Centerra Gold Inc.

Management's Discussion and Analysis ("MD&A")

For the period ended June 30, 2011

The following discussion has been prepared as of July 28, 2011, and is intended to provide a review of the financial position and results of operations of Centerra Gold Inc. ("Centerra" or the "Company") for the three and six month periods ended June 30, 2011 in comparison with the corresponding periods ended June 30, 2010. This discussion should be read in conjunction with the unaudited interim consolidated financial statements and the notes of the Company for the three and six month periods ended June 30, 2011. This MD&A should also be read in conjunction with the Company's audited annual consolidated financial statements for the three years ended December 31, 2010, the related MD&A included in the 2010 Annual Report, the 2010 Annual Information Form and the condensed consolidated interim financial statements issued for the quarter ended March 31, 2011, which includes the Company's disclosures for its conversion to IFRS. The financial statements of Centerra are prepared in accordance with IAS 34 under the International Financial Reporting Standards. In addition, this discussion contains forward-looking information regarding Centerra's business and operations. See "Risk Factors" in the Company's 2010 Annual Information Form and "Caution Regarding Forward-Looking Information" in this discussion.The Company's 2010 Annual Report and 2010 Annual Information Form are available at www.centerragold.com and on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

Conversion to IFRS

As prescribed by the CICA Accounting Standards Board, the Company adopted the requirements of the International Financial Reporting Standards ("IFRS") in its statements of account as of January 1, 2011, including the restatement of its opening balance sheet of January 1, 2010 and its second quarter 2010 comparatives. The restatement of the Company's comparative balances from those previously reported under Canadian GAAP standards to those converted IFRS standards is fully explained and reconciled in note 17 of the Company's June 30, 2011 condensed consolidated interim financial statements as filed on SEDAR.

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Consolidated Financial Results

Centerra's consolidated financial results for the three and six month periods ended June 30, 2011 reflect the Company's 100% interests in the Kumtor and Boroo mines, and the Gatsuurt project.

Highlights

	Three Months Ended June 30			Six Months Ended June 30		
Financial and Operating Summary	**2011**	2010	**% Change**	**2011**	2010	**% Change**
Revenue - $ millions	**243.8**	152.2	60%	**494.0**	407.7	21%
Cost of sales - $ millions (1)	**105.9**	79.8	33%	**167.7**	158.1	6%
Net earnings - $ millions	**71.1**	30.7	131%	**207.7**	154.6	34%
Earnings per common share - $ basic and diluted	**0.30**	0.13	131%	**0.88**	0.66	33%
Cash provided by operations - $ millions	**118.5**	76.5	55%	**261.0**	158.8	64%
Capital expenditures - $ millions	**48.6**	54.7	(11%)	**120.8**	83.8	44%
Weighted average common shares outstanding - basic (thousands)	**236,021**	234,992	0%	**235,951**	234,926	0%
Weighted average common shares outstanding - diluted (thousands)	**236,353**	235,567	0%	**236,281**	235,512	0%
Average gold spot price - $/oz	**1,506**	1,197	26%	**1,445**	1,152	25%
Average realized gold price - $/oz	**1,527**	1,200	27%	**1,452**	1,143	27%
Gold sold – ounces	**159,642**	126,797	26%	**340,271**	356,636	(5%)
Cost of sales - $/oz sold (1)	**663**	629	5%	**493**	443	11%
Gold produced – ounces	**155,166**	121,728	27%	**335,882**	332,767	1%
Total cash cost - $/oz produced(2) (3)	**513**	616	(17%)	**436**	441	(1%)
Total production cost - $/oz produced(2) (3)	**625**	757	(17%)	**541**	557	(3%)

(1) As a result of the IFRS conversion, cost of sales for 2011 and its comparative year now include depreciation, depletion and amortization related to operations.
(2) Total cash cost and total production cost are non-GAAP measures and are discussed under "Non-GAAP Measures".
(3) As a result of Kumtor's Restated Investment Agreement signed in 2009, total cash cost and total production cost per ounce measures for both years exclude production-based and revenue-based taxes.

Three-Month Period Ended June 30, 2011 Compared with the Three-Month Period Ended June 30, 2010

Gold Production and Revenue

Revenue in the second quarter of 2011 increased to $243.8 million from $152.2 million in the same period last year reflecting higher realized gold prices and more ounces sold. Ounces sold for the period totaled 159,642 compared to 126,797 in the second quarter of 2010 while gold production for the quarter was 155,166 ounces compared to 121,728 ounces. The overall increase in gold production reflects 54% higher production at Kumtor resulting from increased throughput, higher ore grades and higher associated recoveries. Mining operations at Boroo ceased at the end of November 2010 resulting in lower production in the second quarter 2011 compared to the same period last year as the mine processed lower grade stockpiled pit and heap leach material. Heap leach operations at Boroo remained idle during the second quarter of 2011 pending issuance of a

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final operating permit by the government authorities. See "Mine Operations – Kumtor" and "Mine Operations – Boroo and Gatsuurt".

Centerra realized an average gold price of $1,527 per ounce for the second quarter of 2011, an increase from the $1,200 per ounce realized in the same quarter of 2010. Since Centerra's gold production is not hedged and gold is sold at the prevailing spot price, the average realized gold price in the quarter reflects the continued strength of the spot gold price, which averaged $1,506 per ounce for the second quarter of 2011 ($1,197 per ounce for the same period in 2010).

Cost of Sales

In the second quarter of 2011 consolidated cost of sales was $105.9 million, an increase of $26.1 million or 33% compared to the same quarter of 2010. This resulted primarily from a year over year increase in gold ounces sold at Kumtor, mainly as a result of significantly higher production. Cost of sales at Kumtor at $92.9 million was 55% higher than the comparative quarter of 2010 due to increased sales and higher costs for labour, diesel and other consumables. This was partially offset by reduced cost of sales at Boroo due to lower ounces sold and the reduction of costs mainly due to the cessation of mining activities.

In addition, cost of sales was reduced at Kumtor in the second quarter of 2011 by $5.2 million from the change in valuation of previously mined stockpiled sub-grade ounces. The cut-off grade at Kumtor was lowered from 1 g/t to 0.85 g/t, as a result of the Company using a higher gold price assumption of $1,000 per ounce to estimate ore reserves for 2011, thus making these ounces economic. From an accounting perspective, this is analogous to the reversal of an inventory impairment resulting in a direct credit to the income statement.

Kumtor also increased cost of sales by $5.8 million in the second quarter of 2011 for the potential settlement resulting from an audit by the Kyrgyz Social Fund completed during the current quarter. The conclusion reached by the Social Fund audit, relating to the calculation of the premium compensation for work conducted at high altitude at the Kumtor project, is inconsistent with prior audits. See "Other Corporate Development – Kyrgyz Republic" for further details

As a result of the IFRS conversion, cost of sales now includes non-cash depreciation, depletion and amortization in addition to operating cash costs related to the product sold in the period. The comparative quarter also reflects this change in treatment. Depreciation, depletion and amortization from mine operations for the second quarter of 2011 increased to $25.3 million from $16.9 million in the second quarter of the prior year. The higher depreciation results from the higher ounces sold and produced in the second quarter of 2011, the expansion of the mining fleet at Kumtor, the depreciation of pre-stripping costs capitalized in 2010 and 2011 from cut-back 12B at Kumtor, partially offset by the impact on depreciation calculated using the units of production method of the additional reserves announced at the end of 2010 at Kumtor. Depreciation, depletion and amortization from mine operations for the second quarter of 2011 was $158 per ounce sold compared to $134 per ounce sold in the same quarter of 2010.

Cost of sales per ounce sold increased to $663 in the second quarter of 2011 from $629 for the same period in 2010, reflecting the lower ounces sold at Boroo and higher operating costs at Kumtor for labour, diesel and other consumables. Cost of sales per ounce sold is a non-GAAP measure and is discussed under "Non-GAAP Measures".

The Company's total cash cost per ounce produced was $513, down from $616 in the second quarter of 2010. This decrease is primarily due to 54% higher production at Kumtor from higher grade and higher recovery of the processed ores, partially offset by higher operating costs at Kumtor and reduced operating levels at Boroo. Total cash cost per ounce produced is a non-GAAP measure and is discussed under "Non-GAAP Measures". See "Mine Operations – Kumtor" and "Mine Operations – Boroo and Gatsuurt".

Exploration

Exploration costs in the second quarter of 2011 increased to $11.3 million from $6.9 million in the same quarter of 2010 mainly reflecting increased drilling activity in Mongolia at the Altan Tsagaan Ovoo (ATO) property and at the Company's joint venture projects. Refer to the Company's July 11, 2011 news release for further details on the Company's drilling activity and results at the ATO property.

The Company entered in to three new joint-venture agreements in the second quarter of 2011 covering properties in Russia, Turkey and China.

Corporate Administration

Corporate administration costs for the second quarter of 2011 were $12.5 million compared to $6.1 million in the same quarter of 2010. The increase is primarily due to the impact on share-based compensation from the further vesting of the previously granted performance share units and the multiplying effect from the higher performance of the Company's stock relative to the gold index, partially offset by an 8% reduction in the share price during the second quarter of 2011.

Taxes

Revenue-based Tax Expense

Under the Restated Investment Agreement, Kumtor pays taxes on revenue, at a rate of 13% of gross revenue, with an additional contribution of 1% of gross revenue to the Issyk-Kul Oblast Development Fund. These revenue-based taxes totaled $31.0 million for the second quarter of 2011 compared to $15.4 million for the comparative quarter of 2010, reflecting the increase in revenue from gold sales in the Kyrgyz Republic and the higher average realized price in the second quarter 2011 as compared to the same quarter in 2010**.**

Income Tax Expense

Income tax expense for the three-month period ended June 30, 2011 totaled $4.6 million compared to $6.1 million for the three-month period ended June 30, 2010. These taxes were recorded in the Mongolian segment, primarily by Boroo. Boroo's income tax expense in the quarter includes a charge of $1 million relating to the movement in the second quarter 2011 of the Mongolian Tugrik versus the US dollar, reversing the $0.9 million tax recovery recorded in the first quarter of 2011 resulting from the movement in the currencies. The income tax rate for Boroo is 25% of taxable income in excess of 3 billion Tugriks (about $2.4 million as at the balance sheet date), and 10% for income up to that amount.

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Net Earnings

Net earnings for the second quarter of 2011 was $71.1 million, or $0.30 per share, compared to $30.7 million or $0.13 per share for the same period in 2010, reflecting higher realized gold prices and higher ounces sold and produced at Kumtor, partially offset by lower volumes at Boroo.

Capital Expenditures

Capital expenditures spent and accrued of $48.6 million in the second quarter of 2011 included $8.4 million of sustaining capital and $40.2 million invested in growth capital at Kumtor related mainly to the capitalization of pre-stripping activities ($15.1 million), the purchase of haul trucks, shovels and drills ($11.1 million) and the SB Zone underground development ($10.2 million). Capital expenditures in the comparative quarter of 2010 totaled $54.7 million, consisting of $12.9 million of sustaining capital and $41.8 million of growth capital.

Cash Flow

Cash provided by operations was $118.5 million for the second quarter of 2011 compared to $76.5 million in the same quarter of 2010, primarily reflecting increased earnings as a result of higher gold prices and higher volumes.

Cash used in investing activities in the second quarter of 2011 was $106.1 million reflecting the purchase of $57.1 million of short-term investments and capital additions of $48.5 million. Capital additions include $8.3 million spent on sustaining capital projects and $40.2 million invested in growth projects. Expenditures in growth projects were mainly for Kumtor's capital equipment purchases, pre-stripping activities and underground development project, while sustaining capital was $8.0 million at Kumtor and $0.3 million at Boroo.

