be required to raise additional financing in the future. If the Company secures the required debt financing on acceptable commercial terms then it may also apply a proportion of its available unrestricted cash and if any, from the sale of the Akdjol-Tokhtazan Project, towards the project financing requirements as the Company determines necessary. Whilst the Company has been successful in raising debt and other financing in the past, the Company's ability to raise additional debt and other financing may be affected by numerous factors beyond the Company's control, including, but not limited to, adverse market conditions and/or commodity price changes and economic downturn and those other factors that are listed under "Risks and Uncertainties" in this MD&A.

The Company holds the majority of its surplus cash in interest-bearing bank deposit accounts in CAD\$, GBP£ and US\$ currencies and manages such deposits in light of its forecast cash needs and available market interest rates. The majority of the Company's expenditures are in U.S. Dollars, Canadian Dollars, Kazakh Tenge and British Pounds Sterling. The Company's liquidity may, therefore, be adversely affected by, amongst other things, the ability of the Company to accurately forecast its operating cash needs in the aforementioned currencies, the Company's ability to convert its cash funds from U.S. Dollars into the other aforementioned currencies, unfavorable movements in the U.S. Dollar exchange rate relative to the aforementioned currencies and the Company's ability to earn interest on its cash deposits. Further information regarding the Company's liquidity

## Orsu Metals Corporation

### MD&A for the period ended March 31, 2014

risk, currency risk and interest rate risk may be found in the Company's audited consolidated financial statements as at December 31, 2013.

#### COMMITMENTS

The following table summarises the Company's future commitments as disclosed in the Company's financial statements as at March 31, 2014:

|                   | 2014  | 2015  | 2016  | 2017  | 2018 + | Total |
|-------------------|-------|-------|-------|-------|--------|-------|
|                   | \$000 | \$000 | \$000 | \$000 | \$000  | \$000 |
| Lease obligations | 273   | 364   | 61    | -     | -      | 698   |

The Company's lease obligations are for its London head office property rents, payable under a lease agreement expiring in 2016.

#### DERIVATIVE FINANCIAL INSTRUMENTS

As at March 31, 2014, the Company's derivative instruments consist of a derivative liability in relation to the Warrants issued to Gold Fields pursuant to the Subscription and previously, prior to the completion of the Subscription, a derivative receivable.

##### (a) Derivative receivable

In July 2012 the Company sold its 40% interest in a property in northwest Kyrgyzstan (the "Talas Project") to a wholly owned subsidiary of Gold Fields Limited ("Gold Fields" or collectively with certain of its subsidiaries, the "Gold Fields Group") for cash consideration of \$10 million (the "Sale").

At the same time the Gold Fields Group also agreed to subscribe for 25 million units of the Company (each a "Unit") at a price of CAD\$0.40 per Unit for gross proceeds of CAD\$10 million (the "Subscription"), with each Unit consisting of one common share of the Company (a "Common Share") and one half of one common share purchase warrant (each whole warrant, a "Warrant"). Each Warrant being exercisable for a period of three years from the date of issue to acquire one Common Share at a price of CAD\$0.50. Completion of the Subscription was conditional on the Company obtaining a formal waiver of the Kazakh Government's pre-emptive right and requirement for consent for the issuance of Common Shares pursuant to the Subscription (the "Kazakh Formal Waiver"), the application for which was submitted in September 2012. Until the completion of the Subscription the Company accounted for this to be a derivative receivable. For the three months ended March 31, 2013 the Company measured the fair value of the then outstanding Subscription recognising a gain of \$174,000.

The Company successfully obtained the Kazakh Formal Waiver in July 2013 and subsequently accounted for the Warrants issued to Gold Fields as a derivative instrument (see below).

##### (b) Derivative warrant liability

The Company's derivative share warrant liability consists of 12.5 million Warrants issued to Gold Fields pursuant to the Subscription. Prior to the Warrants being issued to Gold Fields the fair value of the Warrants was measured and netted off against the derivative receivable. Each Warrant is exercisable over a period of three years from the date of issue to acquire one Common Share of the Company at a price of CAD\$0.50.

## Orsu Metals Corporation

### MD&A for the period ended March 31, 2014

The carrying value of the derivative warrant liability as at March 31, 2014 is shown below:

|  |              |
|--|--------------|
|  | \$000        |
| Fair value of Warrants issued to Gold Fields as at December 31, 2013 | (160)        |
| Derivative gain on fair value measurement in period                  | 25           |
| Derivative warrant liability as at March 31, 2014                    | <u>(135)</u> |

The Company measured the fair value of the Warrants issued to Gold Fields based on the Black-Scholes option-pricing model using the following assumptions as at March 31, 2014 and as at December 31, 2013:

|   | March 31, 2014 | December 31, 2013 |
|---|----------------|-------------------|
| Stock price                                   | CAD\$0.04      | CAD\$0.05         |
| Exchange rate CAD\$/ US\$                     | 1.1038         | 1.063             |
| Risk free interest rate                       | 1.16%          | 1.30%             |
| Expected warrant life                         | 2.32 years     | 2.57 years        |
| Volatility (assuming a dividend yield of nil) | 138.97%        | 122.19%           |

### TRANSACTIONS WITH RELATED PARTIES

#### (a) Key management compensation

Key management includes directors and officers of Orsu. The salaries and other short term employee benefit compensation paid or payable to key management for employee services is shown below.

|  | Three months ended March 31, |            |
|--|------------------------------|------------|
|  | 2014                         | 2013       |
|  | \$000                        | \$000      |
| <i>Directors</i>                                   |                              |            |
| Dr Sergey V Kurzin                                 | 66                           | 62         |
| Dr Alexander Yakubchuk                             | 64                           | 58         |
| Mr Mark Corra                                      | 8                            | 7          |
| Mr Timothy Hanford                                 | 8                            | 7          |
| Mr Massimo Carello                                 | 8                            | 7          |
| Mr David Rhodes                                    | 8                            | 7          |
|  | <u>162</u>                   | <u>148</u> |
| <i>Other senior officers</i>                       |                              |            |
| Mr Kevin Denham                                    | 54                           | 49         |
| Mr Christopher Power (appointed February 28, 2013) | 56                           | 46         |
| Mr Raymond Oates (resigned January 16, 2013)       | -                            | 30         |
|  | <u>110</u>                   | <u>125</u> |
| <i>Other key management personnel</i>              | 41                           | 47         |
| Total  | <u>313</u>                   | <u>320</u> |

#### (b) Directors loan

As at March 31, 2013 the Company had a non-interest bearing, un-secured loan outstanding of \$51,000 to Mr Bolat Kabaziev, a director of a subsidiary of the Company, which was due for repayment by December 31, 2013. The loan was to assist in financing medical treatment and was subsequently waived in December 2013 in view of Mr Kabaziev's long standing service to the Company.

#### (c) Equus Petroleum plc

The Company and Equus Petroleum plc ("Equus") have Executive Chairman, Dr Sergey Kurzin, in common who is considered to be a member of key management for both companies as defined under IFRS, IAS24 "Related Party Disclosures".

## Orsu Metals Corporation

### MD&A for the period ended March 31, 2014

---

During the three months ended March 31, 2014 the Company charged Equus \$152,926 (\$166,305 for the three months ended March 31, 2013) for services relating to administration support and office service charges. As at March 31, 2014 the total receivable was \$577,488 (\$223,055 as at March 31, 2013). The amounts receivable from Equus accrue interest of 4% per annum, above the Barclays Base Rate, from the due date of payment until the date of payment. The charges for all the services provided to Equus, as well as the interest charged on overdue payments from Equus, are considered to be on normal commercial terms. During the three months ended March 31, 2014 the Company received \$104,000 from Equus in partial settlement towards the amount outstanding as at December 31, 2013 of \$525,332.

*(d) Endeavour Financial Limited*

The Company and Endeavour Financial Limited ("Endeavour") share a director, David Rhodes, in common who is considered to be a member of key management for both companies as defined under IFRS, IAS24 "*Related Party Disclosures*".

During the three months ended March 31, 2014 the Company did not incur any charges from Endeavour (\$60,000 for the three months ended March 31, 2013) for financial advisory services in relation to project debt finance for the Karchiga Project. The Company terminated its financial advisory agreement with Endeavour effective May 31, 2013 and there have been no other transactions with Endeavour following the termination. However under the terms of the agreement Endeavour will remain entitled to a success fee, equivalent to 1.5% of the total debt finance less a \$100,000 milestone fee paid in 2012, for any transactions concluded, in relation to debt finance for the Karchiga Project, within 12 months of the termination where the financing parties were introduced by Endeavour under the advisory agreement. This entitlement expires in June 2014. The fees paid to Endeavour, along with any future success fee, are considered to be on normal commercial terms.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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". The accounting policies applied in these interim consolidated financial statements is the same as those applied in the Company's audited consolidated financial statements as at December 31, 2013.

