

**Centerra Gold Inc.**  
**Management’s Discussion and Analysis (“MD&A”)**  
**For the period ended March 31, 2013**

The following discussion has been prepared as of May 8, 2013, 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 months ended March 31, 2013 in comparison with the corresponding period ended March 31, 2012. This discussion should be read in conjunction with the Company’s unaudited interim condensed consolidated financial statements and the notes thereto for the three months ended March 31, 2013. This MD&A should also be read in conjunction with the Company’s audited annual consolidated financial statements for the two years ended December 31, 2012, the related MD&A, the Annual Information Form for the year ended December 31, 2012 (the “2012 Annual Information Form”) and the condensed consolidated interim financial statements issued for the quarter ended March 31, 2013. The condensed interim financial statements of Centerra are prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board and the Company’s accounting policies as described in note 3 of its annual consolidated financial statements for the year ending December 31, 2012 and for the effect of the adoption of new accounting standards on January 1, 2013 as described in note 2 to the Company’s March 31, 2013 condensed interim financial statements. All dollar amounts are expressed in United States (U.S.) dollars, except as otherwise indicated. In addition, this discussion contains forward-looking information regarding Centerra’s business and operations. See “Caution Regarding Forward-Looking Information” in this discussion and “Risk Factors” in the Company’s 2012 Annual Information Form. The Company’s 2012 Annual Report and 2012 Annual Information Form are available at [www.centerragold.com](http://www.centerragold.com) and on the System for Electronic Document Analysis and Retrieval (“SEDAR”) at [www.sedar.com](http://www.sedar.com).

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## Overview

Centerra is a gold mining company focused on operating, developing, exploring and acquiring gold properties primarily in Asia, the former Soviet Union and other emerging markets worldwide. Centerra is a leading North American-based gold producer and is the largest Western-based gold producer in Central Asia.

The Company's significant subsidiaries and jointly-controlled entities include its wholly-owned Kumtor Gold Company in the Kyrgyz Republic, Boroo Gold LLC and Centerra Gold Mongolia LLC (owner of the Gatsuurt property and Altan Tsagaan Ovoo ("ATO") property) in Mongolia, Öksüt Madencilik A.S. in Turkey and its seventy percent interest in the Kara Beldyr Russian joint venture.

Centerra's shares trade on the Toronto Stock Exchange (TSX) under the symbol CG. The Company is headquartered in Toronto, Ontario, Canada.

## Recent Developments Affecting Operations

### Kumtor operations

- As announced on November 7, 2012 Kumtor adopted a new mine plan and mining activities are now focused on the expanded pit. During the first quarter of 2013, Kumtor finalized the shutdown of the underground project incurring a charge of \$1.4 million. No further costs are expected to be incurred on the underground.
- Beginning in mid-March, the rate of movement of the Davidov Valley Waste-rock Dump (Central Valley Waste Dump) increased beyond the anticipated rate, requiring acceleration to the planned demolition of the administration and workshop buildings and relocation of certain other infrastructure. Employees in the affected buildings were moved to temporary work locations until new facilities are constructed. Planned gold production to date has not been affected.
- During the first quarter of 2013, Kumtor's mining fleet focused on unloading ice and fill material and stripping waste to establish access to the east portion of the Kumtor pit (cut-back 15) that is expected to provide high-grade ore at the end of the third quarter of 2013. During the first quarter of 2013, Kumtor's mill processed stockpiled ore that had been mined during the fourth quarter of 2012.
- Since the Company's most recent MD&A prepared as of February 20, 2013, there have been several developments with respect to actions taken by the Kyrgyz Republic Parliament and the Kyrgyz Republic Government that impact upon Kumtor and the agreements that govern the Kumtor Project. See "Other Corporate Developments, Kyrgyz Republic".
- During the first quarter of 2013, Kumtor commissioned two new CAT 789 haul trucks and one Hitachi shovel that were ordered in 2012. The final eight CAT 789 haul trucks are expected to be commissioned by the end of the second quarter of 2013.

## **Boroo operations**

- Mining activities were completed in September 2012.
- The mill processed stockpiled ore during the first quarter of 2013.
- Heap Leach processing activities continued during the first quarter of 2013. Crushing and stacking activities at the heap leach operation resumed at the end of March.