Cash used in financing activities in the second quarter of 2011 was $98.7 million, which included the payment of a dividend to Centerra's shareholders in May 2011 and proceeds from the issuance of common shares for the exercise of stock options. The Company declared and paid a special dividend of Cdn$0.30 per share and an annual dividend of Cdn$0.10 per share which totaled US$99.3 million.

<u>Six-Month Period Ended June 30, 2011 Compared with the Six-Month Period Ended June 30, 2010</u>

Gold Production and Revenue

Revenue for the first six months of 2011 increased by $86.3 million, or 21%, to $494.0 million compared to $407.7 million in revenue in the same period of 2010 due to higher production levels and an increase in the average spot price of gold. Gold production of 335,882 ounces in the six months of 2011 was slightly higher than the 332,767 ounces reported in the same period of 2010. Production at Kumtor increased to 303,244 from 270,612 due to higher recoveries and throughput. Boroo recorded lower production in 2011 (32,639 compared with 62,155 from the same period last year) due to the processing of lower grade ores from stockpiled pit and heap leach material. Mining operations at Boroo ceased at the end of November 2010. The heap leach process at Boroo remained idle throughput the period waiting for the final operating permit approval. See "Mine Operations – Kumtor" and "Mine Operations – Boroo and Gatsuurt".

The average realized gold price for the first six months of 2011 was $1,452 per ounce compared to $1,143 per ounce in the same period of 2010 reflecting higher spot prices for gold.

Cost of Sales

Cost of sales in the first half of 2011 was $167.7 million, compared to $158.1 million in the same period of 2010. The year over year increase is primarily due to higher operating costs at Kumtor for labour, diesel and other consumables and the impact of lower production levels at Boroo as lower grade and lower recovery ores are processed from pit and heap leach stockpiles.

As a result of the IFRS conversion, cost of sales now includes non-cash depreciation, depletion and amortization in addition to operating cash costs related to the product sold in the period. The comparative period also reflects this change in treatment. Depreciation, depletion and amortization from mine operations for the first six months of 2011 increased to $40.1 million from $38.2 million in the same period of 2010. The increase in 2011 primarily results from the expansion of the mining fleet at Kumtor and the amortization of pre-stripping costs previously capitalized.

The Company's total cash cost per ounce produced for the six months ended June 30, 2011 was $436, slightly down from $441 in the same period in 2010.

Exploration

Exploration costs in the first half of 2011 increased to $18.7 million from $12.1 million in the same period of 2010 mainly reflecting increased drilling activity at the Kumtor property and in Mongolia at the Altan Tsagaan Ovoo (ATO) property and at the Company's joint venture projects.

Taxes

Revenue-based Tax

Under the Restated Investment Agreement, taxes on revenue at Kumtor are charged at a rate of 13% of gross revenue, with an additional contribution of 1% of gross revenue to the Issyk-Kul Oblast Development Fund. Revenue-based tax increased to $63.2 million for the first half of 2011 from $46.6 million for the comparative period of 2010, reflecting an increase in revenue from gold sales in the Kyrgyz Republic and the higher average realized price in the first half of 2011 as compared to the same period in 2010.

Income Tax Expense

An income tax expense for the six-month period ended June 30, 2011 in the amount of $4.7 million was recorded compared to an amount of $5.8 million for the six-month period ended June 30, 2010. The income tax expense in the current period of 2011 and in the comparable period in 2010was recorded in the Mongolian segment, primarily by Boroo and relates to its lower earnings from operations. The income tax rate for Boroo is 25% of taxable income in excess of 3 billion Tugriks (about $2.4 million as at the balance sheet date), and 10% for income up to that amount.

Net Earnings

Net earnings in the first six months of 2011 were $207.7 million, or $0.88 per share, compared to $154.6 million, or $0.66 per share, for the same period in 2010, primarily reflecting higher sales and production.

Capital Expenditures

Capital expenditures spent and accrued of $120.8 million in the first half of 2011 included $15.2 million of sustaining capital and $105.6 million invested in growth capital mainly for the purchase of new haul trucks, new shovels and new drills at Kumtor ($41.9 million), the capitalization of pre-stripping activities at Kumtor ($36.2 million) and the underground development ($21.0 million). Capital expenditures in the comparative period of 2010 totaled $83.8 million, consisting of $19.8 million of sustaining capital and $64.0 million of growth capital.

Cash Flow

Cash flow provided by operations for the first six months of 2011 was $261.0 million compared to $158.8 million in the same period of 2010 reflecting higher net earnings. Cash used in investing activities totaled $236.8 million in the six months of 2011 compared to $98.0 million used in investing activities in the prior year. Spending in 2011 includes an increase in short-term investments of $126.1 million ($14.7 million in 2010) and spending on capital projects of $110.1 million ($78.2 million in 2010). The spending on capital projects relates mainly to Kumtor's expansion of its mobile fleet, the capitalization of pre-stripping activities and the underground project.

Cash and cash equivalents and short-term investments were $464.7 million at June 30, 2011, compared to cash and cash equivalents and short-term investments of $413.0 million at December 31, 2010. The Company believes it has sufficient cash to carry out its operational business plan for 2011.

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Credit and Liquidity

As at June 30, 2011, the Company had an undrawn revolving credit facility available of $150.0 million.

The Company has entered into contracts to purchase capital equipment and operational supplies totaling $128.6 million for its Kumtor operation as at June 30, 2011. This commitment is primarily for the purchase of mobile equipment for future expansion, including 25 CAT 789 haul trucks, 4 drills and 4 shovels totaling approximately $94 million. These contracts are expected to be settled over the next twelve months.

A significant factor in determining profitability and cash flow from the Company's operations is the price of gold. The spot market gold price based on the London PM fix was $1,506 per ounce on June 30, 2011. For the second quarter of 2011, the gold price averaged $1,506 per ounce compared to $1,197 per ounce for the same period in 2010.

The Company receives its revenues through the sale of gold in U.S. dollars. The Company has operations in the Kyrgyz Republic and Mongolia, and its corporate head office is in Toronto, Canada. During the six-month period ending June 30, 2011, approximately $243.5 million of operating and capital costs were incurred by Centerra in currencies other than U.S. dollars, including a dividend distribution from retained earnings, out of a total of $494.0 million in cash outlays. For the first six months of 2011, the percentage of Centerra's non-U.S. dollar costs, by currency, was on average, as follows: 53% in Canadian dollars, 26% in Kyrgyz soms, 11% in Euro, 10% in Mongolian tugriks and 1% in other currencies. From December 31, 2010 to June 30, 2011 against the US dollar, the Canadian dollar appreciated by 2.1%, the Kyrgyz som appreciated by 0.6%, the Euro appreciated by 4.6% and the Mongolian tugrik appreciated by 1.5%. The estimated net impact of these movements over the six-month period to June 30, 2011 has been to increase costs by approximately $4.4 million.

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Asset Retirement Obligations

The total future asset retirement obligations were estimated by management based on the Company's ownership interest in all mines and facilities, estimated costs to reclaim the mine sites and facilities, and the estimated timing of the costs to be incurred in future periods.

The Company has estimated the net present value of the total asset retirement obligations to be $44.1 million as at June 30, 2011 (December 31, 2010 - $40.4 million). During the second quarter of 2011, Kumtor substantially completed the regular update to its closure study which resulted with an increase of $4.6 million to net present value of its obligation which now totals $26.7 million (December 31, 2010 - $22.1 million). The expenditures under this obligation are expected to be made over the 2011 to 2022 period, subject to further extension of mine life. The Company used risk-free discount rates of 3.18% at Kumtor and 2% at Boroo to calculate the present value of the asset retirement obligations.

Boroo will complete its regular update to its closure study later in 2011.

Share capital and share options

As of July 28, 2011, Centerra had 236,103,744 common shares issued and outstanding. In addition, at the same date, the Company had 978,639 share options outstanding under its share option plan with exercise prices between Cdn$4.68 and Cdn$18.31 per share, and with expiry dates between 2014 and 2019.

Gold hedges

The Company had no gold hedges in place in the second quarter of 2011 and no deferred charges were recognized.

Mine Operations

Centerra owns 100% of the Kumtor and Boroo mines and therefore all operating and financial results are on a 100% basis.

	Three Months Ended June 30			Six Months Ended June 30		
Kumtor Operating Results	**2011**	2010	**% Change**	**2011**	2010	**% Change**
Gold sold – ounces	**144,687**	91,204	59%	**310,832**	291,971	6%
Revenue - $ millions	**221.2**	109.8	101%	**451.1**	333.1	35%
Average realized gold price – $/oz	**1,529**	1,204	27%	**1,451**	1,141	27%
Cost of sales - $ millions (1)	**92.9**	59.9	55%	**141.2**	123.8	14%
Cost of sales - $/oz sold (1)	**642**	657	(2%)	**454**	424	7%
Tonnes mined - 000s	**38,271**	28,654	34%	**74,779**	56,191	33%
Tonnes ore mined – 000s	**1,448**	791	83%	**2,036**	2,179	(7%)
Average mining grade - g/t (2)	**2.68**	2.68	0%	**3.97**	4.09	(3%)
Tonnes milled - 000s	**1,545**	1,434	8%	**2,936**	2,900	1%
Average mill head grade - g/t (2)	**3.27**	2.74	19%	**3.68**	3.83	(4%)
Recovery - %	**82.6**	77.5	7%	**82.6**	77.0	7%
Gold produced – ounces	**139,077**	90,050	54%	**303,244**	270,612	12%
Total cash cost - $/oz produced (3) (4)	**507**	639	(21%)	**418**	416	0%
Total production cost - $/oz produced (3) (4)	**615**	763	(19%)	**517**	515	0%
Capital expenditures - $ millions	**46.0**	39.5	17%	**117.9**	62.9	87%
Boroo Operating Results						
Gold sold – ounces	**14,955**	35,593	(58%)	**29,439**	64,665	(54%)
Revenue - $ millions	**22.6**	42.4	(47%)	**42.9**	74.6	(43%)
Average realized gold price - $/oz	**1,513**	1,191	27%	**1,457**	1,153	26%
Cost of sales - $ millions (1)	**13.0**	19.9	(35%)	**26.5**	34.3	(23%)
Cost of sales - $/oz sold (1)	**869**	558	56%	**900**	530	70%
Total Tonnes mined - 000s	-	2,969	(100%)	-	6,062	(100%)
Average mining grade (non heap leach material) - g/t (2)	-	1.66	(100%)	-	1.75	(100%)
Tonnes mined heap leach – 000s	-	577	(100%)	-	1,355	(100%)
Tonnes ore mined direct mill feed -000's	-	736	(100%)	-	1,873	(100%)
Tonnes ore milled - 000s	**510**	615	(17%)	**1,106**	1,238	(11%)
Average mill head grade - g/t (2)	**1.35**	2.05	(34%)	**1.35**	1.98	(32%)
Recovery - %	**70.3**	74.9	(6%)	**65.5**	73.9	(11%)
Gold produced – ounces	**16,089**	31,678	(49%)	**32,639**	62,155	(47%)
Total cash cost - $/oz produced (3)	**568**	549	3%	**607**	550	10%
Total production cost - $/oz produced (3)	**707**	738	(4%)	**756**	739	2%
Capital expenditures - $ millions (Boroo)	**2.4**	3.2	(24%)	**2.5**	3.4	(28%)
Capital expenditures - $ millions (Gatsuurt)	**0.1**	11.9	(99%)	**0.2**	17.3	(99%)

(1) As a result of the IFRS conversion, cost of sales for 2011 and its comparative year now include depreciation, depletion and amortization related to operations.
(2) g/t means grams of gold per tonne.
(3) Total cash cost and total production cost are non-GAAP Measures and are discussed under "Non-GAAP Measures".
(4) As a result of Kumtor's Restated Investment Agreement signed in 2009, total cash cost and total production cost per ounce measures for both years are shown excluding operating and revenue-based taxes.