The following critical IFRS accounting policies and estimates are relevant to the presentation of the Company's financial results as at March 31, 2014:

### Critical accounting estimates and judgements

In preparing the interim consolidated financial statements as at March 31, 2014 the Company makes estimates and assumptions that affect the amounts reported. Significant estimates and areas where judgement is applied include mineral reserve quantities, the assumptions used in the measurement of the fair value of derivative liabilities, property plant and equipment lives, the treatment of disposal group assets as held for sale and fair value of such disposal group assets held for sale, the capitalisation of development expenditure, the capitalisation of finance costs associated with the raising of debt finance, tax provisions, deferred tax balances and timing of their reversals and equity instruments. Actual results could differ from the Company's estimates. In accordance with the Company's accounting policy the Company reviews and evaluates the carrying value of its assets when events or circumstances indicate that the carrying amounts may not be recoverable. The identification of such events or changes and the performance of the assessment require significant judgement. If any such indication exists an estimate of recoverable amount is performed and an impairment loss is recognised to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset is measured at fair value less costs to sell.

Specifically, the Company has applied significant judgements in these interim consolidated financial statements which are the same as those applied in the Company's audited consolidated financial statements as at December 31, 2013 for following:

#### *Disposal group asset held for sale*

In relation to the disposal group asset held for sale the Company followed guidance under IFRS 5, "Non-current assets held for sale and discontinued operations", and applied significant judgement to determine the classification of asset held for sale and whether impairment was required. In concluding its judgement, the Company evaluated the duration of time for which the disposal group has been classified as an asset held for sale, the good standing of the exploration licenses held by the Akdjol-Tokhtazan Project, the continued commitment of the Company to actively sell the asset, the expected realisable fair value of the Akdjol-Tokhtazan Project in the event of a sale and the continued interest to acquire the Akdjol-Tokhtazan Project from interested parties.

#### *Development expenditure in relation to the Karchiga Project*

In relation to the property, plant and equipment the Company followed guidance under IAS 36, "Impairment of assets", and applied significant judgement to determine if impairment was required. In concluding its judgement, the Company evaluated the market capitalisation of the Company, future copper price, estimates of the future net present value of the project, the potential access to both debt and equity financing to fund the future development of the project and the Company ability to continue to fund the project until such financing for the project is achieved.

#### *Deferred finance costs in relation to the Karchiga Project*

In relation to the deferred finance costs the Company followed guidance under IAS 39, "Financial instruments: Recognition and measurement", and applied significant judgement to determine if impairment was required. In concluding its judgement, the Company evaluated the share price of the Company, the potential availability of debt finance to the Company to fund the Karchiga project, the future economic factors which may affect the Company's ability to raise the remaining equity finance required for the Karchiga Project, whether the deferred finance costs incurred to date as at March 31, 2014 will remain attributable to completing debt finance and the Company's ability to continue to fund the project until such financing is achieved.

#### *Estimated mineral reserves and resources*

Estimates of mineral reserves and resources are prepared by appropriately qualified persons, but will be affected by the assumptions applied in relation to commodity prices, inflation and exchange rates, capital and production costs and recoveries, among a number of other factors.

### 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 presentation 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.

(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 consolidated statement of net loss and comprehensive loss within 'foreign exchange gains/ (losses)'.

Items in the consolidated statement of net loss and comprehensive loss 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 capitalised. Depreciation is charged on a straight line basis as below:

|                        |                 |
|------------------------|-----------------|
| Leasehold improvements | - 10 years      |
| Vehicles               | - 4 to 10 years |
| Other assets           | - 3 to 10 years |

*Development costs*

Costs directly attributable to bringing an asset to the location and condition necessary for it to be capable of operating in the manner intended by management are capitalised in accordance with IAS16 *Property Plant and Equipment*. Assets under construction are not depreciated until the asset is available for use. Under IAS 16 costs are capitalised during the development phase, defined as being from the date that an economic study is completed to the date the asset is deemed to be available for use (or the "development costs") and are those that can be directly attributable to bringing the asset to the condition necessary for it to be capable of operating in the manner intended by the Company. Under IAS 16, these development costs are capitalised, as they meet the criteria for the capitalisation for a qualifying asset.

**Mineral property costs**

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

*Mineral properties*

Mineral properties, including exploration assets, acquired are recognised as assets at fair value, less adjustments which arise from subsequent impairment reviews.

*Exploration and evaluation costs*

Exploration and evaluation costs relating to properties for which there is insufficient 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 capitalised until the project to which they relate is sold, abandoned, placed into production or becomes impaired.

*Impairment*

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, "Exploration for and evaluation of mineral resources", 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 impairment is identified, the carrying value of the mineral property is written down to its estimated fair value. The Company evaluates impairment for potential reversals when events or circumstances warrant such consideration.

**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 substantially all the risk and rewards of ownership.

*Cash and cash equivalents*

Cash and cash equivalents are carried in the balance sheet at fair value. For the purposes of the balance sheet, cash and cash equivalents include cash, and money market funds. For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

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 loans and receivable and are reported at the balance sheet date initially at fair value and subsequently at cost (the carrying value of cash and cash equivalents approximates to their fair value).

*Accounts payable 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. If not, they are presented as non-current liabilities. Accounts payable and accrued liabilities are reported at their carrying value at the balance sheet date which reflects their fair value.

*Derivative financial instruments*

Derivative instruments, including embedded derivatives, are recorded on the balance sheet at their fair value. Unrealized gains and losses on derivatives are recorded in the consolidated statement of net loss and comprehensive loss for the year. Fair values for derivative instruments are determined using valuation techniques, using assumptions based on market conditions existing at the balance sheet date. Derivatives embedded in non-derivative contracts are recognized separately unless they are closely related to the host contract.

The Company's derivative instruments in relation to share subscriptions consist of derivative liabilities of Warrants issued to Gold Fields and derivative receivables.

**Borrowing costs**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of net loss and comprehensive loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates where it is probable that some or all of the facility will be drawn down. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is expensed.

**Taxes**

*Income tax*

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 recognised 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 recognised for unused tax losses to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred income taxes assets are recognised to the extent that the realization of the related tax benefit through future taxable profits is probable.

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, the associated deferred tax asset is not recognised.

*Capital gains tax*

The Company may potentially incur capital gains tax from the sale of its assets relating to exploration properties or equity investments. Where this is applicable the Company will estimate a provision for the capital gains tax liability and recognise this as a tax charge for the year in the consolidated statement of net loss and comprehensive loss for the year.

### 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 recognised over the vesting period of the award. Share-based payments to non employees are measured based on the fair value of the 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.

Warrants that are issued for underwriting services are initially accounted for under IFRS 2, "Shared-based payment", as equity instruments (their initial fair value would be recognised as a share issuance cost). Subsequent to their issuance, Warrants issued for services that can be tracked (are non-transferable) are considered as equity for their entire life. The fair values of such share purchase warrants are not re-measured. Where these Warrants are ultimately exercised, the applicable amounts of Warrants are credited to share capital. Where Warrants expire or are forfeited then these are credited to contributed surplus.

### Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction, a sale is considered highly probable and the disposal group is available for sale in its current state. They are stated at the lower of carrying amount and fair value less costs to sell.

### 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.

## CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The accounting policies applied in these interim consolidated financial statements are the same as those applied in the Company's audited consolidated financial statements for the year ended December 31, 2013. As such the Company reviewed new and amended standards that came into effect on after January 1, 2013, or were not adopted in the audited consolidated financial statements as at December 31, 2013, and considered if there were any effects on the interim consolidated financial statements as at March 31, 2014:

### (a) New and amended standards adopted by the Company

The Company reviewed new and amended standards that came into effect on after January 1, 2013, or were not adopted in the audited consolidated financial statements as at December 31, 2013, and considered if there were any effects on the interim consolidated financial statements as at March 31, 2014. There has been no material change to the Company's financial statements as a result of the first time application of these standards:

#### *IFRS 10, 'Consolidated financial statements'*

This builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.

#### *IFRS 11, 'Joint arrangements'*

This focuses on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement. A joint operator accounts for its share of the assets, liabilities, revenue and expenses. Joint ventures arise where the investors have rights to the net assets of the arrangement; joint ventures are accounted for under the equity method. Proportional consolidation of joint arrangements is no longer permitted.

#### *IFRS 12, 'Disclosures of interests in other entities'*

This includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles.

#### *IFRS 13, 'Fair value measurement'*

This aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRS and US GAAP, do not extend the use of fair value accounting but

provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS.

*Amendments to IAS 36, 'Impairment of assets'*

This relates to the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13. The amendment is not mandatory for the Company until 1 January 2014, however the Company has decided to early adopt the amendment as of 1 January 2013.

**(b) New standards and interpretations not yet adopted**

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing the interim consolidated financial statements as at March 31, 2014. None of these are expected to have a significant effect on the consolidated financial statements of the group, except the following set out below:

*IFRS 9, 'Financial instruments'*

This addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition.

The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Company will also consider the impact of the remaining phases of IFRS 9 when completed. The original mandatory effective date for IFRS 9 was for annual periods commencing on or after January 1, 2013, which was subsequently changed to January 1, 2015. However, in November 2013, the IASB removed the mandatory effective date from the IFRS and will determine a new effective date at some point in the future following further consultation.

*IFRIC 21, 'Levies'*

This sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognised. The Company is not currently subjected to significant levies so the impact on the Company is not material. IFRIC 21 is effective for annual periods commencing on or after January 1, 2014.