## **Gatsuurt project**

- The Gatsuurt project remained under care and maintenance in the first quarter of 2013 due to continued delays in permitting resulting from the Water and Forest Law which prohibits mining and exploration activities in water basin and forested areas. Further development of the project is subject to resolution of the impact of the Water and Forest Law on the Gatsuurt project, and receiving all required approvals and regulatory commissioning from the Mongolian Government. See “Other Corporate Developments - Mongolia”.

## **Öksüt project**

- The Company completed its purchase of the remaining 30% interest in the Öksüt project in Turkey and became the sole owner of the project on January 24, 2013.

## Consolidated Financial and Operating Highlights

Financial Summary (\$ millions, except as noted)	Three Months Ended March 31		
	2013	2012 Restated <sup>(5)</sup>	% Change
Revenue	\$ 192.3	\$ 133.8	44%
Cost of sales	91.1	79.1	15%
Abnormal mining costs	-	0.7	(100%)
Mine standby costs	-	4.6	(100%)
Regional office administration	5.6	4.8	17%
<b>Earnings from mine operations</b>	<b>95.5</b>	<b>44.6</b>	<b>114%</b>
Revenue-based taxes	20.8	15.1	38%
Other operating expenses	1.9	1.5	30%
Exploration and business development	7.2	8.3	(14%)
Corporate administration	6.7	8.5	(21%)
<b>Earnings from operations</b>	<b>58.9</b>	<b>11.2</b>	<b>424%</b>
Other (income) and expenses	1.3	(0.8)	(260%)
Finance costs	1.3	0.9	40%
<b>Earnings before income taxes</b>	<b>56.3</b>	<b>11.1</b>	<b>406%</b>
Income tax expense	4.9	1.5	228%
<b>Net earnings</b>	<b>\$ 51.4</b>	<b>\$ 9.6</b>	<b>434%</b>
Earnings per common share - \$ basic	\$ 0.22	\$ 0.04	450%
Earnings per common share - \$ diluted	\$ 0.21	\$ 0.04	425%
Weighted average common shares outstanding - basic (thousands)	236,376	236,354	0%
Weighted average common shares outstanding - diluted (thousands)	236,964	237,030	(0%)
Cash provided by operations	92.0	32.0	188%
Capital expenditures <sup>(1)</sup>	103.9	158.4	(34%)
<b>Operating Summary</b>			
Gold produced – ounces	115,220	72,555	59%
Gold sold – ounces	118,745	77,720	53%
Average realized gold price - \$/oz	1,619	1,721	(6%)
Average gold spot price - \$/oz <sup>(2)</sup>	1,631	1,691	(4%)
Cost of sales - \$/oz sold <sup>(3)</sup>	767	1,018	(25%)
Operating cash costs - \$/oz produced <sup>(3) (4)</sup>	471	685	(31%)
All-in cash costs (pre-tax) - \$/oz produced <sup>(3) (4)</sup>	1,327	2,902	(54%)
All-in cash costs (including taxes) - \$/oz produced <sup>(3) (4)</sup>	1,552	3,130	(50%)

- (1) Includes capitalized stripping of \$74.3 million in first quarter of 2013 (\$62.9 million in first quarter of 2012).
- (2) Average for the period as reported by the London Bullion Market Association (US dollar Gold P.M. Fix Rate).
- (3) Operating cash costs is comprised of mine operating costs such as mining, processing, regional office administration, royalties and production taxes (except at Kumtor where revenue-based taxes are excluded), but excludes depreciation, depletion and amortization, reclamation costs, capital investments, community investments, exploration expenses and corporate general and administration expenses. Operating cash costs and all-in cash costs per ounce produced, as well as cost of sales per ounce sold, are non-GAAP measures and are discussed under “Non-GAAP Measures”.
- (4) All-in cash costs per ounce produced includes operating cash costs, sustaining and growth capital, corporate general and administrative expenses, global exploration expenses and community investments. The measure is presented pre and after tax, including or excluding revenue-based taxes at Kumtor and income taxes at Boroo.
- (5) Restated for the impact of new accounting standards adopted January 1, 2013 (see “Changes in Accounting Policies”).