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Kumtor

The Kumtor open pit mine, located in the Kyrgyz Republic, is the largest gold mine in Central Asia operated by a Western-based producer. It has been operating since 1997 and has produced about 8.1 million ounces of gold. During the second quarter 2011, Kumtor experienced no lost-time recordable injuries and three level I environmental incidents (non-reportable).

In accordance with the mine plan, the focus at Kumtor for the first six months of 2011 was the removal of ice and waste material from the high wall associated with the SB Zone and completing the stripping work necessary to access the higher grade material from cut-back 12B. As a result, Kumtor milled a combination of higher grade material mined in the first half of 2011 and stockpiled material which was built-up during the fourth quarter 2010. Ore from cut-back 12B was uncovered in May 2011 and as a result, Kumtor began amortizing the pre-stripping costs previously capitalized.

The planned removal of ice and waste from the SB Zone continued. Mine operations received the new larger trucks and shovels during the quarter as planned and the production increased accordingly to record levels.

The underground development at Kumtor continued in the second quarter of 2011 with a total advance of 490 metres. Year-to-date total development advance is 891 metres. Decline #1 (SB Zone decline) advanced 193 metres in the second quarter and is now approximately 1.5 kilometres in length. Decline #2 advanced 153 metres in the second quarter towards the SB Zone and totals 807 metres in length. The Stockwork Drive advanced 144 metres in the second quarter to a total length of 429 metres.

In the Stockwork Drive, delineation drilling commenced in the second quarter and exploration drilling continues to test for extensions to the Stockwork Zone. Exploration drilling will be continued in the third quarter from Decline #1 to test the Kumtor structure beneath the Davidoff Glacier and from Decline #2 to test the Saddle Zone. Delineation drilling of the SB Zone is planned for the first quarter of 2012.

Three-Month Period Ended June 30, 2011 Compared with the Three-Month Period Ended June 30, 2010

Revenue and Gold Production

Revenue in the second quarter of 2011 increased to $221.2 million from $109.8 million in the comparative quarter of 2010, primarily as a result of higher sales volumes (144,687 ounces in the second quarter of 2011 compared to 91,204 ounces in the second quarter of 2010) and an increased average realized gold price. The average realized price in the second quarter 2011 was $1,529 per ounce compared to $1,204 per ounce in the same quarter of 2010.

Total tonnes mined in the second quarter of 2011 were 38.3 million tonnes compared to 28.7 million tonnes in the comparative quarter of 2010. The amount of waste material moved increased by 9.6 million tonnes (34%), while ore mined increased by 0.7 million tonnes (83%) as the operations

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reached the ore body from cut-back 12B at the end of May. This represents an additional 9.6 million tonnes (36%) of ore and waste moved compared to the same quarter in 2010. The major factor for this increase was the larger mining fleet which increased by 34 CAT 789 trucks and 4 Liebherr shovels. It is expected that ore production will increase for the remainder of 2011.

Kumtor produced 139,077 ounces of gold in the second quarter of 2011 compared to 90,050 ounces of gold in the comparative quarter of 2010. The increase in production resulted from higher ore mill head grades and recoveries. Mill head grades for the second quarter of 2011 were 3.27 g/t with a recovery of 82.6%, versus 2.74 g/t and a recovery of 77.5% for the same quarter in 2010. Tonnes processed were 1,544,772 versus 1,434,017 or 7.7% higher than the same period in 2010. The increase in tonnage is due to processing consistent ore material which allows for more tonnes per hour and better recovery rates. The majority of the mill feed processed for the second quarter 2011 included ore sourced from cut-back 12A which resulted in a higher head grade and recovery for the quarter.

Cost of Sales

Cost of sales at Kumtor in the second quarter 2011 were $92.9 million compared to $59.9 million in the same quarter of 2010. This is an increase of $33.0 million or 55% compared to the same quarter in 2010, primarily due to the 59% increase in ounces sold in the current quarter of 2011 as compared to the same quarter of 2010 and increased operating costs.

As a result of the IFRS conversion, cost of sales now includes non-cash depreciation, depletion and amortization in addition to operating cash costs related to the product sold in the period. The comparative quarter also reflects this change in treatment. Depreciation, depletion, and amortization increased by $11.0 million over the same quarter in 2010. This increase is predominantly due to higher volumes sold, the increased depreciation of the expanded mining fleet and the amortization of the pre-stripping costs from cut-back 12B. This was partially offset by a credit to cost of sales of $5.2 million from the valuation of previously mined sub-grade ounces now deemed economic as a result of the Company using a higher gold price assumption of $1,000 per ounce to estimate ore reserves for 2011 which lowered the cut-off grade and the impact of the additional reserves announced at the end of 2010 at Kumtor, which reduced the charge in the second quarter 2011 from the assets depreciated on a unit of production basis.

Operating cash costs at Kumtor increased by $23.9 million before the capitalization of $11.2 million for pre-stripping activities (net amount of $12.7 million) for the second quarter of 2011 compared to the same quarter of 2010. This variance can be explained as follows:

Mining costs for the second quarter of 2011 were $52.0 million, an increase of $21.3 million or 69% compared to the same quarter in 2010. The cost increase reflects the higher mining rate achieved during the second quarter of 2011 where 34% more tonnes of waste and ore were moved with Kumtor's expanded mining fleet. The increased mining activity resulted in higher costs for diesel ($9.8 million including a $5.9 million effect due to the price increasing from US$0.55 to US$0.79 cents) national labour costs as a result of a new collective agreement with the unionized national workforce signed in October 2010 ($4.5 million), explosives and blasting accessories ($2.3 million) of which $1.2 million is a result of a higher purchase price and higher maintenance, tire and lubricant costs due to the expanded fleet ($2.0 million), dewatering costs ($0.6 million), Liebherr shovel mechanics costs ($0.5 million), equipment rental costs ($0.3 million) and costs for drilling

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bits ($0.3 million) and other increases of $0.9 million. This was partially offset by the capitalization of mining costs for pre-stripping activities at cut-backs 12B and 14A that will expand future production ($11.2 million).

Milling costs for the second quarter of 2011 were $15.2 million, an increase of $0.4 million or 3% compared to the second quarter of 2010. This was primarily due to an increase in national labour costs ($0.7 million), grinding media ($0.3 million), electricity ($0.2 million) and other cost increases ($0.3 million). The SAG mill liners and drive clutch assembly required replacement in the second quarter of 2010 at a cost of $1.1 million. In 2011, the SAG mill repairs have been scheduled during the first quarter and the early portion of the third quarter. When comparing the two similar periods, year over year the mill has experienced lower overall maintenance costs.

Site administration costs for the second quarter of 2011 were $10.9 million, an increase of $2.1 million or 24% compared to the same quarter of 2010. This was primarily due to an increase in national labour costs ($1.7 million), diesel costs ($0.3 million), equipment rental ($0.3 million) and road service costs due to increased cost of equipment ($0.3 million). This was partially offset by lower insurance costs ($0.3 million).

Costs of sales for the second quarter of 2011 also includes an amount for the potential settlement resulting from an audit by the Kyrgyz Social Fund completed during the current quarter, relating to the calculation of the premium compensation for work conducted at high altitude at the Kumtor project. This is a new interpretation by the Social Fund and is inconsistent with prior audits. An amount of $5.8 million was provided in the quarter representing the mid-point from zero to the estimated maximum amount of $11.6 million (including 2010, the assessed year, and an estimate to June 2011). See “Other Corporate Development – Kyrgyz Republic” for further details.

The ultimate impact of these cost changes on the reported results for cost of sales is dependant on the relative levels of capital and operating activities and the build-up or drawdown of inventories during the periods presented.

Total cash cost per ounce produced in the second quarter 2011 decreased by $132 to $507 per ounce compared to $639 per ounce for the same period in 2010 as a result of 54% higher production due to increased tonnage both mined and processed, higher grades and recovery, which decreased cash costs by $225 per ounce, partially offset by the higher operating costs reflecting rising cost pressure for fuel and labour, which increased cash costs by $93 per ounce. Total cash cost per ounce produced is a non-GAAP measure and is discussed under “Non-GAAP Measures”.

Cost of sale per ounce sold for the second quarter 2011, which now includes the impact of depreciation, depletion and amortization, decreased to $642 per ounce compared to $657 per ounce for the same period in 2010. While the cash cost per ounce decreased by $132 over the same periods mainly due to the increased sales volume in the second quarter of 2011, the cost of sales per ounce sold was not as significantly impacted as a build-up of gold in process inventory in the second quarter of 2010 classified a significant amount of the mining and processing costs in inventory. Depreciation, depletion and amortization per ounce sold increased by $30 due to an expanded asset base, partially offsetting the decrease in costs of sales per ounce sold.

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Kumtor Regional Administration

Bishkek administration costs for the second quarter 2011 were $4.7 million. This is an increase of $1.4 million compared to the same quarter in 2010, primarily due to an increase in national labour costs and withholding obligations on payments to foreign suppliers.

Exploration

Exploration costs at Kumtor for the second quarter 2011 were $2.8 million which is about equal to the same quarter of 2010. Exploration activity in the quarter focused on regional surface work and drilling within the Central Pit.

Capital Expenditures

Capital expenditures in the second quarter of 2011 were $46.0 million compared to $39.5 million in the same quarter of 2010. Current quarter expenditure consisted of $8.0 million of sustaining capital, predominantly spent on the major overhaul program for heavy duty equipment ($5.1 million), tailings dam lift ($1.5 million) and pit dewatering system ($0.6 million). Growth capital investment totaled $38.0 million which was mainly spent on pre-stripping capitalization ($15.1 million), purchases of the new CAT 789 haul trucks ($11.0 million), underground development phase I and II ($9.7 million) underground delineation drilling ($0.5 million), purchase of container handler for BMY ($0.5 million), waste rock dump buttress ($0.3 million) and numerous other projects ($0.9 million).

Six-Month Period Ended June 30, 2011 Compared with the Six-Month Period Ended June 30, 2010

Revenue and Gold Production

Revenue for the first six months of 2011 increased to $451.1 million from $333.1 million in the comparative period of 2010, as a result of both higher sales volumes and the average realized price for gold. Gold sales for the period were 310,832 ounces at an average realized price of $1,451 for the six months of 2011 compared to 291,971 ounces at an average realized price of $1,141 in the comparative period of 2010. The higher average realized gold price per ounce is due to higher gold spot prices.

Kumtor produced 303,244 ounces of gold for the six months of 2011 compared to 270,612 ounces of gold in the same period of 2010. The increase results primarily from higher throughput, more consistent feed grades and higher recovery. The ore grade averaged 3.68 g/t with a recovery of 82.6% for the six month period of 2011, compared to 3.83 g/t with a recovery of 77% in the same period of 2010. Feed grades during the same period in 2010 saw high grades in the first quarter and lower grades in the second quarter, while in 2011, the metallurgical feed grade was very constant and had positive results on the average recovery.

Cost of Sales

Cost of sales at Kumtor for the first six months of 2011 was $141.2 million compared to $123.8 million in the same period of 2010. This is an increase of $17.4 million or 14% compared to the first six months of 2010 primarily as a result of the increase in ounces sold and increased operating costs compared to the same period in 2010.

As a result of the IFRS conversion, cost of sales now includes non-cash depreciation, depletion and amortization in addition to operating cash costs related to the product sold in the period. The comparative period also reflects this change in treatment. Depreciation, depletion, and amortization increased by $5.8 million in the first six months of 2011 over the same period in 2010. This increase is predominantly due to the increased depreciation of the expanded mining fleet, higher volumes sold and the amortization of the pre-stripping costs from cut-back 12B which started in May 2011 when ore was uncovered in this cut-back. This was partially offset by a credit to cost of sales from the valuation of previously mined sub-grade ounces due to the lowering of the cut-off grade from 1 g/t to 0.85 g/t and the impact of the additional reserves announced at the end of 2010 at Kumtor, which reduced the charge in the second quarter 2011 from the assets depreciated on a unit of production basis.