*Annual improvements to IFRS*

On December 12, 2013 the IASB issued two cycles of annual improvements to IFRS, the 2010-2012 cycle and 2011-2013 cycle. These contained eleven changes to nine standards: IFRS 1, 'First-time adoption of International Financial Reporting Standards'; IFRS 2 'Share-based payment'; IFRS 3 'Business combinations'; IFRS 8 'Operating segments'; IFRS 13 'Fair value measurement'; IAS 16 'Property, plant and equipment'; IAS 24 'Related party disclosures'; IAS 38 'Intangible assets'; and IAS 40 'Investment Property'. Most of the changes are effective for annual periods commencing on or after July 1, 2014, except for the amendment to IFRS 1 and one of the amendments to IFRS13, which only changed the Basis for Conclusions within those standards and so were effective immediately.

The Company is yet to assess the impact of the improvements which are not yet effective

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

## RISKS AND UNCERTAINTIES

Readers of this MD&A should give careful consideration to the information included in this document and the Company's consolidated financial statements and notes. The following describes some of the risks that could affect Orsu.

Such risks include risks associated with the estimate of mineral resources and mineral reserves and conclusions contained in studies relating to the Company's properties; risks related to exploration and development operations and potential construction; risk of changes to applicable government regulations relating to the mining industry or to their application or shifts in political conditions in foreign countries; risks of changes to environmental legislation; risks associated with the legal environments in Kazakhstan and Kyrgyzstan; risks associated with doing business in Kazakhstan and Kyrgyzstan; risks associated with the acquisition and retention of title to mineral properties; risks associated with non-compliance with environmental and regulatory requirements; fluctuations in the price of copper or gold or molybdenum and foreign currency fluctuations; risks related to obtaining required financing and operating or other permits, approvals or licenses on a timely basis; risks relating to global economics and financial markets; and the inability to economically or fully insure against certain risks. The Company is also subject to a number of risk factors due to the nature of the resource business in which it is engaged. The Company seeks to counter these risks as much as possible by selecting exploration and development areas on the basis of their recognised geological, production and potential to host economic returns.

### **The Government of Kazakhstan's pre-emptive rights, waiver and consent of the Competent Authority**

Under the State of Kazakhstan's Law No. 291-IV "On Subsoil and Subsoil Use" dated June 24, 2010 (the "Subsoil Law") a waiver from the State of Kazakhstan of its pre-emptive right (the "State's Waiver") and MINT's (the "Competent Authority") prior consent (the "CA Consent") is required, among others, for the initial and additional issuance and placement of shares from the Company's or any of its subsidiaries' treasury. Such State's Waiver and the CA Consent are not required for any subsequent trading of such shares, including, in the case of the Common Shares, trading through the facilities of the Toronto Stock Exchange ("TSX") and the AIM market of the London Stock Exchange ("AIM"), provided that the initial placement of such shares was approved by the Competent Authority. The State of Kazakhstan, acting through the Competent Authority, has the unilateral right to terminate a subsoil use contract for failure to obtain the CA Consent for the transaction. See "Kazakhstan Subsoil Use Law" below.

The Company did not obtain the State's Waiver and the CA Consent for the initial placement of the Common Shares that were originally admitted to trading on the TSX and AIM and the initial placement of Common Shares which are currently being traded on the TSX and AIM. The Company obtained the State's Waiver and the CA Consent with respect to the then current trading of the Common Shares on the TSX and AIM on October 25, 2010, which permits placement, sale or exchange of 241,851,581 Common Shares. As the Company, acting in good faith, disclosed in the waiver application to the Competent Authority the information on such past placements, the Company believes that the risk of the Competent Authority challenging such past placements and subsequent termination of the Company's subsoil use contract is remote. The Company is not aware of any instance of the State of Kazakhstan having terminated a subsoil use contract of any legal entity which indirectly, through its subsidiaries, holds a Kazakh subsoil use right as a result of the shares of such entity having been traded on a stock exchange or other public market in breach of the Subsoil Law.

### **Risks related to the Karchiga Definitive Feasibility Study and construction at the Karchiga Project**

The Company believes that the assumptions and methodologies used in formulating the mine and processing plans for the Karchiga Project and the estimated costs and timing related thereto, as outlined in the Karchiga Definitive Feasibility Study Report, are reasonable and that the Karchiga Project will be developed within the guidelines, and will achieve the results, set out in the Karchiga Definitive Feasibility Study Report. However, there may be circumstances beyond the Company's control that may require the Company to alter the development plan and methodologies envisaged by the Karchiga Definitive Feasibility Study Report or in the Company's other publicly filed documents, including this MD&A, and there can be no assurance that the anticipated costs or the results set out therein will be achieved.

Development projects, such as the Karchiga Project, have no operating history upon which to base estimates of future capital and cash operating costs or economic returns. The estimates relating thereto contained in the Karchiga Definitive Feasibility Study Report are, to a large extent, based upon anticipated tonnage and grades of ore to be mined and processed, the configuration of the ore body, expected rates of minerals, estimated operating costs, anticipated climatic conditions and other factors, as applicable. As a result, it is possible that actual capital costs, cash operating costs and economic returns will differ significantly from those estimated.

Moreover, the success of construction at the Karchiga Project is subject to a number of factors, including but not limited to the receipt by the Company of the necessary funding to complete same, unanticipated changes in cost estimates, the availability and performance of engineering and construction contractors, mining contractors, suppliers and consultants, the receipt of required governmental licenses, approvals and permits in connection with the construction of the mining facilities and the conduct of mining operations, access to mining equipment and other operational elements. There can be no assurance that the Company will be able to obtain additional

and sufficient funds to finance construction and start-up activities on favourable terms or at all. The failure of the Company to raise required financing, adverse changes in cost estimates, any delay or failure in the performance of any one or more of the contractors, suppliers and consultants or other persons on which the Company is, or may become, dependent in connection with its planned construction activities, a failure to receive the required governmental licenses, approvals and permits in a timely manner or on reasonable terms, the unavailability of necessary equipment and/or other factors beyond the Company's control could delay or prevent the construction and start-up of the Karchiga Project as planned. Any such delay or prevention may have a material adverse effect upon the valuation of the Karchiga Project in the Company's financial statements and its overall financial conditions.

Please also see "Additional Debt and Equity Financing" below.

**Risks Relating to Kazakhstan**

*Uncertain Political Environment in Kazakhstan*

Kazakhstan was a constituent republic of the FSU. In 1991, Kazakhstan declared its independence from the Soviet Union. At the time of its independence, it became a member of the Commonwealth of Independent States. Because Kazakhstan has a short history of political stability as an independent nation, there is potential for social, political, economic, legal, and fiscal instability. These risks include: local currency devaluation; exchange controls or restrictions on availability of hard currency; transportation regulations; changes with respect to taxes, royalty rates, import and export tariffs and withholding taxes on distributions to foreign investors; nationalization, condemnation, or expropriation of property; and interruption or blockage of copper exports. All of these factors could have a material adverse effect on the Company's business and financial condition. In addition, since the dissolution of the Soviet Union, a number of other former Soviet republics have experienced periods of political instability, civil unrest, military action or incidents of violence. Kazakhstan has not experienced any such unrest and, to date, this regional instability has not affected Kazakhstan or the Company's operations in Kazakhstan. However, future political instability, civil unrest or continued violence in the region could affect the political or economic stability of Kazakhstan, and could have an adverse effect on the Company's business, financial condition, results of operations or prospects.

*Adverse Economic Conditions in Kazakhstan*

Since its independence from the Soviet Union in December 1991, Kazakhstan has been undergoing a rapid and uneven transition to a market oriented economy. It has experienced severe economic problems since independence, including shortages in the supply of goods and services, unemployment and non-payment of wages, shortages, failures and other problems with utilities, transportation, communication and other infrastructure. In addition, stability in other countries, such as Russia, may materially affect the condition of the Kazakhstan economy. The Company cannot be assured that the economic measures taken by the Kazakhstan government will be effective in improving economic conditions in Kazakhstan or that the process of transition to a market oriented economy will be successful. These conditions could have a material adverse effect on the Company's business and financial condition.

*Uncertain Legal Environment in Kazakhstan*

The current legal environment in Kazakhstan is characterized by ambiguous and inconsistent legislation, gaps where legislation is not yet available, and uncertainty in application due to frequent policy shifts and lack of administrative and judicial experience. Kazakh laws often provide general statements of principles rather than a specific guide to operations and government officials may be delegated or exercise broad authority to determine matters of significance to the operations and business of the Company. Such authority may be exercised in an unpredictable way and effective appeal processes may not be available. In addition, breaches of Kazakh law, especially in the areas of taxation, may involve severe penalties and consequences regarded as disproportionate to the offence.

It is often difficult to obtain all necessary information about required permits, approvals and licenses as there is no comprehensive index or system for accessing all relevant legislation or administrative regulations. Additionally, officials often interpret regulations in an arbitrary or unpredictable way. It is also likely that the laws will change and such changes could be retrospective in form and effect.