## Results of Operations

### First Quarter 2013 Versus First Quarter 2012

For the first quarter of 2013, the Company recorded net earnings of \$51.4 million, compared to \$9.6 million in the comparative quarter of 2012. The increased earnings reflect 53% higher ounces sold due to higher production at both operations, with higher availability of ore at Kumtor in the first quarter of 2013 as compared to the 2012 first quarter which was negatively affected by a labour strike, and increased output at Boroo with the resumption of heap leach operations. Revenues in the first quarter of 2013 were however negatively impacted by a slight decrease in the realized gold price. In the comparative quarter, the Company was impacted by the acceleration of ice and waste material at Kumtor which required a change in the 2012 mine plan and delayed the access to ore in the SB zone. This resulted in the unplanned removal of ice and waste material in the high movement area, incurring an abnormal mining charge of \$0.7 million in the first quarter of 2012.

#### ***Production:***

Gold production for the first quarter of 2013 totaled 115,220 ounces compared to 72,555 ounces in the comparative quarter. The increase in ounces poured, from the comparative period, was mainly due to the processing of higher grade ore at both Kumtor and Boroo and the resumption of heap leach operations at Boroo. In addition in the comparative quarter, Kumtor processed fewer tonnes due to the 10 day labour dispute.

#### ***Safety and Environment:***

Centerra had two contractor related injuries resulting in lost time during the first quarter of 2013, one occurring at the Kumtor mine operation in Kyrgyzstan and the other occurring at the Öksüt project in Turkey. There were no reportable injuries at the Company's Boroo operation in Mongolia during the first quarter of 2013.

March 31, 2013 marked a milestone for the Boroo Gold Mine, as it achieved over 3 million hours without a lost time injury. The last recorded lost time injury at Boroo occurred in August, 2010.

There were no reportable releases to the environment during the first quarter of 2013.

#### ***Revenue:***

Revenue for the first quarter of 2013, increased to \$192.3 million from \$133.8 million in the comparative quarter of 2012, primarily as a result of higher sales volumes (118,745 ounces in the first quarter of 2013 compared to 77,720 ounces in the first quarter of 2012) that was partially offset by a decrease in average realized gold prices at \$1,619 per ounce compared to \$1,721 per ounce in the same quarter of 2012. The higher sales volumes reflect the increase in production at both operations.

#### ***Cost of sales:***

Cost of sales was \$91.1 million in the first quarter of 2013, compared to \$79.1 million in the comparative period of 2012, mainly as a result of higher sales volumes. Operating costs in the first quarter of 2013 were higher than the comparative quarter reflecting higher labour costs, resulting from inflationary increases from the collective agreements which were finalized in the second half of 2012, and the addition of heap leach costs at Boroo from the resumption of operations.

Depreciation, depletion and amortization associated with production increased to \$40.8 million in the first quarter of 2013 from \$20.3 million in the comparative quarter of 2012 as a result of the higher ounces sold which incurred a greater depreciation cost. The higher depreciation is a result of the higher costs incurred for the expanded mobile fleet at Kumtor and the higher amortization of deferred stripping costs at Kumtor.

***Abnormal mining costs:***

Abnormal mining costs totaled \$0.7 million in the comparative first quarter of 2012, representing the cost of removing the ice and waste from the high movement unload zone, in response to the accelerated movements of ice and waste above the SB zone which became a safety concern. A decision was announced in March 2012 to abandon the existing mine plan in order to remedy these accelerated movements. There were no abnormal mining costs recorded in the first quarter of 2013 as the continuing work to unload and strip the ice and waste material provided an opportunity to expand the pit (announced in November 2012 ) which resulted in the cost of this work being capitalized against future production that will benefit from this work.

***Other operating expenses:***

Other operating expenses for the first quarter of 2013 totaled \$1.9 million compared to \$1.5 million in the comparative quarter of 2012. The 2013 amount includes the final costs to complete the closure of the Kumtor underground project of \$1.4 million and \$0.4 million spent on corporate social responsibility (“CSR”) programs in the Kyrgyz Republic. In the comparative quarter of 2012, the Company incurred \$1.4 million of CSR spending mainly in the Kyrgyz Republic.