Operating cash costs at Kumtor increased by $41.9 million before the capitalization of $26.9 million for pre-stripping activities (net amount of $15.0 million) for the first six months of 2011 compared to the same period in 2010. This variance can be explained as follows:

Mining costs for the first six months of 2011 were $96.0 million, an increase in costs of $35.4 million or 58% compared to the same period in 2010. The cost increase reflects the higher mining rate achieved during first half of 2011 where 33% more tonnes of waste and ore were moved with Kumtor’s expanded mining fleet. The increased mining activity resulted in increased costs for diesel ($17.9 million) with a $12.0 million effect due to the price increasing from US$0.53 to US$0.80 cents per litre, national labour costs as a result of a new collective agreement with the unionized national workforce signed in October 2010 ($7.9 million), explosives and blasting accessories ($4.5 million) of which $1.8 million is a result of a higher purchase price, maintenance and lubricant costs due to the expanded fleet ($2.7 million), dewatering costs ($0.9 million), Liebherr shovel mechanics ($0.5 million), equipment rental ($0.5 million) and drilling bits ($0.5 million). This was partially offset by the capitalization of mining costs for pre-stripping activities at cut-backs 12B (up to the point of uncovering ore in May 2011) and 14A that will expand future production ($26.9 million).

Milling costs for the first six months of 2011 were $29.7 million, an increase of $1.6 million or 6% when compared to the same period in 2010. This was primarily due to an increase in national labour costs ($1.3 million), grinding media ($0.4 million) and other cost increases ($0.4 million), partially offset by lower maintenance costs relating to the SAG mill liners and drive clutch as a result of deferring the related work to the third quarter of 2011 ($0.5 million).

Site administration costs for the first six months of 2011 were $21.6 million, an increase of $5.0 million or 30% when compared to the same period in 2010. This was primarily due to an increase in national labour ($3.1 million), diesel costs ($0.6 million), food and camp supplies ($0.5 million), equipment rental ($0.4 million), road services due to increased cost of equipment ($0.4 million) and other costs ($0.3 million), partially offset by lower camp catering costs.

An amount of $5.8 million is also included in costs of sales which relates to the potential settlement relating to the Social Fund audit which is currently under dispute. See “Other Corporate Development – Kyrgyz Republic” for further details.

The ultimate impact of these cost changes on the reported results for cost of sales is dependant on the relative levels of capital and operating activities and the buildup or drawdown of inventories during the periods presented.

Total cash cost per ounce produced in the first six months of 2011 remained virtually unchanged at $418 per ounce compared to $416 per ounce for the same period in 2010. The increased cash costs described above (excluding the potential Social Fund settlement) were offset by 12% higher production. Total cash cost per ounce produced is a non-GAAP measure and is discussed under “Non-GAAP Measures”.

Cost of sales per ounce sold, which now includes the impact of depreciation, depletion and amortization, for the first six months of 2011 increased to $454 per ounce compared to $424 per ounce for the same period in 2010. The increased cost of sales per ounce sold reflects higher operating costs and depreciation, partially offset by higher production levels.

Kumtor Regional Administration

Bishkek administration costs for the first six months of 2011 were $8.0 million, $1.4 million or 21% higher than the same period in 2010, primarily due to an increase in national labour costs and withholding obligations on payments to foreign suppliers.

Exploration

Exploration costs for the first six months of 2011 were $6.9 million, $2.3 million or 51% higher than the same period of 2010, reflecting increased drilling activity. As a result, additional costs were incurred in the first half of 2011 for national, contractor and expatriate labour costs ($1.3 million), drilling consumables ($0.4 million), dozer usage for constructing access roads ($0.4 million) and diesel ($0.2 million).

Capital Expenditures

Capital expenditures in the first six months of 2011 were $117.9 million compared to $62.9 million in the same period of 2010. This included $14.7 million of sustaining capital, predominantly spent on the major overhaul program for heavy duty equipment ($10.7 million), tailings dam lift ($1.6 million), pit dewatering system ($0.9 million), Balykchy Marshalling Yard relocation ($0.7 million) and replacement of a grader ($0.5 million). Growth capital investment of $103.2 million was spent on pre-stripping capitalization ($36.1 million), purchase of new CAT 789 haul trucks ($35.0 million), underground development phase I and II ($20.5 million), the purchase of Liebherr shovels ($6.0 million), waste rock dump buttress ($2.1 million), purchase of other mobile equipment ($1.0 million) and numerous other projects ($2.5 million).

Boroo and Gatsuurt

The Boroo open pit mine, located in Mongolia, was the first hard rock gold mine in Mongolia. To date it has produced approximately 1.56 million ounces of gold since beginning of operation in 2004. During the second quarter of 2011, there were no recordable lost-time injuries and six level I environmental incidents (non-reportable).

Boroo completed its mining activities at the end of November 2010. The completion of mining at Boroo and the delays experienced with the commissioning of the Gatsuurt project resulted in the layoff of approximately 250 mining employees who had been scheduled for transfer to the Gatsuurt mine. The Company plans to process the remaining refractory stockpile ore at Boroo through a bio-oxidation facility at the Boroo site which is to be constructed to process the Gatsuurt sulphide ore. Further spending and development of the bio-oxidation facility is subject to receiving all required approvals and regulatory commissioning from the Mongolian Government allowing the Gatsuurt project to move forward.

Heap leach operations at Boroo remain under care and maintenance. The Company continues to work with the Mongolian authorities to obtain the final heap leach operating permit.

The Company continued to process stockpiled ore at Boroo grading 1.35 g/t during the quarter.

During May and June 2011, the Boroo SAG mill motor and related motor control centre had an unscheduled shutdown for 35 days due to an electrical failure. Production continued without any material impact as a result of a SAG mill by-pass which was configured using the ball mill and a stockpile of fine material remaining from the heap leach development.. The SAG mill was restarted in early June following the receipt and replacement of the damaged components with new ones.

Three-Month Period Ended June 30, 2011 Compared with the Three-Month Period Ended June 30, 2010

Revenue and Gold Production

Revenue in the second quarter of 2011 decreased to $22.6 million from $42.4 million in the second quarter of 2010 due to 58% lower ounces sold (14,955 in the second quarter of 2011, compared to 35,593 ounces sold in the same period of 2010) which was partially offset by an increase in the realized gold price. Boroo produced 16,089 ounces of gold in the second quarter of 2011 compared to 31,678 ounces of gold in the second quarter of 2010. The milling operation processed low grade and low recovery ore stockpiled from the pit and heap leach operation during the second quarter 2011. The milling ore grade averaged 1.35 g/t with a recovery of 70.3% in the second quarter of 2011, compared to 2.05 g/t with a recovery of 74.9% in the same quarter of 2010.

The average realized gold price per ounce in the second quarter of 2011 was $1,513 compared to $1,191 in the same period of 2010.

Heap leach operations at Boroo remain under care and maintenance. The Company continues to work with the Mongolian authorities to obtain the final heap leach operating permit. See "Other Corporate Developments- Mongolia".

Cost of Sales

Cost of sales, which now includes non-cash depreciation, depletion and amortization associated with the ounces sold, decreased by $6.9 million in the second quarter of 2011 to $13.0 million compared to the same period of 2010, mainly as a result of lower ounces sold and lower operating costs.

Depreciation, depletion and amortization from operations in the second quarter 2011 totaled $2.9 million, a decrease of $2.7 million or 48% lower than the same period in 2010. The reduction results mainly from the lower sales and production volumes in the second quarter 2011. In addition Pit 3 pre-stripping was being amortized in the second quarter of 2010 (fully amortized in the third quarter of 2010).

Operating cash costs at Boroo decreased by $8.1 million compared to the same period in 2010. This variance is explained as follows:

Mining costs for the second quarter 2011 were $0.2 million, $5.3 million or 96% lower than the same quarter in 2010, as mining operations ceased at the end of November 2010.

Milling costs for the second quarter 2011 were $4.1 million, $1.3 million or 24% lower than the same quarter in 2010. This is primarily the result of lower consumption costs during the SAG mill downtime in the second quarter 2011, lower payroll costs due to a reduction in personnel ($0.2 million) and higher costs in the second quarter 2010 as a result of liner replacements ($0.4 million) not performed in the second quarter 2011. Additionally, lower maintenance related costs were incurred in the second quarter 2011 by $0.3 million, largely from reduced maintenance work performed at the grinding mill and crusher compared to the same period in 2010.

Costs for heap leaching activities were $0.6 million or 92% lower than the same period in 2010, as stacking and crushing activities have been suspended pending issuance of the operating permit.

Site administration costs remained constant at approximately $2.0 million for the second quarter in both years.

Royalties decreased by $0.9 million, primarily due to lower sales as compared to the same period in 2010.

The ultimate impact of these cost changes on the reported results for cost of sales is dependant on the relative levels of capital and operating activities and the buildup or drawdown of inventories during the periods presented.

Total cash cost per ounce produced in the second quarter 2011 was $568 compared to $549 per ounce for the same period in 2010. The increase is a result of lower gold production partially offset by lower operating cash costs. Total cash cost per ounce produced is a non-GAAP measure and is discussed under “Non-GAAP Measures”.

On a unit cost basis, cost of sales per ounce sold, which now includes the impact of depreciation, depletion and amortization, increased to $869 in the second quarter 2011 compared to $558 for the

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same period in 2010 reflecting the lower ounces sold and the completion of pre-strip capitalization in the third quarter 2010.

Boroo Regional Administration

Boroo regional administration costs for the second quarter 2011 were $1.5 million, $0.2 million or 11% lower than the same quarter in 2010, mainly due to lower computer license costs and lower contractors' costs in the second quarter 2011.

Exploration

Exploration expenditures in Mongolia increased to $4.1 million in the second quarter of 2011 from $1.5 million in the same period of 2010, reflecting significant drilling on the Altan Tsagaan Ovoo property in northeast Mongolia.

Capital Expenditures

Capital expenditures spent and accrued at Boroo in the second quarter of 2011 decreased to $2.4 million ($3.2 million in the same period of 2010), mainly as a result of lower mobile equipment component change outs following the completion of mining activities at the end of November 2010. At Gatsuurt, $0.1 million was spent in the second quarter 2011 mainly on contractors' costs, as compared to the same quarter in 2010 where $13.5 million was spent and accrued to advance phases 1 and 2 of the project, which were substantially completed in the second half of 2010.

Six-Month Period Ended June 30, 2011 Compared with the Six-Month Period Ended June 30, 2010

Revenue and Gold Production

Revenue in the first six months of 2011 decreased to $42.9 million from $74.6 million in the same period of 2010 primarily as a result of 54% lower ounces sold (29,439 in the first six months of 2011, compared to 64,665 ounces sold in the same period of 2010) which was partially offset by an increase in the realized gold price.

Boroo produced 32,639 ounces of gold in the first six months of 2011 compared to 62,155 ounces of gold in the same period of 2010. During the first half of 2011, the milling operation processed lower ore grades and had lower recovery from stockpiled material from the pit and heap leach operation. The ore grade averaged 1.35 g/t with a recovery of 65.5% in the first six months of 2011, compared to 1.98 g/t with a recovery of 73.9% in the same period of 2010.

The heap leach operation remained idle in the first six months of 2011, pending issuance of the final permitting by the Mongolian government authorities. The Company continues to work with the Mongolian authorities to obtain the final heap leach operating permit. See "Other Corporate Developments- Mongolia".

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Cost of Sales

Cost of sales, which now includes non-cash depreciation, depletion and amortization associated with the ounces sold, decreased by $7.8 million in the first six months of 2011 to $26.5 million compared to the same period of 2010, mainly as a result of lower sales and production volumes.