There can be no assurance that the Company has complied with all applicable laws or obtained all necessary approvals in Kazakhstan. There can be no assurance that laws, orders, rules, regulations and other Kazakh legislation currently relating to the Company will not be altered, in whole or in part, or that a Kazakh court or other authority will not interpret existing Kazakh legislation, whether retroactively or otherwise, in such a way that would have an adverse impact on the Company. While there are some civil protections available against the retroactive effects of legislation, it may often be difficult to rely on or enforce such protections. The Company's failure to comply with any of these laws or obtain all of the necessary approvals could hinder the Company's ability to continue with its intended exploration work programmes and development work as planned and within the timescales previously planned and, if any breach is significant or remains unremedied for a prolonged period of time, the breach could threaten the Company's ability to retain its title to its exploration licenses and so affect the Company's future prospects.

In general, there remains uncertainty as to the extent to which Kazakh parties and entities, particularly governmental agencies, will respect the contractual and other rights of the non-Kazakh parties with which they deal and also as to the extent to which the "rule of law" has taken hold and will be upheld in Kazakhstan. Procedures for the protection of rights, such as the taking of security, the enforcement of claims and proceedings to obtain damages, are still relatively undeveloped, and certain common law concepts, such as injunctive relief, are not recognised in Kazakhstan. Accordingly, there may be greater difficulty and uncertainty in respect of the Company's ability to protect and enforce its legislated and contractual rights. There can be no assurance that this will not have a material adverse effect upon the Company's business and financial condition.

*Kazakhstan Subsoil Use Law*

The principal legislation governing subsoil exploration and mining activity in Kazakhstan is the Subsoil Law.

The Subsoil Law gives the Government of Kazakhstan significant control over the operations of a subsoil user and rights in certain circumstances to invalidate transfers of subsurface rights and to unilaterally terminate subsoil use contracts.

Under the Subsoil Law, the subsoil use contracts are only protected from changes in legislation if the changes worsen the results of entrepreneurial activities of the subsoil user. However, the Subsoil Law contains a very broad list of exceptions from stabilization that include taxation and customs regulation and exceptions which may have negative impact on defence, national security, environmental protection and health. To note, the government is broadly applying the national security exception to encompass security over strategic national resources.

Pursuant to the Subsoil Law, contractors should have developed project documentation and submitted it for approval by relevant state authorities by July 7, 2011. Moreover, the contractors were required to submit for approval the work programs prepared on the basis of project documentation. The work programs should have been submitted within 30 months from the effective date of the Subsoil Law. The Company submitted a work program in accordance with the requirements of the Subsoil Law in February 2013. The Subsoil Law cancelled the annual work programs. Instead, expected exploration and/or production volumes for each year shall be set forth in the newly developed and approved work program, as described above.

Under the Subsoil Law the Competent Authority has a right to unilaterally terminate a subsoil use contract in the following cases: (i) if a subsoil user more than twice failed to rectify violations within the period indicated by the Competent Authority in its notification; and (ii) if a subsoil user transferred the subsoil use right and associated rights without the CA Consent. Previously, the only way a subsoil user could renew a subsoil use contract was by way of court application. The Subsoil Law provides that the Competent Authority may renew a subsoil use contract without a court application in the following cases: (i) the decision to terminate the contract was adopted on the basis of doubtful information; and/or (ii) failure to perform or duly perform contractual obligations occurred due to force-majeure circumstances.

Under the Subsoil Law the State of Kazakhstan has a statutory pre-emptive right that was exercisable in the event that a subsoil user wished to sell or otherwise transfer any contractual subsoil use rights or any shares or other equity interest in (i) a legal entity holding a subsoil use right or (ii) a legal entity which could directly or indirectly make decisions and/or exert influence over decisions adopted by a subsoil user, if the main activity of such an entity was connected to subsoil use in Kazakhstan. The pre-emptive right entitles the State of Kazakhstan to purchase such rights or equity interests on terms no worse than those offered to the intended purchaser.

The Subsoil Law provides for certain exemptions from those provisions for:

- public market transactions that take place on a recognized securities exchange and are in respect of securities already listed and in circulation, notwithstanding the fact that these transactions would otherwise be subject to the State's pre-emptive right, provided the State's Waiver and CA Consent were obtained for the initial issue into circulation on an organised securities market of such shares;
- the transfer, in full or in part, of subsoil use rights or objects associated with subsoil use rights to a subsidiary of a subsoil user in which not less than 99% of the equity of such subsidiary is owned directly or indirectly by the subsoil user, provided that such subsidiary is not registered in a country with a preferential tax regime;
- the transfer, in full or in part, of subsoil use rights or objects associated with subsoil use rights between legal entities in which not less than 99% of the equity of both parties is owned directly or indirectly by the same entity, provided that the acquiring entity is not registered in a country with a preferential tax regime; and
- transactions involving the purchase or sale of securities that would otherwise be subject to the pre-emptive right, but which would result in the transfer of less than 0.1% of the equity of acquirer.

Pursuant to the Subsoil Law, objects associated with subsoil use rights were expanded and include now:

- participatory interests (shares) in a legal entity holding the subsoil use right, as well as a legal entity which may directly and/or indirectly determine and/or influence decisions adopted by a subsoil user if the principal activity of such subsoil user is related to subsoil use in Kazakhstan; and/or
- securities confirming title to shares or securities convertible to shares of a subsoil user as well as a legal entity who may directly and/or indirectly determine the decisions and/or influence the decisions adopted by such a subsoil user if such legal entity's core activities are associated with subsoil use in Kazakhstan ("Associated Rights").

The Subsoil Law provides a list of transactions/cases, other than for the alienation of subsoil use rights and Associated Rights, which require preliminary consent from the Competent Authority. These in particular, include the following transactions/cases:

- foreclosure of subsoil use rights and Associated Rights;
- transfer of subsoil use rights and Associated Rights to the third parties' charter capital;
- transfer of subsoil use rights and Associated Rights in the course of bankruptcy proceedings;
- obtaining a right to a participatory interest in a subsoil user or its parent company if such right arises as a result of a charter capital increase or by accession of a new participant to such legal entity;
- the initial public offering on an organized market of a subsoil user or its parent companies' securities;
- a pledge of participatory interests (shares) in a subsoil user; and
- the transfer of subsoil use rights or Associated Rights due to the reorganization of a subsoil user or its parent companies.

The Subsoil Law provides for an obligation of subsoil users, who signed their contracts prior to the enactment of the Subsoil Law, to be guided by the requirements established by the Subsoil Law with respect to unification of terminology and submission of information regarding:

- Kazakhstan content in goods, works and services ("GWS") and personnel calculated in accordance with the unified methodology for calculation of Kazakhstan content during procurement of GWS; and
- planned and actual procurement of GWS in accordance with the procedure and in forms approved by the Competent Authority.

The provisions regarding GWS and procurement requirements shall have retroactive effect and will apply to all contractors, regardless of any specific provisions on those topics.

#### *Regulatory Authorities in Kazakhstan*

Until March 12, 2010, the Competent Authority was the Former MEMR. On March 12, 2010, the Government of Kazakhstan eliminated the Former MEMR and transferred its functions to two newly formed ministries, the Ministry of Oil and Gas and the MINT. The Ministry of Oil and Gas assumed the responsibility for all matters relating to oil and gas and the MINT assumed responsibility for all matters relating to mining.

#### *Kazakhstan Tax Legislation*

The taxation system in Kazakhstan is still developing. The tax risks with respect to the Company's operations and investment in Kazakhstan are significant. Tax legislation is subject to different and changing interpretations as well as inconsistent enforcement at both local and state levels.

With the introduction of the Tax Code in December 2008 that became effective from January 1, 2009 Kazakhstan subsoil use taxation has undergone significant changes. The most important and significant change of such new legislation is the abolishment of stability of the tax regime for all subsoil use contracts, except for production sharing agreements signed prior to January 1, 2009 and subsoil use contracts signed by the President of Kazakhstan.

Thus, each subsoil user is required to pay taxes and other obligatory payments in accordance with the tax legislation as of the date when such tax obligations arise.

Currently all subsoil users carrying out activities in Kazakhstan are required to pay the following taxes:

Signature bonus is a one-time payment for the rights to explore, develop and produce mineral resources and it is determined by the government of Kazakhstan, based on a calculation taking into account the estimated amount of mineral reserves and the deposit's economic value.

Commercial Discovery Bonus is a one-time payment and is payable once a discovery of commercial value is made in the licensed or contracted territory. This will also apply to any increase of mineral reserves during the life of the production stage, subject to any changes in the tax legislation.

Mineral Production Tax (which replaces royalties under the old Tax Code) is normally paid in cash, unless the government of Kazakhstan specifically requires its payment in kind.

Excess profits tax is payable by mineral producers when their profits are in excess of a specified rate of return as set forth in the Tax Code.

Historical cost reimbursement is generally paid over the life of a production contract and calculated based upon the amounts previously paid by the State in geological exploration. Payment of historical costs is designed to recover historical costs previously incurred by the Government of Kazakhstan for exploration and development of mineral reserves or mineral resources.

In addition, all legal entities carrying on activities in Kazakhstan must be registered with the tax inspectorate and pay an income tax, a value added tax, a withholding tax, an excise tax, a tax on securities transactions, a land tax, a property tax, and a transport tax, as well as required contributions to social funds, fees for licenses and customs fees and duties.