***Exploration and business development:***

Exploration and business development expenditures in the first quarter of 2013 totaled \$7.2 million, representing mainly exploration spending (first quarter of 2012 totaled \$8.3 million, including \$7.8 million of exploration). Exploration expenditures in the first quarter of 2013 reflect drilling programs at Kumtor, at the Company’s joint ventures in Russia and at the Öksüt project in Turkey.

***Corporate administration:***

Corporate administration costs in the first quarter of 2013 were \$6.7 million compared to \$8.5 million in the same quarter of 2012, reflecting a lower charge for share-based compensation primarily as a result of the lower price of Centerra’s shares.

***Taxes:***

Centerra reported \$20.8 million in the first quarter of 2013 for revenue-based tax expense at Kumtor compared to \$15.1 million in the same period of 2012, and \$4.9 million in the three-month period ended March 31, 2013 for income tax expense at Boroo compared to \$1.5 million in the same period of 2012.

The increase in revenue-based tax expense reflects the higher volumes sold in 2013 at Kumtor. The increase of \$3.4 million in Boroo’s income tax expense is a result of the higher volumes and higher earnings achieved in the first quarter of 2013.

Revenue-based tax is governed by the Restated Investment Agreement signed with the Kyrgyz Government on June 6, 2009. The agreement assessed tax on Kumtor at a rate of 13% of gross

revenue, plus a monthly contribution of 1% of gross revenue to the Issyk-Kul Oblast Development Fund. Income tax expense at Boroo is calculated based on a Stability Agreement with the Government of Mongolia where an income tax rate of 25% is assessed on taxable income over 3 billion Mongolian Tugriks (MNT) (approximately \$2.1 million at the March 31, 2013 exchange rate) and a tax rate of 10% applicable to taxable income up to that amount. The Boroo Stability Agreement expires in July 2013, after which Boroo's operations will be subject to the prevailing income tax rate of 25%.

Losses incurred by Centerra's entities in the North American segment have not been tax effected and as a result no deferred tax asset has been recognized.

***Net earnings:***

The net earnings in the first quarter of 2013 were \$51.4 million or \$0.22 per common share (basic) compared to \$9.6 million or \$0.04 per common share in the first quarter of 2012, reflecting the higher sales and production volumes in 2013.

**Unit Operating Costs:**

***i) Cost of sales per ounce sold***

Cost of sales per ounce sold in the first quarter of 2013, which includes the impact of depreciation, depletion and amortization (DD&A), decreased to \$767 per ounce sold compared to \$1,018 per ounce sold in the first quarter of 2012 as Kumtor returned to normal production levels and Boroo achieved higher production levels, including production from its newly restarted heap leach operation, which has lower costs than the Boroo mill. The decrease in the cost of sales per ounce sold was due to the increase in gold production in the first quarter of 2013, as Kumtor's comparative period of 2012 was affected by lower grade ore stockpiles and a labour dispute work stoppage. Lower grade material was also processed at Boroo in the comparative period.

***ii) Operating cash costs per ounce produced***

Operating cash cost per ounce produced in the first quarter of 2013 decreased to \$471 compared to \$685 per ounce in the comparative period of 2012 (operating cash cost per ounce produced is a non-GAAP measure and is discussed under "Non-GAAP Measures"). The decrease in 2013 reflects the impact of higher production levels due to higher grades processed at both operations and higher recoveries at Kumtor, lower cash operating costs as Kumtor increased its capitalization of mining costs for stripping and the resumption of lower cost heap leach operations at Boroo.