Depreciation, depletion and amortization from operations in the second quarter 2011 totaled $6.0 million, a decrease of $3.9 million or 39% lower than the same period in 2010. The reduction results mainly from the lower sales and production volumes in the first half of 2011 and the depreciation of pit 3 pre-stripping in the first half of 2010 which was fully depreciated in the third quarter of 2010.

Operating cash costs at Boroo decreased by $14.1 million over the first six months of 2011. This decrease can be explained as follows:

Mining costs for the first six months of 2011 were $0.8 million, $10.4 million or 93% lower than the same period in 2010, as a result of the completion of mining activities at the end of November 2010.

Milling costs for the first six months of 2011 were $9.7 million, $0.8 million or 8% lower than the same period in 2010 primarily from lower maintenance costs, lower consumption during the SAG mill downtime during the second quarter 2011 and lower payroll cost.

Costs for heap leaching activities were $1.1 million lower than the same period in 2010, as stacking and crushing activities were suspended during the second quarter of 2010 pending issuance of the operating permit.

Site administration costs for the first six months of 2011 were $3.8 million, a decrease of $0.1 million as compared to the same period in 2010.

Royalties decreased by $1.6 million, primarily due to lower sales in the first six months of 2011 compared to the same period in 2010.

The ultimate impact of these cost changes on the reported results for cost of sales is dependant on the relative levels of capital and operating activities and the buildup or drawdown of inventories during the periods presented.

Total cash cost per ounce produced in the first six months of 2011 was $607 compared to $550 per ounce for the same period in 2010. The increase in the unit cash cost of $52 per ounce resulted from the lower ounce production and partially offset by decreased operating costs. Total cash cost per ounce produced is a non-GAAP measure and is discussed under “Non-GAAP Measures”.

On a unit cost basis, cost of sales per ounce sold, which now includes the impact of depreciation, depletion and amortization, increased to $900 in the first half of 2011 compared to $530 for the same period in 2010 reflecting the lower ounces sold and the completion of pre-strip capitalization in the third quarter 2010.

Boroo Regional Administration

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Boroo regional administration costs in the first six months of 2011 were $3.0 million, $0.3 million or 8% lower than the same period in 2010. This is mainly due to lower spending in the 2011 period on contractors' costs.

Exploration

Exploration expenditures in Mongolia increased to $4.9 million in the first six months of 2011 from $2.7 million in the same period of 2010 reflecting significant drilling performed on the Altan Tsagaan Ovoo (ATO) property in northeast Mongolia.

Capital Expenditures

Capital expenditures spent and accrued at Boroo in the first six months of 2011 decreased to $2.4 million ($3.4 million in the same period of 2010), mainly due to lower mobile equipment component change outs as a result of the completion of mining activities in November 2010. At Gatsuurt, $0.2 million was spent in the first six months of 2011 mainly for contractors' costs, as compared to the first half of 2010 when $19.5 million was spent on further development of phases 1 and 2 of the project.

Other Financial Information – Related Party Transactions

Kyrgyzaltyn and the Government of the Kyrgyz Republic

Revenues from the Kumtor gold mine are subject to a management fee of $1.00 per ounce based on sales volumes, payable to Kyrgyzaltyn JSC ("Kyrgyzaltyn"), a shareholder of the Company and a state-owned entity of the Kyrgyz Republic.

The table below summarizes 100% of the management fees paid and accrued by Kumtor Gold Company ("KGC"), a subsidiary of the Company, to Kyrgyzaltyn and the amounts paid and accrued by Kyrgyzaltyn to KGC according to the terms of a Restated Gold and Silver Sale Agreement between Kumtor Operating Company ("KOC", a subsidiary of the Company), Kyrgyzaltyn and the Government of the Kyrgyz Republic entered into in June 2009 as part of the transactions contemplated by the Agreement on New Terms.

($ thousands)	**Three months ended June 30**		**Six months ended June 30**	
	2011	**2010**	**2011**	**2010**
Management fees paid by KGC to Kyrgyzaltyn	**145**	**91**	**311**	**292**
Gross gold and silver sales from KGC to Kyrgyzaltyn	**221,938**	**110,193**	**452,685**	**334,405**
Deduct: refinery and financing charges	**(751)**	**(417)**	**(1,586)**	**(1,298)**
Net sales revenue received by KGC from Kyrgyzaltyn	**221,187**	**109,776**	**451,099**	**333,107**

Gold produced by the Kumtor mine is purchased at the mine site by Kyrgyzaltyn for processing at its refinery in the Kyrgyz Republic pursuant to the Restated Gold and Silver Sale Agreement (the "Sales Agreement"). Under the Sales Agreement, Kyrgyzaltyn is required to pay for gold within 12 calendar days of shipment from the Kumtor mill at a price that is fixed based on the London PM fixed price of gold on the London Bullion Market. The obligations of Kyrgyzaltyn are partially secured by a pledge of 2,850,000 shares of Centerra owned by Kyrgyzaltyn, the value of which fluctuates with the market price of Centerra's shares. Based on movements of Centerra's share price, and the value of individual or unsettled gold shipments, over the course of the three months and six months ended June 30, 2011, the maximum exposure reflecting the shortfall in the value of the security as compared to the value of any unsettled shipments, was nil and $44.8 million over these periods respectively.

As at June 30, 2011, the Company had an amount of $44.1 million receivable from Kyrgyzaltyn (December 31, 2010 - $89 million). Subsequent to June 30, 2011, the balance receivable from Kyrgyzaltyn was paid in full.

Quarterly Results – Last Eight Quarters

Over the last eight quarters, Centerra's results reflect the positive impact of rising gold prices, increased gold production at Kumtor and increasing cash costs. Non-cash costs have also progressively increased in the first two quarters of 2011 as depreciation at Kumtor grew with its expanded capital fleet, the amortization of capitalized stripping and with higher production levels. In the first quarter of 2011 cost of sales was reduced due to the processing of low cost ore stockpiled in the fourth quarter of 2010 when Kumtor accessed and mined high grade material from the central pit. Cost of sales was also impacted by higher costs of labour and diesel in the second quarter of 2011. In addition, Boroo recorded an income tax expense of $4.7 million in the second quarter 2011, including a $1 million tax expense relating from the movement in the quarter of the Tugrik versus the U.S. dollar, reversing the $0.9 million tax recovery recorded in the first quarter of 2011 resulting from the movement in the currencies. The results for the third quarter of 2010 include the gain on sale of the REN exploration property of $34.9 million. The quarterly financial results for the last eight quarters are shown below:

$ millions, except per share data	**2011**		**2010 (1)**				**2009 (2)**	
	Q2	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**
Revenue	244	250	323	120	152	255	324	159
Net earnings (loss)	71	137	151	17	30	124	140	20
Earnings (loss) per share (basic and diluted)	0.30	0.58	0.64	0.07	0.13	0.53	0.60	0.09

(1) revised under IFRS
(2) as reported under Canadian GAAP

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Other Corporate Developments

The following is a summary of current matters affecting the Company and its subsidiaries in the Kyrgyz Republic, Mongolia and Canada. Except for the Kyrgyz Republic Social Fund matter and further developments on the claim by Sistem (both as discussed below), no significant changes have occurred on these matters since the Company's most recent interim disclosure documents published on April 29, 2011.

Kyrgyz Republic

The Company's Kyrgyz Republic operating subsidiary Kumtor Operating Company ("KOC") pays Kyrgyz Republic Social Fund ("Social Fund") contributions in respect of the base wages of its national employees. In late 2010, the Social Fund notified KOC of its position that it should pay contributions to the Social Fund not only in respect of base wages but also in respect of the premium compensation that it is required to pay employees for work at high-altitude. The position of the Social Fund is inconsistent with its past practices and with prior audits of KOC. Following the most recent audit of KOC in respect of the 2010 operating year and completed at the end of June 2011, the Social Fund issued an act (assessment) for approximately $6.7 million for the 2010 period. This amount includes a portion assessed on the employer and an amount assessed on Kumtor's employees. KOC has formally responded to the claim and will continue to vigorously dispute the Social Fund's position and the quantum of the claim. The Company has accrued in its second quarter 2011 accounts $5.8 million in respect of this claim, representing the mid-point from a host of possible outcomes covering the 2010 assessed year and an estimate for the first six months of 2011.

Mongolia

In Mongolia, the Company continued to work with the Minerals Resource Authority of Mongolia ("MRAM") and the Mongolian General Department of Specialized Inspection ("SSIA") with respect to several outstanding issues arising from the inspections at the Boroo mine carried out by the SSIA in mid-2009. During the quarter, the Company also worked with the SSIA in relation to the very significant claim for compensation that the Company received from the SSIA in October 2009 regarding state alluvial reserves covered by the Boroo mine licenses. While Centerra cannot give assurances, it believes that settlement of the outstanding matters and the alluvial claim (which the Company disputes) will be concluded through negotiations and will not result in a material impact.

In March 2010, the Company received a letter from MRAM stating that certain of its mining and exploration licenses, including the Gatsuurt mining licenses, could be revoked under the water basin and forestry law which was enacted by the Mongolian Parliament in July 2009 (the "Water and Forest Law"). Under the Water and Forest Law, mineral prospecting, exploration and mining in water basins and forestry areas in Mongolia would be prohibited, and the affected licenses would be revoked. The legislation provides a specific exemption for "mineral deposits of strategic importance", which would exempt the Boroo mining licenses from the application of the legislation. Centerra's Gatsuurt licenses and its other exploration license holdings in Mongolia however, are currently not exempt. Under the Minerals Law of Mongolia, Parliament on its own initiative or, on the recommendation of the Government, may designate a mineral deposit as strategic. Such designation could result in Mongolia receiving up to a 34% interest in the deposit. The March 2010

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letter requested that the Company provide a preliminary estimate of expenses incurred in relation to each license that could be revoked and the compensation that the Company would expect to receive if such licenses were to be revoked. The Company submitted a detailed estimate to MRAM in March 2010.

In April 2010, the Company received a letter from the Ministry of Mineral Resources and Energy ("MMRE") indicating that the Gatsuurt licenses were within the area designated, on a preliminary basis, as land where mineral mining is prohibited under the Water and Forest Law, and that the MMRE would communicate with the Company further on negotiations with respect to an investment agreement for the Gatsuurt project once the MMRE received additional clarity on the impact of the Water and Forest Law on the Gatsuurt project.

In November 2010, Mongolia's cabinet announced its intention to initiate the revocation of 1,782 mineral licenses under the Water and Forest Law on a staged basis, beginning with the revocation of 254 alluvial gold mining licenses. The Company has four licenses (subsequently clarified to be only three licenses) on the list of alluvial gold mining licenses that may be revoked. None of these licenses are material to the Company. In particular, Centerra's principal Gatsuurt hardrock mining licenses are not on the list of alluvial licenses to be revoked. In accordance with the Water and Forest Law, the Company submitted in February 2011 a formal request for compensation for the three licenses slated to be revoked. The Company has not yet received any further update from the Mongolian regulatory authorities on this matter.

In late 2010, the Mongolian Government announced that it was considering taking the following actions as the next stages of its implementation of the Water and Forest Law:

- preparing and submitting to the cabinet a proposal to designate as "strategic" those deposits, development of which would contribute to regional social and economic development and, at the same time, require significant amounts of compensation;
- revoking all licenses for non-gold mining operations which utilize surface water;
- revoking all 460 gold exploration licenses and providing compensation ;
- revoking all 931 non-gold exploration licenses and providing compensation;
- revoking and providing compensation to all remaining affected mining licenses.

Of the Company's 55 mineral licenses, 36 licenses (including the Gatsuurt hard rock licenses) are included in the 1,782 licenses referred to in the cabinet announcement as subject to staged revocation.