#### *National Interests*

The Subsoil Law also contains a concept of "fields of strategic importance". This concept is aimed to protect Kazakhstan's national interests in the sphere of subsoil use. On October 4, 2011, a Governmental Resolution "On Determination of the List of Subsoil (Deposit) Areas Having Strategic Importance" came into force whereby certain fields are prescribed as fields of strategic importance. Currently the area covered by the Karchiga Project Contract is not included in this list and therefore is not considered to be a field of strategic importance.

As a matter of applicable laws, the State is entitled to introduce amendments and/or additions to a subsoil use contract. As such, these amendments and/or additions may be made if the actions of the relevant subsoil user, operating what is deemed to be a strategic subsoil field, results in unfavourable changes to Kazakhstan's economic interests, which may adversely affect the national security.

The law "On National Security of the Republic of Kazakhstan" effective as of January 17, 2012, provides very broad criteria of what is to be understood as a threat to Kazakhstan's national security. In particular, the criteria include threats to the economic, political, ecological, information and public security. Based on this, the actual determination of what actions of a subsoil user may have a material negative impact on Kazakhstan's national security appear to be within the government's exclusive discretion. If such determinations are made, the MINT may unilaterally terminate a subsoil use contract if: (i) within two months from the receipt of notice the subsoil user does not give its written consent to negotiate changes to the terms of the subsoil contract or refuses to negotiate; (ii) within four months from the receipt of the subsoil user's consent agreement is not reached on such changes; and (iii) within six months from the date agreement was reached written changes to the terms of the subsoil contract have not been made.

#### *Currency Regulation and Currency Control Laws*

On July 4, 2009, amendments to the Law of the Republic of Kazakhstan "On Currency Regulation and Currency Control" were adopted. These amendments are aimed at preventing possible threats to the economic security and stability of the Kazakh financial system. The President of Kazakhstan was granted the right to establish, by way of a special President's decree, a special currency regime which may include: (i) depositing a certain portion of foreign currency interest free in a resident Kazakh bank or the National Bank of Kazakhstan; (ii) obtaining special permission of the National Bank of Kazakhstan for currency transactions; (iii) restricting foreign currency transfers overseas; (iv) requirements to sell foreign currency received by residents in a compulsory manner; and (v) restrictions to use of accounts in foreign banks.

In general, the impact of the special currency regime is that, if imposed, it may potentially result in preventing subsoil users in Kazakhstan from being able to pay dividends to their shareholders abroad or repatriating profits in foreign currency in full or in part. In addition, extra administrative procedures could be imposed and Kazakh companies could be required to hold a part of their foreign currency in local banks.

#### **Regulatory Approvals**

The operations of Orsu and the exploration, development and subsoil use rights which have been obtained by the Company require numerous approvals, consents, licenses, permits and registrations from various regulatory authorities, governmental and otherwise, and/or renewals or extensions thereof. No assurance can be given that approvals, consents, licenses, permits and registrations currently held by Orsu or which are obtained in the future will not be withdrawn, revoked or subject to change, with or without notice, or that they will be renewed or extended as required. As well, additional project specific consents, permits, registrations and/or governmental decrees may be required. Furthermore, as Kazakhstan and Kyrgyzstan have somewhat bureaucratic administrative systems, there may be delays in obtaining, renewing or extending such approvals, consents, licenses, permits and registrations. There is no assurance that Orsu will be able to obtain, maintain, renew or extend all necessary approvals, consents, licenses, permits and registrations that may be required and/or that all consents, licenses, permits and registrations specific to the Company's projects will be forthcoming in order to enable Orsu to explore and develop the properties on which it has exploration, development and subsoil use



rights or to commence construction or operation of mining facilities that economically justify the costs involved. All such factors may have material adverse effects on Orsu's business and financial condition.

**Additional Debt and Equity Financing**

The advancement, exploration and development of the Company's properties, including continuing exploration and development projects, and the construction of mining facilities and commencement of mining operations, if any, will require substantial additional financing in the future. Failure to obtain sufficient financing in the future will result in a delay or indefinite postponement of the advancement, exploration, development or commercial production on any or all of the Company's properties or even a loss of a property interest. Additional debt and / or equity financing may not be available when needed or, if available, the terms of such financing might not be favourable to the Company and might involve substantial dilution to existing shareholders. While the Company has been successful in raising such financing in the past, the Company's ability to raise additional financing may be affected by numerous factors beyond the Company's control, including, but not limited to, adverse market conditions and/or commodity price changes and economic downturn and those other factors listed under this "Risks and Uncertainties" section of this MD&A. Failure to raise capital when needed would have a material adverse effect on the Company's business, financial condition and results of operations.

**Prior antimonopoly consent for certain transactions involving transfers of shares in the Company and/or its subsidiaries**

Under the Competition Law of the Republic of Kazakhstan dated December 25, 2008 (the "Competition Law") prior consent from the Kazakhstan Agency for Competition Protection (the "Antimonopoly Agency") is needed for certain transactions, which may reduce or restrict competition in commodities markets (so-called "economic concentration"). Specifically, the consent of the Antimonopoly Agency, among others, is required for an acquisition by a person (or group of persons) of voting shares (or participation interests or unit shares) in the charter capital of a market entity, whereby such person (or group of persons) gains the right to control more than 25% of such voting shares (or participation interests or unit shares), where such person (or group of persons) prior to the purchase did not hold voting shares (or participation interests or unit shares) of that market entity, or held 25% or less of the voting shares (or share participation or unit shares) in the charter capital of such market entity, provided that certain turnover or asset thresholds are met or where one of the parties to the transaction holds a dominant position in a certain market. The consent is required in respect of a transaction involving entities outside Kazakhstan, where such transaction: (i) either directly or indirectly affects fixed or intangible assets, shares (participation interests), property or non-property rights in relation to Kazakh legal entities; or (ii) restricts competition in Kazakhstan. A transaction which occurs without the Antimonopoly Agency's approval is not void under the law, but may be challenged in a Kazakhstan court. As a general rule it is unlikely that a transaction involving offshore companies will be challenged in the courts of Kazakhstan.

The Competition Law, however, provides that transactions are not recognized as "an economic concentration" and do not require the Antimonopoly Agency's consent if they are performed within "a group of persons".

Under the Competition Law "a group of persons" is defined as an aggregate of individuals and/or legal entities meeting at least one of the following conditions: (1) an individual or a legal entity has a right to dispose directly or indirectly (through third persons) of more than 25% of voting shares (interest) in the share (charter) capital of a legal entity; and/or (2) an individual or his/her spouse or close relative(s) is/are able to determine decisions adopted by another person, including determination of terms and conditions of conducting the business activity of such person or exercise of management body's powers.

**Risks and Uncertainties Relating to the Sale of the Talas Project**

Pursuant to the terms of the agreement dated as of July 13, 2012 relating to the Sale, the Company gave Gold Fields certain customary warranties regarding taxation. These warranties are subject to certain limitations, including specified time periods within which claims relating to such warranties can be brought which are customary for a transaction of this nature. The Company has also given indemnities relating to certain potential tax liabilities and liabilities connected to its former indirect subsidiary, Talas Copper Gold LLC.

In the event that Gold Fields pursues a claim against Orsu for a breach of any of these warranties, or Orsu is required to meet its obligations under the indemnities provided to Gold Fields, Orsu will be exposed to unexpected and potentially material cash outflows from its limited cash resources, which could have a material adverse effect on the Company's financial condition and results of operations.

**Risks and Uncertainties Relating to the Varvarinskoye SPA and the Sale of the Varvarinskoye Project**

The Company sold all of its interest and obligations in the previously operated Varvarinskoye gold-copper mine in the Urals belt in northern Kazakhstan to Polymetal on October 30, 2009, pursuant to the terms of the Varvarinskoye SPA. Pursuant to the terms of the Varvarinskoye SPA, the Company has given Polymetal certain customary warranties regarding taxation. These warranties are subject to certain limitations, including specified time periods within which claims relating to such warranties can be brought which are customary for a transaction of this nature. The Company has also given indemnities relating to certain potential tax liabilities and liabilities connected to its former indirect subsidiary, JSC Kenzhem.

In the event that Polymetal pursues a claim against Orsu for a breach of any of these warranties, or Orsu is required to meet its obligations under the indemnities provided to Polymetal, Orsu will be exposed to unexpected and potentially material cash outflows from its limited cash resources, which could have a material adverse effect on the Company's financial condition and results of operations.