*iii) All-in cash costs per ounce produced*

**All-in cash costs – Consolidated <sup>(1)</sup>**

<i>\$ millions, except ounces poured</i>	<b>Three Months Ended March 31</b>	
	<b>2013</b>	<b>2012 <sup>(3)</sup></b>
<b>All-in Cash Costs:</b>		
Operating cash costs	<b>54.2</b>	49.7
Capitalized stripping and ice unload - cash	<b>53.4</b>	47.0
<b>Operating cash costs and capitalized stripping</b>	<b>107.6</b>	96.7
Sustaining capital (cash)	<b>13.3</b>	6.1
Growth capital (cash)	<b>16.2</b>	89.4
<b>Operating cash costs including capital</b>	<b>137.1</b>	192.2
Corporate and other cash costs <sup>(2)</sup>	<b>15.8</b>	18.3
<b>All-in Cash Costs - pre-tax</b>	<b>152.9</b>	210.5
Revenue-based tax and income tax	<b>25.9</b>	16.6
<b>All-in Cash Costs - including taxes</b>	<b>178.8</b>	227.1
<b>Ounces poured</b>	<b>115,220</b>	72,555
<b>Operating cash cost - \$/oz produced</b>	<b>471</b>	685
<b>All-in Cash Costs (pre-tax) - \$/oz produced</b>	<b>1,327</b>	2,902
<b>All-in Cash Costs (including taxes) - \$/oz produced</b>	<b>1,552</b>	3,130

(1) All-in cash costs, capitalized stripping (cash) and sustaining and growth capital are non-GAAP Measures and are discussed under “Non-GAAP Measures”.

(2) Corporate and other cash costs include corporate general and administrative expenses, global exploration expenses, and community investments.

(3) Operating cash costs and capitalized stripping for 2012 were restated for the impact of the adoption of IFRIC 20 (see “Changes in Accounting Policies”).

Centerra’s pre-tax all-in cash costs per ounce produced for the first quarter of 2013 was \$1,327, and includes all cash costs directly related to gold production. This compares to pre-tax all-in cash costs of \$2,902 per ounce produced in the first quarter of 2012. The decrease is due to a combination of lower growth and sustaining capital spending and higher production in 2013. The cash costs for capitalized stripping and ice unload activities incurred in the first quarter of 2013 amounted to \$53.4 million compared to \$47 million in the comparative quarter of 2012, reflecting the increased focus on removing ice and waste from the high movement area at Kumtor the cost of which is treated as capital following the decision to expand the pit on November 7, 2012. Growth capital spending (excluding capitalized stripping) decreased from \$89.4 million in the first quarter of 2012 to \$16.2 million in the first quarter of 2013 reflecting the expansion of the mining fleet at Kumtor during 2012.

Including revenue-based taxes in the Kyrgyz Republic and income taxes in Mongolia, the Company’s all-in cash costs per ounce produced for the first quarter of 2013 was \$1,552 compared to \$3,130 in the comparative quarter of 2012.

All-in cash cost per ounce produced is a non-GAAP measure and is discussed under “Non-GAAP Measures”.

## Cash generation & capital investments

### Cash Flow:

\$ millions	Three months ended March 31,		
	2013	2012	% Change
Cash provided by operating activities	92.0	32.0	187%
Cash provided by (used in) investing activities :			
- Capital additions (cash)	(73.7)	(143.8)	(49%)
- Short-term investments redeemed (purchased)	(68.3)	220.2	(131%)
- other investing items	(22.7)	(10.4)	118%
Cash provided by (used in) investing activities - total	(164.7)	66.0	(349%)
Cash used in financing activities	(7.8)	(0.3)	2500%
Increase (decrease) in cash	(80.5)	97.7	(182%)

Cash provided from operations in the first quarter of 2013 totaled \$92 million compared to \$32 million in the same period of 2012, as a result of the increased earnings in 2013 and lower working capital levels.

Working capital, which consists of amounts receivable, prepaid expenses, gold inventory, supplies inventory and accounts payable, decreased in the first quarter of 2013 by \$10.9 million compared to the comparative quarter where working capital decreased by \$1.4 million.

Cash used in investing activities totaled \$164.7 million in the first quarter of 2013 compared to \$66 million of cash generated by investing activities in the comparative quarter. The cash used in investing activities in 2013 primarily included investments in capital projects, purchases of short-term investments and the purchase of the remaining interest in the Öksüt project in Turkey (\$19.7 million net cash). In the comparative quarter of 2012, cash was generated from net proceeds received on the redemption of short-term investments, partially offset by investments in capital projects. Investments in capital projects were \$73.7 million in the first three months of 2013 compared to \$143.8 million in the comparative period of 2012, representing higher spending on growth projects in 2012 mainly on the mobile fleet expansion at Kumtor, partially offset by higher capitalized stripping at Kumtor in the first quarter of 2013. Spending for sustaining capital was higher in the first quarter of 2013 mainly for overhauls at Kumtor. Cash spent on growth capital in the first quarter of 2013, excluding capitalized stripping, totaled \$6.9 million (\$87.9 million in the first quarter of 2012), while \$13.4 million was invested in sustaining capital (\$6.0 million in the first quarter of 2012). Cash spent on capitalized stripping activities totaled \$53.4 million compared to \$49.8 million in the same quarter of 2012. A net amount of \$68.3 million in short-term financial instruments were purchased in the first quarter of 2013, whereas a net amount of \$220.2 million of short-term investments were sold in the comparative period of 2012.