The Company understands that Mongolia's cabinet expects that the Water and Forest Law will take until approximately November 2012 to fully implement. According to statements by officials, the Government estimates that the total compensation due to mining companies for the revocation of their licenses will amount to approximately US$4 billion, which is about equal to Mongolia's annual gross domestic product for 2009.

The Water and Forest Law has attracted opposition from Mongolia's alluvial miners, the Mongolian National Mining Association and other groups. A group of parliamentarians has proposed amendments to the Water and Forest Law to reduce its impact on environmentally-sound mining operations. The Company understands that if the amendments are approved in its submitted form, the Gatsuurt project would be able to proceed. The proposed amendments were discussed in the second quarter of 2011 by a Mongolian parliamentary committee which then referred it to Parliament for further discussion. The Company understands that such discussion is expected to occur in the third or fourth quarter of 2011.

While the Company has continued to receive permits and approvals in connection with the road construction to Gatsuurt and for construction of surface facilities at the project, in November 2010, the Company received a letter from the MMRE indicating that operations at the Gatsuurt project cannot be commenced while the implementation of the Water and Forest Law is being resolved. Accordingly, it is anticipated that further approvals and regulatory commissioning of Gatsuurt will be delayed as a result of the Water and Forest Law.

Centerra is reasonably confident that the economic and development benefits resulting from its exploration and development activities will ultimately result in the Water and Forest Law having a limited impact on the Company's Mongolian activities. There can be no assurance, however, that this will be the case. Unless the Water and Forest Law is repealed or amended such that the law no longer applies to the project or Gatsuurt is designated as a "mineral deposit of strategic importance" that is exempt from the Water and Forest Law, mineral reserves at Gatsuurt may have to be reclassified as mineral resources or eliminated entirely and the Company may be required to write-off the associated investment in Gatsuurt and Boroo. As at June 30, 2011, the Company has net assets recorded amounting to approximately $36 million related to the investment in Gatsuurt and approximately $19 million remaining capitalized for the Boroo mill facility which is expected to be utilized for the processing of ore from Gatsuurt. Although the Company expects to exploit the Gatsuurt deposit, should this not be the case the Company would be required to write-off these amounts. A revocation of the Company's mineral licenses, including the Gatsuurt mineral license, or the reclassification of mineral reserves or the write-off of assets could have an adverse impact on Centerra's future cash flows, earnings, results of operations and financial condition. See "Risk Factors" in the Company's most recently filed Annual Information Form ("AIF").

New Graduated Royalty Fee

In November 2010, the Mongolian Parliament enacted a graduated royalty tax that applies to all mining projects as of January 1, 2011, including the Gatsuurt project when commissioned, the Ulaan Bulag and the ATO prospects. This graduated royalty replaces the previous flat 5% royalty fee on gold. Pursuant to the graduated royalty fee, the royalty rate is tied to the price of gold such that there is a 1% increase in the royalty fee for every $100 increase in the price of gold per ounce above a certain price. In the case of gold, there is a basic 5% royalty fee that applies while gold is less than $900 per ounce. At $900 per ounce the royalty fee increases to 6%, at $1,000 per ounce the royalty is 7%, at $1,100 the royalty is 8%, and at $1,200 the royalty is 9%. The highest royalty fee rate is reached at 10% at $1,300 per ounce and above. For example an ounce of gold sold at $1,000 per ounce would be subject to a royalty of 7% or $70.

The graduated royalty became effective as of January 1, 2011 for all mining projects in Mongolia. On January 19, 2011, the Standing Committee of the State Great Hural of Mongolia issued a resolution to the Government which, among other things, resolved to direct the Government to enter into negotiations to have the graduated royalty structure apply to business entities that have already

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entered into a stability and/or an investment agreement. This would include the Company's Boroo mine which is currently operating pursuant to a stability agreement entered with the Mongolian government. To date, the Company has not received any further word regarding this resolution and whether the Government will act on it. In any event, the Company is of the opinion that the Boroo stability agreement provides, among other things, legislative stabilization for its Boroo operations and accordingly the graduated royalty fee is not applicable to Boroo's remaining operations. However, the Company cannot provide any guarantees that Boroo will not be made subject to the graduated royalty fee. If the graduated royalty fee does apply, it may have an adverse impact on Centerra's future cash flows, earnings, results of operations or financial condition. Regardless of whether the graduated royalty fee applies to the Boroo operation, it will apply to gold produced from the Gatsuurt mine, when developed. See "Risk Factors" in the Company's most recently filed AIF.

Corporate

In March 2011, Centerra was served by a Turkish company, Sistem Muhenkislik Insaat Sanayi Ticaret SA ("Sistem"), with a notice of enforcement to seize any shares and dividends in Centerra held in the name of the Kyrgyz Republic, followed by a notice of garnishment in April 2011 for any debts owed by Centerra to the Kyrgyz Republic (the "Republic"). These notices were served by Sistem through the Sheriff in Toronto as part of the enforcement proceedings brought by Sistem in the Ontario Superior Court to collect approximately US$11 million with additional interest, owed to Sistem by the Republic in accordance with a judgment of the Ontario Superior Court enforcing an international arbitration award against the Republic. In these Ontario proceedings, Sistem alleges that the shares in Centerra owned by Kyrgyzaltyn JSC, and any dividends paid in respect of those shares, are in fact legally and beneficially owned by the Republic and are therefore subject to execution to pay the judgment. Based on legal advice received, Centerra disputes those allegations and maintains that Kyrgyzaltyn JSC alone is the legal and beneficial owner of the shares and any dividends in respect of those shares, based on the applicable legal principles and the binding agreements with Kyrgyzaltyn JSC. As a result, Centerra paid its May 18, 2011 dividend in the total amount of approximately Cdn$31 million to Kyrgyzaltyn JSC. Sistem is continuing with its claim regarding the Centerra shares owned by Kyrgyzaltyn JSC. If this claim is successful in the Ontario court proceedings, Sistem may have a right to execute its judgment against those shares and may assert a claim against Centerra in respect of the payment of the May 18, 2011 dividend after service of the notice of garnishment. However, Centerra believes it has a strong defence to that claim based on the facts and the law. Kyrgyzaltyn JSC is aware of these Ontario proceedings and, when necessary, may elect protect its own interest in the respect of the shares.

Critical Accounting Estimates

Centerra prepares its consolidated financial statements in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board ("IASB"). In doing so, management is required to make various estimates and judgments in determining the reported amounts of assets and liabilities, revenues and expenses for each year presented and in the disclosure of commitments and contingencies. Management bases its estimates and judgments on its own experience, guidelines established by the Canadian Institute of Mining, Metallurgy and Petroleum

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and various other factors believed to be reasonable under the circumstances. In reference to the Company's significant accounting policies, which were fully described in note 3 to the March 31, 2011 Unaudited Condensed Consolidated Interim Financial Statements, management believes the following critical accounting policies reflect its more significant estimates and judgments used in the preparation of the consolidated financial statements.

Inventories of broken ore, heap leach ore, in-circuit gold and gold doré are valued at the lower of average production cost and net realizable value, while consumable supplies and spares are valued at the lower of weighted-average cost and replacement cost. Determination of realizable value or replacement costs requires estimates to be made for costs to complete and sell inventory. Management periodically makes estimates regarding whether an allowance is necessary for slow moving or obsolete consumable supplies and spares inventories.

Depreciation and depletion of property, plant and equipment directly involved in mining and milling operations is primarily calculated using the "unit of production" method. This method allocates the cost of an asset to each period based on current period production as a portion of total lifetime production or a portion of estimated recoverable ore reserves. Estimates of lifetime production and amounts of recoverable reserves are subject to judgment and could change significantly over time. If actual reserves prove to be significantly different than the estimates, there would be a material impact on the amounts of depreciation and depletion charged to earnings.

Mobile equipment and other administrative-type assets are depreciated according to the straight-line method, based on an estimate of their useful lives.

Significant decommissioning and reclamation activities are often not undertaken until substantial completion of the useful lives of productive assets. Regulatory requirements and alternatives with respect to these activities are subject to change over time. A significant change to either the estimated costs or recoverable reserves would result in a material change in the amount charged to earnings.

If it is determined that carrying values of property, plant and equipment cannot be recovered, then the asset is written down to the higher of the value-in-use and fair value less costs to sell. Similarly, Centerra tests goodwill at least annually for impairment to ensure that the fair value remains greater than or equal to book value. Any excess of book value over fair value is charged to income in the period in which the impairment is determined. Recoverability and fair value assessments are dependent upon assumptions and judgments regarding future prices, costs of production, sustaining capital requirements and economically recoverable ore reserves and resources. A material change in assumptions may significantly impact the potential impairment of these assets.

The Company uses the asset and liability method of accounting for deferred income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Deferred income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities, calculated using the currently enacted or substantively enacted tax rates anticipated to apply in the period that the temporary differences are expected to reverse. Deferred income tax inflows and outflows are subject to estimation in terms of both timing and amount of future taxable earnings. Should these estimates change, the carrying value of income tax assets or liabilities may change.

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Grants under Centerra's stock-based compensation plans are accounted for in accordance with the fair-value-based method of accounting. For stock-based compensation plans that will settle through the issuance of equity such as stock options, the fair value of stock options is estimated on the date of grant using the Black-Scholes option pricing model, while for the cash-settled stock-based compensation where performance is compared to a market indicator such as the Gold Index, fair value is determined using the Monte Carlo valuation. These valuation models require the input of certain assumptions including expected share price volatility.

Changes in Accounting Policies

There was no new accounting policies adopted during the three months ended June 30, 2011. The Company adopted the requirements of the International Financial Reporting Standards ("IFRS") in its statements of account as of January 1, 2011.

New Pronouncements

During the second quarter 2011, the IASB issued the following new IFRS standards: IFRS 9 *Financial Instruments*, *IFRS 10 Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities* and IFRS *13 Fair Value Measurement*. The IASB also made amendments and improvements to existing standard, IAS 12 *Income Tax*.

IFRS 9 *Financial Instruments* replaces the current IAS 39 *Financial Instruments Recognition and Measurement.* IFRS 9 added guidance on the classification and measurement of financial liabilities. Under IFRS 9 financial liabilities measured at fair value under the fair value option, changes in fair value attributable to changes in credit risk will be recognized in Other Comprehensive Income ("OCI"), with the remainder of the change recognized in profit or loss. However, if this requirement creates or enlarges an accounting mismatch in profit or loss, the entire change in fair value will be recognized in profit or loss. Amounts presented in OCI will not be reclassified to profit or loss at a later date. IFRS 9 also requires derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument to be measured at fair value. IFRS 9 also added the requirements for de-recognition of financial assets and liabilities without change. This new standard is applicable, for accounting periods beginning January 1, 2013. The Company is assessing the impact of IFRS 9 on its results of operations and financial position and will adopt IFRS 9 in its financial statements effective from January 1, 2013.

IFRS 10 *Consolidated Financial Statements:* IFRS 10 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 10 replaces SIC-12 *Consolidation - Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statements*. The Company intends to adopt IFRS 10 in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect IFRS 10 to have a material impact on the financial statements.

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IFRS 11 *Joint Arrangements*: IFRS 11 provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities - Non-monetary Contributions by Venturers*. This new standard is applicable, for accounting periods beginning January 1, 2013. The Company is assessing the impact of IFRS 11 on its results of operations and financial position and will adopt IFRS 11 in its financial statements effective from January 1, 2013.

IFRS 12 *Disclosure of Interests in Other Entities*: IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles. The required disclosures aim to provide information to enable users to evaluate the nature of, and the risks associated with, an entity's interest in other entities, and the effects of those interests on the entity's financial position, financial performance and cash flows. The Company intends to adopt IFRS 12 in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect IFRS 12 to have a material impact on the financial statements.