**Estimates of Mineral Resources and Mineral Reserves**

The mineral resource and mineral reserve estimates published from time to time by the Company (including those referred to in this MD&A) are estimates only and no assurance can be given that any particular level of recovery of copper, gold or other minerals from mineral resources or mineral reserves, as applicable, will in fact be realized. There can also be no assurance that an identified mineral deposit will ever qualify as a commercially mineable (or viable) ore body which can be economically exploited. Additionally, no assurance can be given that the anticipated tonnages and grades will be achieved or that the indicated level of recovery will be realized. Mineral resources that are not mineral reserves do not have demonstrated economic viability. Estimates of mineral resources and mineral reserves can also be affected by such factors as environmental permitting regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations and work interruptions. In addition, the grade of ore ultimately mined may differ dramatically from that indicated by results of drilling, sampling and other similar examinations. Short term factors relating to mineral resources and mineral reserves, such as the need for orderly development of ore bodies or the processing of new or different grades, may also have an adverse effect on mining operations and on the results of operations. Material changes in mineral resources and mineral reserves, grades, stripping ratios or recovery rates may affect the economic viability of projects. Mineral resources and mineral reserves are reported as general indicators of mine life. Mineral resources and mineral reserves should not be interpreted as assurances of mine life or of the profitability of current or future operations. There is a degree of uncertainty attributable to the calculation and estimation of mineral resources and mineral reserves and corresponding grades being mined or dedicated to future production. Until ore is actually mined and processed, mineral resources, mineral reserves and grades must be considered as estimates only. In addition, the quantity of mineral resources and mineral reserves may vary depending on mineral prices. Any material change in mineral resources and mineral reserves, grades or stripping ratios will affect the economic viability of the Company's projects.

**Subsoil use rights**

In Kazakhstan and Kyrgyzstan, all subsoil reserves belong to the State. Non-compliance with mining legislation and subsoil use contracts may lead to regulatory challenges and subsequently the loss of access to mineral resources. Subsoil use rights that are granted to the Company may conceivably be suspended or terminated if the Company does not satisfy its licensing or contractual obligations, which include periodic payment of royalties, license withholding fees to the governments, submission of work completion reports and the satisfaction of mining, environmental and health and safety requirements. The Company's management makes every effort to ensure compliance with all mining legislation, the terms of subsoil use contracts and any approved work programmes. Please see "The Government of Kazakhstan's pre-emptive rights, waiver and consent of the Competent Authority".

**Asset Impairment**

The Company considers those events or circumstances which may indicate that a long-lived asset's carrying amount may not be recoverable, in which case the carrying value of long-lived assets is tested for impairment.

If impairment is identified, the carrying value of the long lived asset is written down to its estimated fair value. Although management of the Company believes that the estimates and judgments applied in such impairment assessments are reasonable, such assessments are subject to significant uncertainties and judgments. If long-term estimates including those made for commodity prices, recoverable metal and share prices were to change significantly, additional impairment charges may be required in future periods, and such charges could have a material adverse effect upon the Company's financial condition.

**Credit Risk**

Credit risk is the risk of financial loss to the Company if counterparties are unable to fulfil their respective commitments to the Company. The Company's exposure to credit risk relates to its cash and cash equivalent assets. 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 significant exposure to credit risk. However, there are a number of known and unknown risks, uncertainties and other factors that may give rise to an increase in the Company's exposure to credit risk and which could have a material adverse effect upon the Company's financial condition.

**Speculative Nature of Mineral Exploration**

The exploration and development of mineral deposits involves significant financial risks over a prolonged period of time, which a combination of careful evaluation, experience and knowledge may not eliminate. Few properties that are explored are ultimately developed into economically viable operating mines. Major expenditure on Orsu's exploration properties may be required in constructing mining and processing facilities at a site, and it is possible that even preliminary due diligence will show adverse results, leading to the abandonment of projects. It is impossible to ensure that preliminary feasibility studies or definitive feasibility studies on Orsu's projects or the

current or proposed exploration programmes on any of the properties in which Orsu has exploration rights will result in any profitable commercial mining operation. See “Risks relating to the Karchiga Definitive Feasibility Study and construction at the Karchiga Project” above. Orsu cannot give any assurance that its current and future exploration activities will result in the discovery of additional mineral deposits containing mineral reserves.

Whether a base metal or precious metal deposit will be commercially viable will depend on a number of factors, some of which are the particular attributes of the deposit (such as its size and grade), proximity to infrastructure, financing costs and governmental regulations (including regulations relating to prices, taxes, royalties, infrastructure, land use, importing and exporting of precious metals or base metals concentrates, exchange controls and environmental protection). The combination of these factors may have a material adverse effect on Orsu’s business and financial condition.

#### **Class Action Claim**

Pursuant to a class action claim commenced against European Minerals Corporation (the Company as it was previously named) and two of its officers in the Ontario Superior Court of Justice in June, 2008 (the “Claim”), general and special damages in the amount of CAD\$50,000,000 and punitive damages in the amount of CAD\$5,000,000 were claimed against the Company. The Company entered into a court-approved settlement agreement in connection with the Claim, pursuant to which it was agreed that the Claim would be settled for CAD\$2.2 million, to be shared equally between Orsu and its insurer (the “Settlement Agreement”), which became effective on March 22, 2010. Individual class members had the right to opt out of the settlement during an opt-out period, which expired on June 7, 2010. The Company was notified that no class members opted out of the settlement. The settlement is now final.

However, the enforceability of the Settlement Agreement against class members who are not residents of Ontario will be subject to the various jurisdictional laws of the respective jurisdictions in which such class members are located or where they bring any legal action. In any class action involving potential class members in other jurisdictions, there is always the possibility that some of those class members may still be able to pursue individual claims and seek recovery in the courts of their respective jurisdictions. While the Company does not anticipate that any individual claims by such class members would be significant, there can be no assurance that any such claims, if made and were to be successful, would not have a material adverse effect on Orsu’s financial condition. However, no such challenges to the settlement have been launched to this point.

#### **Risks Relating to the Kyrgyz Republic**

##### *Uncertain Political Environment in the Kyrgyz Republic*

The Kyrgyz Republic has a short history as an independent nation and there is potential for social, political, economic, legal, and fiscal instability.

In particular, from April to June, 2010 the Kyrgyz Republic experienced political instability and civil unrest. On April 7, 2010, a change in government took place with opposition leaders forming an interim government and the former president leaving the country. The interim government took over the powers of the president, parliament and the central government and dissolved the Kyrgyz parliament, and stated that it would remain in power until a new constitution had been adopted and new parliamentary elections held. On June 27, 2010, a referendum was held and 90.55% of the voters supported the new constitution and the election of Ms. Roza Otunbaeva as the President of the country until December 31, 2011 during the transition period. The new constitution provides that the Kyrgyz Republic shall become a parliamentary republic, rather than a presidential republic. On October 10, 2010, the parliamentary elections were held and five leading political parties won seats at the Parliament. On October 30, 2011 new presidential elections were held and Mr. Almazbek Atambaev became the president of the Kyrgyz Republic for six years. The new constitutional system also requires the parliamentary parties to form a coalition to nominate and elect the prime minister and set up a cabinet of ministers. Coalition negotiations and agreements are often challenged; dissolution of the coalition may lead to dissolution of the coalitional cabinet of ministers. Whether these, or further, changes in the government will have a material adverse effect upon the Company’s business, operations or any of the licenses held in the Kyrgyz Republic is unknown at this time.

Future political or social instability or civil unrest in the Kyrgyz Republic could, in addition to affecting the political, social and/or economic stability of the Kyrgyz Republic, adversely affect the ongoing exploration and development of the Akdjol-Tokhtazan Project or even the loss of the Company’s interest in the property.

Another instability that may influence the Company’s business in the Kyrgyz Republic is frequent change of management of the state agency responsible for the implementation of mining policy in the Kyrgyz Republic (the “Geology Agency”), including the granting, suspension and termination of mining licenses, that as a consequence leads to changes in the policy making and decision taking procedures in the mining industry as a whole.

Other risks associated with the Company’s business in the Kyrgyz Republic include the possibility of: local currency devaluation; exchange controls or restrictions on availability of hard currency; transportation regulations; changes in taxes, royalty and bonus rates, import and export tariffs and withholding taxes on distributions to foreign investors; nationalization, condemnation, or expropriation of property; dependency upon good relations with the Kyrgyz Republic’s neighbours to ensure the Kyrgyz Republic’s ability to export; and interruption or blockage of gold or copper exports. The occurrence of one or more of the foregoing could have a material

adverse effect on the Company. As at the date of this AIF, it is uncertain whether the current evolving political and social changes in the Kyrgyz Republic will have a direct or indirect material adverse effect upon the Company or its business or financial condition.

*Uncertain legal environment in Kyrgyzstan*

The legislation of the Kyrgyz Republic is unstable and is regularly amended and modified. The following risks create uncertainties to businesses in the Kyrgyz Republic: conflicting and uncoordinated laws, regulations and decrees; inconsistent application of laws and regulation; alleged bribery and corruption and non-transparency within governmental bodies; alleged non-independent judicial system; certain limitations related to foreign citizens; changes in the tax and customs regime; introduction of new obligations and requirements with retroactive effect that lead to financial expenditures; discrepancies and confusion surrounding the powers of different governmental agencies; and excessive discretion. It should be noted that after the change of government in April 2010, the interim government adopted decrees on nationalization of various properties and introduced external management to certain companies, which are stated to be owned by the family and close circle of friends of the former president, Kurmanbek Bakiev. However, on April 26, 2010, the new interim government adopted decree No. 23 "On protection of investments", which guaranteed to local and foreign investors protection of investments, a fair and equal legal regime and fulfillment of the international obligations of the Kyrgyz Republic.