Cash used in financing activities in the first three months of 2013 was \$7.8 million (\$0.3 million in the same quarter of 2012), including a dividend payment of \$6.3 million and payment of interest and commitment fees on Centerra’s credit facility.

Net cash and short-term investments at March 31, 2013 decreased to \$369.9 million from \$382.1 million at December 31, 2012.

**Capital:**

\$ millions	Three months ended March 31,		
	2013	2012	% Change
Capital spent & accrued (Kumtor)	102.2	154.5	(34%)
Capital spent & accrued (Boroo & Gatsuurt)	1.2	3.7	(68%)
Capital spent & accrued (Corporate & Others)	0.5	0.2	0%
Capital spent & accrued (Consolidated)	103.9	158.4	(34%)

Capital expenditures (spent and accrued) in the first three months of 2013 were \$103.9 million as compared to \$158.4 million in the same quarter of 2012. Sustaining capital in the first quarter of 2013 was \$13.3 million (including \$11.7 million at Kumtor and \$1.2 million at Boroo), compared to \$6.1 million in 2012 (including \$5.5 million at Kumtor and \$0.5 million at Boroo). Growth capital, excluding capitalized stripping, was \$16.2 million in the first quarter of 2013, compared to \$89.4 million the prior year, spent mainly on the fleet expansion at Kumtor. Capitalized stripping in the first quarter of 2013 totaled \$74.3 million, as compared to \$62.9 million in the comparative quarter of 2012, spent mainly on stripping activities in cut-backs and in the unload areas at Kumtor, and in Pit 6 at Boroo in the first quarter of 2012.

**Credit and Liquidity:**

On August 8, 2012, the Company drew \$76 million on its \$150 million revolving credit facility with the European Bank for Reconstruction and Development (EBRD), leaving a balance of \$74 million undrawn at March 31, 2013. The drawn amount is due to be repaid on August 8, 2013, or at the Company's discretion repayment of the loaned funds could be extended.

**Foreign Exchange:**

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 quarter, the Company's expenditures (including capital) totaled approximately \$227 million. About \$98 million of this (43%) was in currencies other than the U.S. dollar. The percentage of Centerra's non-U.S. dollar costs, by currency was, on average, as follows: 39% in Kyrgyz soms, 23% in Canadian dollars, 20% in Mongolian tugriks, 13% in Euros, and approximately 5% in Russian Rubles, Australian dollars, Turkish Lira, British pounds, Chinese Yuan, Japanese and Swiss Franc combined. In 2013, the average value of the Russian Ruble appreciated against the U.S. dollar by approximately 0.3%, from the value at December 31, 2012. The Japanese Yen, British Pound, Swiss Franc, Canadian dollar, Kyrgyz Som and Mongolian Tugrik decreased in value against the U.S. dollar by 6.4%, 4.9%, 1.7%, 1.6%, 0.7% and 0.4%, respectively. On average, the value of the Euro, Chinese Yuan, and the Australian dollar remained virtually flat compared to their value at December 31, 2012 with appreciation of 0.1%, 0.1%, and a decline of 0.1%, respectively, against the U.S. dollar. The net impact of these movements in 2013, after taking into account currencies held at the beginning of the year, was to decrease annual costs by \$0.5 million.

***Gold Hedging and Off-Balance Sheet Arrangements:***

The Company had no gold hedges in place as of March 31, 2013.

Centerra does not enter into off-balance sheet arrangements with special purpose entities in the normal course of its business, nor does it have any unconsolidated affiliates.

**Share Capital and Share Options**

As of May 8, 2013, Centerra had 236,376,011 common shares issued and outstanding. In addition, at the same date, the Company had 2,613,098 share options outstanding under its share option plan with exercise prices ranging from Cdn\$4.81 to Cdn\$22.28 per share, and with expiry dates between 2016 and 2021.