IFRS 13 *Fair Value Measurement:* IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income. The Company intends to adopt IFRS 13 in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect IFRS 13 to have a material impact on the financial statements.

Outlook for 2011

Centerra's 2011 consolidated gold production is forecast to be 600,000 to 650,000 ounces. Total cash cost in 2011 is expected to be $460 to $495 per ounce produced. Both production and cash cost guidance are unchanged from the prior guidance disclosed in the Company's news release of April 29, 2011. While the Company is holding its prior guidance for unit costs, we anticipate that rising cost pressure for fuel and labour may result in the cash costs approaching the higher end of guidance. Total cash cost is a non-GAAP measure and is discussed under "Non-GAAP Measures".

The Kumtor mine is expected to produce 550,000 to 600,000 ounces in 2011. Kumtor's total cash cost for 2011 is expected to be $430 to $460 per ounce produced. Both production and cash cost guidance are unchanged from the prior guidance. The Kumtor mill is expected to have a scheduled replacement of the SAG mill discharge trunnion liners at the beginning of the third quarter of 2011 which is expected to require the shutdown of the mill for approximately 3 days.

At the Boroo mine, gold production is forecast to be 50,000 ounces and assumes no mining or heap leach activities in 2011. Boroo total cash cost is expected to be $865 per ounce produced in 2011. Both production and cash cost guidance are unchanged from the prior guidance. The 2011 forecast also assumes no production from the Gatsuurt project due to uncertainties with permitting final approvals and regulatory commissioning. During the first half of 2011, the Boroo mill processed the remaining direct mill feed stockpiled ore with an average grade of 1.35 g/t. For the balance of the year, the Boroo mill is expected to process stockpiled material with grades between 0.76 – 0.87 g/t. At the current reserve gold price assumption of $1,000 per ounce, the Boroo operation could potentially continue to feed the mill until the end of 2012 utilizing existing low-grade stockpiles.

Receipt of the final heap leach operating permit would add approximately 3,500 to 4,000 ounces of gold a month. At Gatsuurt, the project is ready to begin production of the oxide ore on receipt of the final approvals and regulatory commissioning. See also "Other Corporate Developments – Mongolia" and other material assumptions set out below.

Centerra's Production and Unit Cost –2011 Forecast as follows:

	Production *Ounces of gold*	**Total Cash Cost** (1) *$ per ounce*
Kumtor	550,000 – 600,000	430 – 460
Boroo	50,000	865
Total Consolidated	600,000 – 650,000	460 – 495

(1) Total cash cost is a non-GAAP measure. See "Non-GAAP Measures".

2011 Exploration Expenditures

As previously disclosed in the news release of July 11, 2011, the Company has increased the exploration budget for the current year from $34 million to $40 million. $4 million of this additional funding has been allocated for a further work on the ATO property in the northeast Mongolia, which is 100% owned by the Company. The additional funding for the ATO property brings the total planned exploration expenditures in Mongolia to $9 million for target definition and drill programs on the Company's land holdings along the Yeroogol trend and in eastern Mongolia.

The 2011 program will also continue the aggressive exploration work at the Kumtor mine together with an increase in the exploration in the Kumtor district with target definition and drilling programs on the properties acquired in 2010. Planned exploration expenditures in the Kyrgyz Republic are approximately $13 million, which is unchanged from the prior guidance.

In 2011, drilling programs will continue on the Kara Beldyr project in Russia to determine the resource potential of the property. The Kara Beldyr project is a joint venture in which Centerra currently holds an indirect 50% interest. Drilling programs will also continue in Turkey and Nevada. Generative programs will continue in Kyrgyzstan, Mongolia, Russia, China, Turkey and the U.S. to increase the pipeline of projects that the Company is developing to meet the longer term growth targets of Centerra.

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2011 Capital Expenditures

The capital expenditures for 2011 are estimated to be $213 million, including $38 million of sustaining capital and $175 million of growth capital, which is unchanged from the prior guidance.

Capital expenditures include:

Projects	2011 Growth Capital ($ millions)	2011 Sustaining Capital ($ millions)
Kumtor mine	169	36
Mongolia	6	1
Corporate	-	1
Consolidated Total	175	38

Kumtor

At Kumtor, during 2011 total capital expenditures are forecast to be $205 million which includes $36 million of sustaining capital. The largest sustaining capital spending will be on the major overhaul maintenance of the heavy duty mine equipment ($19 million), expenditures for the shear key, buttress and tailings dam construction works ($5 million) and for equipment replacement and other items ($12 million).

Growth capital investment at Kumtor for 2011 is forecast to be $169 million primarily for the purchase of seven CAT 789 haul trucks ($21 million), purchase of remaining equipment for the North Wall expansion project ($28 million), pre-strip costs related to the development of the open pit ($62 million) and a waste dump expansion project ($3 million). Also, $52 million is included in growth capital investment for the underground, of which $43 million has been allocated to advance the two underground declines to continue to develop the SB Zone and Stockwork Zone, as well as, $3 million for delineation drilling and $6 million for capital purchases and other costs.

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<u>Boroo & Gatsuurt (Mongolia)</u>

At Boroo, 2011 sustaining capital expenditures are expected to be $1 million and growth capital is forecast at $5 million primarily for the tailings dam construction to expand the capacity of the Boroo tailings facility to allow treatment of waste.

At Gatsuurt, $1 million is forecast for the environment studies, site maintenance and security of the project site. No other capital for the development of the deeper sulphide ores at Gatsuurt has been forecast and will only be invested following successful regulatory commissioning of the Gatsuurt project. The engineering and construction of a bio-oxidation facility to be located at the Boroo mill, which is needed to treat Gatsuurt sulphide ores, will be restarted only after the approval to begin mining at Gatsuurt has been received from the Government of Mongolia.

Corporate Administration

Corporate and administration expenses for 2011 are forecast at $45 million, which is unchanged from the prior guidance.

Taxes

Pursuant to the Restated Investment Agreement, Kumtor's operations are not subject to corporate income taxes. The agreement replaced the prior tax regime applicable to the Kumtor project with a simplified regime effective January 1, 2008. This simplified regime, which assesses tax at 13% on gross revenue (plus 1% for the Issyk-Kul Oblast Development Fund effective January 2009), was approved and enacted by the Parliament of the Kyrgyz Republic on April 30, 2009.

The corporate income tax rate for Centerra's Mongolian subsidiary, Boroo Gold Company is 25% for taxable income over 3 billion Mongolian tugriks (approximately $2.4 million at the 2010 year-end foreign exchange rate) with a tax rate of 10% for taxable income up to that amount.

Production cost and capital forecasts for 2011 are forward-looking information and are based on key assumptions and subject to material risk factors that could cause actual results to differ materially and which are discussed herein under the headings "Material Assumptions" and "Caution Regarding Forward-Looking Information" and under the heading "Risk Factors" in the Company's most recently filed AIF.

Sensitivities

Centerra's revenues, earnings and cash flows for the second half of 2011 are sensitive to changes in certain variables and the Company has estimated their impact on revenues, net earnings and cash from operations.

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	Change	Impact on ($ millions)			
		Costs	Revenues	Cash flow	Earnings before income tax
Gold Price	**$50/oz**	2.4	15.6	13.2	13.5
Diesel Fuel [1]	**10%**	3.8	-	3.8	3.8
Kyrgyz som	**1 som**	0.9	-	0.9	0.9
Mongolian tugrik	**25 tugrik**	0.2	-	0.2	0.2
Canadian dollar	**10 cents**	2.2	-	2.2	2.2

(1) a 10% change in diesel fuel price equals $13/oz produced

Material Assumptions & Risks

Material assumptions or factors used to forecast production and costs for the second half of 2011 include the following:

- a gold price of $1,400 per ounce,
- exchange rates:
  - $1USD:$0.97 CAD
  - $1USD:45.15 Kyrgyz som
  - $1USD:1,194 Mongolian tugriks
  - $1USD:0.72 Euro
- diesel fuel price assumption:
  - $0.77/litre at Kumtor
  - $1.16/litre at Boroo

The assumed average diesel price of $0.77/litre at Kumtor does not include a customs export duty imposed by the Russian authorities on the diesel fuel exported to the Kyrgyz Republic in 2010. Russia imposed a customs duty of approximately $194 per tonne on gasoline and diesel fuel exports to the Kyrgyz Republic that went into effect on April 1, 2010. The customs export duty amounted to approximately $0.18/litre or $212.77 per tonne of diesel fuel. While there were public statements that the export duty had been revoked retroactive to January 1, 2011, Kumtor had to pay the customs export duty on some of its purchases of diesel fuel from Russia during the first quarter of 2011. However, towards the end of the first quarter and throughout the second quarter, the cost of purchases of diesel fuel did not include the export duty. Based on that, Kumtor's forecast for cash costs has been adjusted to exclude the export duty. Nevertheless, any potential savings from the removal of the customs duty are expected to be fully offset by the increased cost of the diesel fuel as a result of the increase in the price of oil. Should the Russian authorities re-introduce the customs export duty (discussed above) on the diesel fuel exported to the Kyrgyz Republic, the cash costs at

Kumtor would be expected to increase by approximately $9 million on forecasted diesel purchases until the end of 2011.

Diesel fuel is sourced from separate Russian suppliers for both sites and only loosely correlates with world oil prices. The diesel fuel price assumptions were made when the price of oil was approximately $95 per barrel.

Other important assumptions include the following:

- any recurrence of political and civil unrest in the Kyrgyz Republic will not impact operations, including movement of people, supplies and gold shipments to and from the Kumtor mine,
- grades and recoveries at Kumtor will remain consistent with the life-of-mine plan to achieve the forecast gold production,
- the dewatering program at Kumtor continues to produce the expected results and the water management system works as planned,
- the remedial plan to deal with the Kumtor waste and ice movement continues to be successful (see "Kumtor Mine – Geotechnical Issues Affecting the Kumtor Open Pit" in the Company's AIF for the year ended December 31, 2010),
- no unplanned delays in or interruption of scheduled production from our mines, including due to civil unrest, natural phenomena, labour, regulatory or political disputes, equipment breakdown or other developmental and operational risks,
- certain issues at Boroo raised by the General Department of Specialized Inspection ("SSIA") concerning state alluvial reserves, the production and sale of gold from the Boroo heap leach facility and other matters will be resolved through negotiation without material adverse impact on the Company, see "Other Corporate Developments - Mongolia",
- no further suspension of Boroo's operating licenses, and
- all necessary permits, licences and approvals are received in a timely manner.

Production and cost forecasts and capital estimates are forward-looking information and are based on key assumptions and subject to material risk factors. If any event arising from these risks occurs, the Company's business, prospects, financial condition, results of operations or cash flows could be adversely affected. Additional risks and uncertainties not currently known to the Company, or that are currently deemed immaterial, may also materially and adversely affect the Company's business operations, prospects, financial condition, and results of operations or cash flows. See the sections entitled and "Risk Factors" in the Company's most recently filed AIF, available on SEDAR at www.sedar.com and see also the discussion below under the heading "Cautionary Note Regarding Forward-looking Information".

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Non-GAAP Measures

This MD&A presents information about total cash cost of production of an ounce of gold and total production cost per ounce of gold for the operating properties of Centerra. Except as otherwise noted, total cash cost per ounce produced is calculated by dividing total cash costs by gold ounces produced for the relevant period. Total production cost per ounce produced includes total cash cost plus depreciation, depletion and amortization divided by gold ounces produced for the relevant period. Cost of sales per ounce sold is calculated by dividing cost of sales by gold ounces sold for the relevant period. Total cash cost and total production cost per ounce produced, as well as cost of sales per ounce sold, are non-GAAP measures.