In August 2012 a new set of mining laws was adopted that establishes new mining regulations, mining taxation, land use and licensing procedures.

Major changes, among others, are as follows:

- According to the new mining laws an interest in mining projects cannot be obtained through transfer of the relevant license but through transfer of the interest in the company holding the license. As a result, the change of ownership of shares of more than 10% entails the payment of a bonus calculated proportionally to the changed shares of ownership;
- Progressive license withholding fees were introduced payable by all license holders per square km/hectare of the relevant license area. The rates increase on an annual basis to stimulate the subsoil users to intensify their prospecting and exploration work and commence production or relinquish area;
- New category of lands – state reserve of lands of mineral deposits was introduced, that would simplify the procedure of obtaining land use rights. However, the procedure of granting the lands of mineral deposits has not been approved by the Government yet.

The Kyrgyz Government approved a list of strategic objects (property that has a social and economic importance for sustainable development of community, possession, (or) use and/or disposal of which will influence the status of national security of the Kyrgyz Republic). On February 17, 2014 the Government adopted a resolution No. 99 on approval of the list of strategic objects that also includes some mineral deposits. Shares of the companies holding the licenses for prospecting, exploration and development of these mineral resources might also be recognized as strategic objects.

If the owner intends to sell the strategic object, the Government has a priority right to purchase the strategic object in the manner prescribed by the legislation.

**Base Metal and Precious Metal Prices**

The profitability of any base or precious metal mining operation in which Orsu may have an interest will be significantly affected by changes in the market price of base and precious metals. Base or precious metal prices fluctuate on a daily basis and are affected by numerous factors beyond Orsu's control. The level of interest rates, the rate of inflation, world supply of base or precious metals and stability of exchange rates can all cause significant fluctuations in base or precious metal prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems and political developments. The price of base or precious metals has historically fluctuated widely and future price declines could cause commercial production to be uneconomical and such fluctuations could have a material adverse effect on Orsu's business and financial condition.

**Currency Risk**

The Company's asset values and any future earnings and cash flows will be influenced by a wide variety of currencies due to the geographic diversity of the Company's areas of operation. The relative value of currencies can fluctuate widely and could have a material and adverse impact on the Company's asset values, costs, earnings and cash flows.

**Foreign Operations**

The Company's material property is located in Kazakhstan and as such a substantial portion of the Company's business is exposed to various degrees of political, economic and other risks and uncertainties. The Company's operations and investments may be affected by local political and economic developments, including expropriation, nationalisation, invalidation of government orders, permits or agreements pertaining to property rights, political unrest, labour disputes, limitations on repatriation of earnings, limitations on mineral exports,

limitations on foreign ownership, inability to obtain or delays in obtaining necessary mining permits, licenses or approvals, opposition to mining from local, environmental or other non-governmental organizations, government participation, royalties, duties, rates of exchange, high rates of inflation, price controls, exchange controls, currency fluctuations, taxation and changes in laws, regulations or policies. Some of the Company's current and potential operations are located in or near communities that may now, or in the future, regard such an operation as having a detrimental effect on their economic and social circumstances. Should this occur, it may have a material adverse impact on the viability of an operation. In addition, such an event may adversely affect the Company's ability to enter into new operations in the country.

**Compliance with Laws**

Orsu's operations are subject to various laws and regulations in numerous jurisdictions around the world. The costs associated with compliance with such laws and regulations may cause substantial delays and require significant capital outlays, which may have a material adverse effect on Orsu's business, financial condition and prospects.

**Global Economic and Financial Markets**

Market events and conditions, such as the disruption in the Canadian, U.S. and international credit markets and other financial systems and the deterioration of Canadian, U.S. and global economic conditions that was experienced during 2008 and 2009 and the continuing depressed levels of economic conditions particularly in Europe or a serious deceleration of growth in emerging markets, especially China, could among other things, impede access to capital or increase the cost of capital, which would have an adverse effect on the Company's ability to fund its working capital and other capital requirements. Notwithstanding various actions by numerous states and/or governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions have in the recent past caused the broader credit markets to deteriorate and stock markets to decline. In addition, general economic indicators also deteriorated, including declined consumer sentiment, increased unemployment and declined economic growth and uncertainty about corporate earnings. These unprecedented disruptions in the credit and financial markets have had a significant material adverse impact on a number of financial institutions and have limited access to capital and credit for many companies, particularly resource exploration and development companies such as the Company. These and longstanding or future disruptions could, among other things, make it more difficult for the Company to obtain, or increase its cost of obtaining, capital and financing for its operations. The Company's access to additional capital may not be available on terms acceptable to the Company or at all.

**Market Price of Common Shares**

Worldwide securities markets have in the recent past experienced a high level of price and volume volatility and market prices of securities of many companies, particularly those considered exploration or development stage companies, have experienced unprecedented declines which were not necessarily related to the operating performance, underlying asset values or prospects of such companies. In addition, there has been a significant decline in the number of buyers willing to purchase such securities. As a consequence, market forces may render it difficult or impossible for the Company to secure purchasers to purchase its securities at a price which will not lead to severe dilution to existing shareholders, or at all. In addition, shareholders may realize less than the original amount invested on disposals of their Common Shares during periods of such market price decline.

**Competition**

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

**Insurance Risk**

Orsu faces all of the hazards and risks normally incidental to exploration and development activities, any of which could result in damage to life or property, environmental damage and possible legal liability for any or all such damage caused. Orsu's activities may be subject to prolonged disruptions due to weather conditions depending on the location of operations in which Orsu has interests. Orsu may incur a liability to third parties (in excess of any insurance coverage) arising from damage or injury. Currently, Orsu believes it has the necessary insurance policies in place that it needs for its projects. There are also risks against which Orsu cannot insure or against which it may elect not to insure because of high premium costs.

The potential costs that could be associated with any liabilities not covered by insurance which may be, but are not, taken out or are in excess of insurance coverage actually taken out may cause substantial delays and require significant capital outlays, adversely affecting Orsu's earning and competitive position in the future and, potentially, its financial position.

**Key Personnel**

Orsu relies on a limited number of key employees, consultants and members of senior management and there is no assurance that Orsu will be able to retain such key employees, consultants or other senior management. The loss of one or more of such key employees, consultants or members of senior management, if not replaced, could have a material adverse effect on Orsu's business and prospects. The Company does not maintain key employee insurance on any of its employees, consultants or members of senior management.

**Health, safety and environment**

Orsu operates in an industry which is subject to numerous health, safety and environmental laws and regulations as well as community expectations. Evolving regulatory standards and expectations can result in increased litigation and/or increased costs, all of which can have a material and adverse effect on future earnings and cash flows. The Company complies with or exceeds the requirements of all applicable environmental laws and regulations and, in jurisdictions where these are absent or inadequate, applies cost-effective technologies and management practices to ensure the protection of the environment as well as worker and community health. The Company works to make environmental management a high corporate priority and the integration of environmental policies, programmes and practices an essential element of management.

The Company cannot, however, predict what environmental legislation or regulations will be enacted in the future or how existing or future laws or regulations will be administered or enforced. Compliance with more stringent laws or regulations, or more vigorous enforcement policies of any regulatory agency, could in the future require material expenditures by the Company for the installation and operation of systems and equipment for remedial measures, any or all of which could have a material adverse effect on the Company's business and financial condition.

**Foreign Subsidiaries**

The Company is a foreign corporation and conducts operations through foreign subsidiaries and all of its assets are held in these subsidiaries. Accordingly, any limitation on the transfer of cash or other assets between the Company and its subsidiaries, or among its subsidiaries, could restrict the Company's ability to fund its operations efficiently. Any such limitations, or the perception that such limitations may exist in the future, could have an adverse impact upon the Company's business and financial condition.

**Defects in Title**

The Company has investigated its rights to explore and exploit and develop its projects and, to the best of its knowledge, those rights are in good standing; however, no assurance can be given that such rights will not be revoked, or significantly altered, to the detriment of the Company.

**Difficulty in Enforcing Judgments**

As a result of all of the Company's assets being located in a foreign jurisdiction, there will likely be difficulties in enforcing against the Company judgments obtained in Canadian courts predicated upon the civil liability provisions of applicable Canadian securities legislation for a misrepresentation contained in this MD&A or otherwise.

**Limitations on Foreign Control, Operation and Management of Exploration and Mining Companies**

There are currently no restrictions on the foreign control, operation and management of exploration and mining companies in Kazakhstan and Kyrgyzstan. However, there can be no assurance that legal requirements as to the foreign control, operation and management of such companies in such jurisdictions will not change and any such change could have a material adverse effect on Orsu's ability to conduct its operations and business interests as previously planned.

**Conflicts of Interest**

Certain of the directors and officers of Orsu are directors or officers of, or have significant holdings in, other mineral resource companies. Such other companies may compete with Orsu for the acquisition of mineral property rights.

**Other Tax Related Risks**

*Utilization of Tax Losses and Tax Reliefs*

The Company has accumulated substantial tax losses (as disclosed in note 12 of the Company's audited Consolidated Financial Statements for the year ended December 31, 2013). Whilst the Company has satisfied all relevant deadlines and provisions for the timely and accurate reporting of the Company's transactions and resulting tax losses to the tax authorities in the relevant taxation jurisdictions, the availability and utilization of such tax losses by the Company in the future cannot be predicted with certainty due to potentially unforeseen changes in the nature of the Company's operations, unforeseen delays in the commencement of the Company's operating profits, if any, and unforeseen and adverse changes in the tax legislation of Kazakhstan or Kyrgyzstan.