## Results of Operating Segments

### **Kumtor Mine**

The Kumtor open pit mine, located in the Kyrgyz Republic, is the largest gold mine in Central Asia operated by a Western-based gold producer. It has been in production since 1997 and has produced over 8.8 million ounces of gold to March 31, 2013.

### **Waste-Rock Dump Movement**

On May 3, 2013, the Company announced that a large section of Kumtor's principal waste-rock dump, the Davidov Valley Waste-rock Dump (Central Valley Waste Dump), was experiencing a greater than anticipated rate of movement. Beginning in mid-March, the rate of movement of the waste-rock dump increased beyond the anticipated rate, requiring acceleration to the planned demolition of the administration and workshop buildings and the relocation of certain other infrastructure. Employees in the affected buildings were moved to temporary work locations while new planned facilities are constructed. The movement of the Davidov Valley Waste-rock Dump and the demolition of buildings and relocation of other affected infrastructure is described in the Kumtor Technical Report (December 20, 2012) and in the life-of-mine plan.

As a result of this increase in movement, the Company has discontinued deposition of waste-rock on the affected portion of the Davidov Valley Waste-rock Dump (Central Valley Waste Dump). In the short-term, the Company is placing waste-rock on permitted sites currently unaffected by the movement. An alternative long-term waste-rock dumping plan is being finalized. The Company is working with the Kyrgyz regulatory authorities and external engineering advisors to expedite approval of such a plan. Based on discussions with the authorities to date, the Company believes that such approvals are likely to be forthcoming however no assurances can be provided.

The Government has established a special commission, which has visited the Kumtor mine site and inspected the waste-rock dump movement. The Company is fully cooperating with the commission.

While the Company expects that it will be able to develop alternative plans that will permit the mine to continue planned operations and that such alternative plans will receive prompt regulatory approval from the Kyrgyz authorities, the Company cannot give assurances in this regard. In the event that an alternative plan cannot be developed or approved promptly, the Company would expect a negative impact on its mine operations, production and financial results.

<b>Kumtor Operating Results</b>	<b>Three months ended March 31</b>		
	<b>2013</b>	<b>2012</b>	<b>% Change</b>
Tonnes mined - 000s	<b>40,184</b>	30,746	31%
Tonnes ore mined - 000s	<b>209</b>	63	232%
Average mining grade - g/t <sup>(1)</sup>	<b>2.45</b>	1.33	85%
Tonnes milled - 000s	<b>1,473</b>	1,252	18%
Average mill head grade - g/t <sup>(1)</sup>	<b>2.69</b>	1.98	36%
Recovery - %	<b>74.1</b>	72.6	2%
Gold produced – ounces	<b>89,618</b>	60,707	48%

(1) g/t means grams per tonne.

## Overview of Operating Results – First Quarter of 2013 Versus 2012

With mining activities focused on accelerating the unloading of ice and waste from the high movement area, Kumtor processed from stockpiles during the first quarter of 2013.

The total mined for the first quarter of 2013 was 40.2 million tonnes compared to 30.7 million tonnes in the comparative quarter of 2012, representing an increase of 31% due to the increased capacity of the expanded fleet compared to the comparative period. The first quarter of 2012 was negatively affected by the ten day work stoppage and subsequent delays in re-starting the equipment due to the extremely cold weather. Kumtor accessed incidental ore in the northern zone of cut-back 15 during the first quarter of 2013 which resulted in 0.2 million tonnes of ore at a grade of 2.45 g/t being mined. The progress achieved during the first quarter of 2013 is expected to provide access to high-grade ore in cut-back 15 at the end of the third quarter of 2013. Approximately 55% of Kumtor's gold production is expected to occur in the fourth quarter of 2013.

Kumtor produced 89,618 ounces of gold for the first quarter of 2013 compared to 60,707 ounces of gold in the comparative quarter of 2012. The increase in ounces poured was mainly due to the processing of higher grade ore that was mined and stockpiled during the fourth quarter of 2012. During the first quarter of 2013, Kumtor's head grade was 2.69 g/t with a recovery of 74.1%, compared with 1.98 g/t and a recovery of 72.6% for the same quarter in 2012. Tonnes processed were approximately 1.5 million for the first quarter of 2013, 18% higher than the comparative period in 2012 as a result of lower mill operating time due to the ten day work stoppage and resulting re-start period.