Total cash costs include mine operating costs such as mining, processing, administration, royalties and production taxes (except at Kumtor where revenue-based taxes and production taxes are excluded), but exclude amortization, reclamation costs, financing costs, capital development and exploration. Certain amounts of stock-based compensation have been excluded as well. Total production costs includes total cash cost plus depreciation, depletion and amortization. Total cash cost per ounce produced, total production cost per ounce produced and cost of sales per ounce sold have been included because certain investors use this information to assess performance and also to determine the ability of Centerra to generate cash flow for use in investing and other activities. The inclusion of total cash cost per ounce produced and total production cost per ounce produced may enable investors to better understand year-over-year changes in production costs, which in turn affect profitability and cash flow.

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TOTAL CASH COST & TOTAL PRODUCTION COST RECONCILIATION (unaudited) ($ millions, unless otherwise specified)	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
Centerra:				
Cost of sales, as reported	**$ 105.9**	$ 79.8	**$ 167.7**	$ 158.1
Less: Non-cash component	**25.3**	17.0	**40.1**	38.2
Cost of sales - Cash component	**$ 80.6**	$ 62.8	**$ 127.6**	$ 119.9
Adjust for: Refining fees & by-product credits	**(1.3)**	0.1	**(2.2)**	0.1
Regional Office administration	**6.2**	5.0	**11.0**	9.9
Mine standby costs	**0.2**	-	**0.2**	-
Non-operating costs	**(5.8)**	-	**(5.8)**	0.2
Inventory movement	**(0.3)**	7.0	**15.7**	16.5
Total cash cost - 100%	**$ 79.7**	$ 74.9	**$ 146.5**	$ 146.6
Depreciation, Depletion, Amortization and Accretion	**25.5**	17.2	**40.4**	39.0
Inventory movement - non-cash	**(8.3)**	-	**(5.5)**	(0.4)
Total production cost - 100%	**$ 96.8**	$ 92.1	**$ 181.4**	$ 185.2
Ounces poured - 100% (000)	**155.2**	121.8	**335.9**	332.8
Total cash cost per ounce	**$ 513**	$ 616	**$ 436**	$ 441
Total production cost per ounce	**$ 625**	$ 757	**$ 541**	$ 557
Kumtor:				
Cost of sales, as reported	**$ 92.9**	$ 59.9	**$ 141.2**	$ 123.8
Less: Non-cash component	**22.4**	11.4	**34.1**	28.3
Cost of sales - Cash component	**$ 70.5**	$ 48.5	**$ 107.1**	$ 95.5
Adjust for: Refining fees & by-product credits	**(1.3)**		**(2.2)**	
Regional Office administration	**4.7**	3.3	**8.0**	6.6
Mine standby costs	**-**	-	**-**	-
Non-operating costs	**(5.8)**	0.1	**(5.8)**	0.4
Inventory movement	**2.3**	5.6	**19.5**	10.0
Total cash cost - 100%	**$ 70.5**	$ 57.5	**$ 126.7**	$ 112.5
Depreciation, Depletion, Amortization and Accretion	**$ 22.6**	$ 11.6	**$ 34.4**	$ 28.7
Inventory movement - non-cash	**$ (7.6)**	$ (0.4)	**$ (4.3)**	$ (1.9)
Total production cost - 100%	**$ 85.5**	$ 68.7	**$ 156.8**	$ 139.3
Ounces poured - 100% (000)	**139.1**	90.1	**303.2**	270.6
Total cash cost per ounce	**$ 507**	$ 639	**$ 418**	$ 416
Total production cost per ounce	**$ 615**	$ 763	**$ 517**	$ 515
Boroo:				
Cost of sales (cash), as reported	**$ 13.0**	$ 19.9	**$ 26.5**	$ 34.3
Less: Non-cash component	**2.9**	5.5	**6.0**	9.9
Cost of sales - Cash component	**$ 10.1**	$ 14.3	**$ 20.5**	$ 24.4
Adjust for: Refining fees & by-product credits	**(0.0)**	0.1	**(0.0)**	0.1
Regional Office administration	**1.5**	1.7	**3.0**	3.3
Mine standby costs	**0.2**	-	**0.2**	-
Non-operating costs	**-**	(0.1)	**-**	(0.2)
Inventory movement	**(2.6)**	1.4	**(3.8)**	6.5
Total cash cost - 100%	**$ 9.1**	$ 17.4	**$ 19.8**	$ 34.1
Depreciation, Depletion, Amortization and Accretion	**$ 2.9**	5.6	**6.0**	10.3
Inventory movement - non-cash	**$ (0.7)**	0.4	**$ (1.2)**	1.5
Total production cost - 100%	**$ 11.3**	$ 23.4	**$ 24.6**	$ 45.9
Ounces poured - 100% (000)	**16.1**	31.7	**32.6**	62.2
Total cash cost per ounce	**$ 568**	$ 549	**$ 607**	$ 550
Total production cost per ounce	**$ 707**	$ 738	**$ 756**	$ 739

Qualified Person

The scientific and technical information in this document was prepared in accordance with National Instrument 43-101 – *Standards of Disclosure for Mineral Projects* ("NI 43-101") and was reviewed, verified and compiled by Centerra's geological and mining staff under the supervision of Ian Atkinson, Certified Professional Geologist, Centerra's Senior Vice-President, Global Exploration, who is the qualified person for the purpose of NI 43-101.

Cautionary Note Regarding Forward-Looking Information

This MD&A and the documents referred to herein contain statements which are not statements of current or historical facts and are "forward-looking information" within the meaning of applicable Canadian securities laws. Such forward-looking information involves risks, uncertainties and other factors that could cause actual results, performance, prospects and opportunities to differ materially from those expressed or implied by such forward-looking information. Wherever possible, words such as "believe", "expect", "anticipate", "contemplate", "target", "plan", "intends", "continue", "budget", "forecast", "projections", "estimate", "may", "will", "schedule", "potential", "strategy" and other similar expressions have been used to identify forward-looking information. These forward-looking statements relate to, among other things, Centerra's expectations regarding processing the remaining refractory in-situ ore at Boroo through a bio-oxidation facility, the impact of the Water and Forest Law on the Company's Mongolian operations and the potential need to write-off the Company's investments in Gastsuurt and Boroo and reclassify mineral reserves if the Water and Forest Law is not repealed or amended , the timing of the discussion of the Water and Forest Law amendment in the Mongolian Parliament, the application of the Graduated Royalty Fee on the Company's Boroo operations, future growth, results of operations (including, without limitation, future production and sales, and operating and capital expenditures), performance (both operational and financial), business and political environment and business prospects (including the timing and development of new deposits (including the ATO (Altan Tsagaan Ovoo) deposit) and the success of exploration activities), outcome of litigation involving Centerra, the timing for the preparation of an initial resource statement for the Company's ATO property, the timing for mill maintenance and repair work at Boroo, the expected impact on the Company's financial statements as a result of adopting new IFRS standards, the timing of the scheduled SAG mill discharge liners at Kumtor and its impact on production, and opportunities and the discussion under the heading "Outlook for 2011", including the forecasted gold production and cash costs, exploration expenditures and exploration plans.

Although the forward-looking information in this MD&A reflects Centerra's current beliefs as of the date of this MD&A based on information currently available to management and based upon what management believes to be reasonable assumptions, Centerra cannot be certain that actual results, performance, achievements, prospects and opportunities, either expressed or implied will be consistent with such forward-looking information. Forward-looking information is necessarily based upon a number of estimates and assumptions that, while considered reasonable by Centerra, are inherently subject to significant political, business, economic and competitive uncertainties and contingencies. Known and unknown factors could cause actual results to differ materially from those projected in the forward-looking information.

Material assumptions used to forecast production and costs include those described under the heading "Outlook for 2011". Other factors that could cause actual results or events to differ materially from current expectations include, among other things: the sensitivity of the Company's business to the volatility of gold prices; the political risks associated with the Company's operations in the Kyrgyz Republic and Mongolia; the impact of changes in, or more oppressive enforcement of, laws, regulations and government practices in the jurisdictions in which the Company operates; the effect of the November 2010 amendments to the 2006 Mongolian Minerals Law on the royalty payments payable in connection with the Company's Mongolian operations; the effect of the Water and Forest Law on the Company's operations in Mongolia; the impact of continued scrutiny from Mongolian regulatory authorities; in the Kyrgyz Republic the impact of changes to, or the increased enforcement of, environmental laws and regulations relating to the Company's operations; the Company's ability to replace its reserves; ground movements at the Kumtor Mine; waste and ice movement at the Kumtor Mine; litigation; the accuracy of the Company's reserves and resources estimate; the accuracy of the Company's production and cost estimates; the success of the Company's future exploration and development activities; competition for mineral acquisition opportunities; the adequacy of the Company's insurance; environmental, health and safety risks; defects in title in connection with the Company's properties; the impact of restrictive covenants in the Company's revolving credit facility; the Company's ability to successfully negotiate an investment agreement for the Gatsuurt development property to complete the development of the mine and the Company's ability to obtain all necessary permits and commissions needed to commence mining activity at the Gatsuurt development property; seismic activity in the vicinity of the Company's operations in the Kyrgyz Republic and Mongolia; long lead times required for equipment and supplies given the remote location of the Company's properties; illegal mining on the Company's Mongolian properties; the Company's ability to enforce its legal rights; the Company's ability to accurately predict decommissioning and reclamation costs; the Company's ability to obtain future financing; the impact of current global financial conditions; the impact of currency fluctuations; the effect of recent market conditions on the Company's short-term investments; the Company's ability to attract and retain qualified personnel; the Company's ability to make payments including payments of principal and interest on the Company's debt facilities; risks associated with the conduct of joint ventures; risks associated with the Company's largest shareholder, the Kyrgyz government; and possible director conflicts of interest. There may be other factors that cause results, assumptions, performance, achievements, prospects or opportunities in future periods not to be as anticipated, estimated or intended. See "Risk Factors" in the Company's most recently filed AIF available on SEDAR at www.sedar.com.

Furthermore, market price fluctuations in gold, as well as increased capital or production costs or reduced recovery rates may render ore reserves containing lower grades of mineralization uneconomic and may ultimately result in a restatement of reserves. The extent to which resources may ultimately be reclassified as proven or probable reserves is dependent upon the demonstration of their profitable recovery. Economic and technological factors which may change over time always influence the evaluation of reserves or resources. Centerra has not adjusted mineral resource figures in consideration of these risks and, therefore, Centerra can give no assurances that any mineral resource estimate will ultimately be reclassified as proven and probable reserves.

Centerra's mineral reserve and mineral resource figures are estimates and Centerra can provide no assurances that the indicated levels of gold will be produced or that Centerra will receive the gold price assumed in determining its mineral reserves. 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 Centerra believes that these mineral reserve and mineral resource estimates are well established and the best estimates of Centerra's management, by their nature mineral reserve and mineral resource estimates are imprecise and depend, to a certain extent, upon analysis of drilling results and statistical inferences which may ultimately prove unreliable. If Centerra's reserve or reserve estimates for its properties are inaccurate or are reduced in the future, this could have an adverse impact on Centerra's future cash flows, earnings, results or operations and financial condition.

Centerra estimates the future mine life of its operations. Centerra can give no assurance that mine life estimates will be achieved. Failure to achieve these estimates could have an adverse impact on Centerra's future cash flows, earnings, results of operations and financial condition.

There can be no assurances that forward-looking information and statements will prove to be accurate, as many factors and future events, both known and unknown could cause actual results, performance or achievements to vary or differ materially from the results, performance or achievements that are or may be expressed or implied by such forward-looking statements contained in this MD&A. Accordingly, all such factors should be considered carefully when making decisions with respect to Centerra, and prospective investors should not place undue reliance on forward-looking information. Forward-looking information is as of July 28, 2011. Centerra assumes no obligation to update or revise forward-looking information to reflect changes in assumptions, changes in circumstances or any other events affecting such forward-looking information, except as required by applicable law.

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