#### FORWARD-LOOKING INFORMATION

This MD&A contains or refers to forward-looking information. All information, other than information regarding historical fact that addresses activities, events or developments that the Company believes, expects or anticipates will or may occur in the future is forward-looking information. Such forward-looking information includes, without limitation, statements relating to: development and operational plans and objectives, including the Company's expectations relating to the continued and future maintenance, exploration, development and financing for, as applicable, of the Karchiga Project and the Balkhash Project and the timing related thereto and its acquisition and development of new mineral exploration licenses, properties and projects; the Company's ability to satisfy certain future expenditure obligations; mineral resource and mineral reserve estimates; estimated project economics, cash flow, costs, expenditures, revenue, capital payback, performance and economic indicators and sources of funding; the use and sufficiency of the Company's working capital for the next twelve months; the anticipated arranging of a debt facility by the Mandated Lead Arrangers and the potential participation by other debt providers; the potential raising of additional funding through the disposition of the Company's Kyrgyz assets and the proposed uses thereof; the estimated mine life, NPV and IRR for, and forecasts relating to tonnages and amounts to be mined from, and processing and expected recoveries and grades at, the Karchiga Project as well as the other forecasts, estimates and expectations relating to the Karchiga Definitive Feasibility Study Report; the mine design and plan for the Karchiga Project, including mining at, and production from the Karchiga Project; the anticipated sale of the Akdjol-Tokhtazan Project (including the valuation attributed to the expected proceeds thereon); the future political and legal regimes and regulatory environments relating to the mining industry in Kazakhstan and/or Kyrgyzstan; the Company's expectations and beliefs with respect to the waiver of the State's pre-emptive right with respect to the Karchiga Project and the past placements of the Common Shares being covered thereby; the significance of any individual claims by non-Ontario residents with respect to the Claim; and the Company's future growth (including new opportunities and acquisitions) and its ability to raise or secure new funding.

The forward-looking information in this MD&A reflects the current expectations, assumptions or beliefs of the Company based on information currently available to the Company. With respect to forward-looking information contained in this MD&A, the Company has made assumptions regarding, among other things, the Company's ability to generate sufficient funds from debt sources and/or capital markets to meet its future expected obligations and planned activities (including, with respect to the debt financing for the Karchiga Project, the ability of the Company to obtain such financing through the arrangement by the Mandated Lead Arrangers of a project debt finance facility on terms acceptable to the Company or otherwise), the Company's business (including the continued exploration and development of, as applicable, the Karchiga Project and the Balkhash Project and the timing and methods to be employed with respect to same), the estimation of mineral resources and mineral reserves, the parameters and assumptions employed in the Karchiga Definitive Feasibility Study Report, the economy and the mineral exploration and extraction industry in general, the political environments and the regulatory frameworks in Kazakhstan and Kyrgyzstan with respect to, among other things, the mining industry generally, royalties, taxes, environmental matters and the Company's ability to obtain, maintain, renew and/or extend required permits, licenses, authorisations and/or approvals from the appropriate regulatory authorities, including the previous waiver granted by the Competent Authority covers any pre-emptive right that the Competent Authority or State has in respect of any past placements, future capital, operating and production costs and cash flow discounts, anticipated mining and processing rates, the Company's ability to continue to obtain qualified staff and equipment in a timely and cost-efficient manner, assumptions relating to the Company's critical accounting policies, and has also assumed that no unusual geological or technical problems occur, and that equipment works as anticipated, no material adverse change in the price of copper, gold or molybdenum occurs and no significant events occur outside of the Company's normal course of business.

Forward-looking information is subject to a number of risks and uncertainties that may cause the actual results of the Company to differ materially from those discussed in the forward-looking information, and even if such actual results are realised or substantially realised, there can be no assurance that they will have the expected consequences to, or effects on, the Company. Factors that could cause actual results or events to differ materially from current expectations include, but are not limited to: risks normally incidental to exploration and development of mineral properties and operating hazards; uncertainties in the interpretation of results from drilling and metallurgical test work; the possibility that future exploration, development or mining results will not be consistent with expectations; uncertainty of mineral resource and mineral reserve estimates; technical and design factors; uncertainty of capital and operating costs, production and economic returns; uncertainties relating to the estimates and assumptions used, and risks in the methodologies employed, in the Karchiga Definitive Feasibility Study Report; adverse changes in commodity prices; the inability of the Company to obtain required financing on favourable terms or at all (including with respect to the debt financing expected to be secured by the Mandated Lead Arrangers) or the disposition of the Akdjol-Tokhtazan Project; the Company's inability to obtain, maintain, renew and/or extend required licenses, permits, authorizations and/or approvals from the appropriate regulatory authorities, including (without limitation) the Company's inability to obtain (or a delay in obtaining) the necessary construction and development permits for the Karchiga Project and other risks relating to the regulatory frameworks in Kazakhstan and Kyrgyzstan; adverse changes in the political environments in Kazakhstan and Kyrgyzstan and the laws governing the Company, its subsidiaries and their respective business activities;

inflation; changes in exchange and interest rates; adverse general market conditions; lack of availability, at a reasonable cost or at all, of equipment or labour; the inability to attract and retain key management and personnel; the possibility of non-resident class members commencing individual claims in connection with the Claim; the Company's inability to delineate additional mineral resources and mineral reserves; and future unforeseen liabilities and other factors including, but not limited to, those listed under "Risks and Uncertainties" in this MD&A.

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

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

## **CONTROLS AND PROCEDURES**

### **Disclosure Controls and Procedures**

The Company's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company is reported within the time periods specified under securities laws and ensure that information is communicated to management of Orsu, including the Chief Operating Officer (acting as Chief Executive Officer) and Chief Financial Officer, to allow timely decisions regarding required disclosure. The Company has performed an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings). Based on that evaluation, the Chief Operating Officer (acting as Chief Executive Officer) and the Chief Financial Officer of Orsu have concluded that the design and operation of the Company's disclosure controls and procedures were effective as at the date of this MD&A.

### **Internal Controls over Financial Reporting ("ICFR")**

The Chief Operating Officer (acting as Chief Executive Officer) and Chief Financial Officer of Orsu are responsible for establishing and maintaining adequate ICFR to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reports and/or statements for external purposes in accordance with IFRS. The Chief Operating Officer (acting as Chief Executive Officer) and Chief Financial Officer of Orsu directed the assessment of the design and operating effectiveness of the Company's ICFR as at the date of this MD&A and based on that assessment determined that the Company's ICFR, no matter how well designed, has inherent limitations. Therefore, the ICFR can only provide reasonable assurance with respect to financial statement preparation and may not prevent all misstatements, errors or fraud.

### **Material weakness relating to design and operation of ICFR**

During the assessment of the design and operating effectiveness of the Company's ICFR, it was noted that, due to the limited number of financial staff at some of the Company's locations, it was not feasible to achieve complete segregation of duties with respect to all internal control functions and processes. This failure to achieve complete segregation of duties combined with the decentralised nature of the Company's operations increases the risk of misstatement. This risk is proactively managed and mitigated through regular internal reporting of financial transactions, maximum use of system-generated transaction audit reports, stringent staff selection policies and employer references and by the Chief Financial Officer continuing to regularly visit and review the activities of the Company's overseas finance departments.

While management of the Company has put in place certain plans and procedures to mitigate the risk of a material misstatement in the Company's financial reporting, a system of internal controls can provide only reasonable, not absolute, assurance that the objectives of the control system are met, no matter how well conceived or operated. There were no changes made to the Company's ICFR during the three months ended March 31, 2014 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.



## Orsu Metals Corporation

### MD&A for the period ended March 31, 2014

---

#### OTHER INFORMATION

**Additional information:**

Additional information relating to the Company, including the Company's Annual Information Form dated March 24, 2014 may be accessed through SEDAR on the internet at [www.sedar.com](http://www.sedar.com) or on the Company's website at [www.orsumetals.com](http://www.orsumetals.com).

**Disclosure of Outstanding Share Data**

The following table sets forth information concerning the outstanding securities of the Company as at May 13, 2014:

| <b>Outstanding Securities</b>              | <b>Number in issue</b> |
|--|------------------------|
| Common Shares                              | 182,696,049            |
| Old share purchase options <sup>(1)</sup>  | 2,850,000              |
| New share purchase options <sup>(2)</sup>  | 13,125,000             |
| New share purchase warrants <sup>(3)</sup> | 12,500,000             |

**Notes:**

1. For share purchase options granted prior to November 24, 2009, up to 285,000 Common Shares are issuable upon the exercise of such share purchase options.
2. For share purchase options granted after November 24, 2009, up to 13,125,000 Common Shares are issuable on exercise of such share purchase options.
3. For the share purchase warrants granted to Gold Fields on July 24, 2013, up to 12,500,000 Common Shares are issuable on exercise of such share purchase warrants.

END