The recent movement in the waste-rock dump, which began in mid-March 2013, has accelerated the planned relocation of certain mine infrastructure. The rate of acceleration is being monitored and an alternative long-term waste-rock dumping plan is being finalized.

	Three months ended March 31		
	2013	2012 <sup>(4)</sup>	% Change
<b>Kumtor Cost Performance</b>			
<b>Operating cash costs (\$ millions):</b>			
Mining - including capitalized stripping and abnormal mining costs	<b>59.7</b>	50.1	19%
Mining - excluding capitalized stripping and abnormal mining costs <sup>(1)</sup>	<b>6.3</b>	5.9	6%
Milling	<b>15.8</b>	13.5	17%
Site support	<b>14.4</b>	11.7	23%
Bishkek administration	<b>4.1</b>	3.4	21%
Mine stand-by costs	<b>0.0</b>	4.6	460%
Management fees and other	<b>0.1</b>	0.1	64%
Refining fees	<b>0.5</b>	0.3	75%
By-product credits	<b>(0.6)</b>	(0.5)	40%
Operating cash costs	<b>40.5</b>	39.0	4%
<b>Non-cash DD&amp;A costs</b>	<b>5.9</b>	12.2	(52%)
Total production costs	<b>46.5</b>	51.2	(9%)
<b>Unit operating costs</b>			
Mining costs (\$/t mined material)	<b>1.49</b>	1.63	(9%)
Milling costs (\$/t milled material)	<b>10.72</b>	10.74	(0%)
Operating cash costs (\$/t milled material)	<b>27.52</b>	31.11	(12%)
Operating cash costs (\$/oz produced) <sup>(2)</sup>	<b>452</b>	642	(30%)
All-in cash costs (pre-tax) - \$/oz produced <sup>(2)(3)</sup>	<b>1,359</b>	2,934	(54%)
All-in cash costs (including taxes) - \$/oz produced <sup>(2)(3)</sup>	<b>1,591</b>	3,183	(50%)

(1) Mining costs charged to operations reduced by amounts charged to capital for stripping and amounts accounted for as abnormal mining costs.

(2) Operating cash costs and all-in cash costs per ounce produced are non-GAAP Measures and are discussed under “Non-GAAP Measures”.

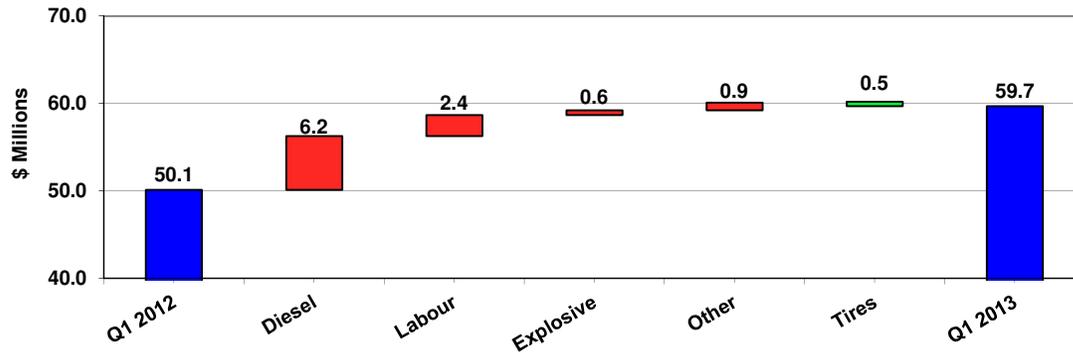
(3) All-in cash costs per ounce produced is calculated and discussed on page 17.

(4) Operating cash costs for 2012 were restated for the impact of the adoption of IFRIC 20 (see “Changes in Accounting Policies”).

Operating cash costs at Kumtor (see “Non-GAAP Measures”) in the first quarter of 2013 increased by \$1.5 million to \$40.5 million, excluding the capitalization of stripping activities and the expensing of unloading activities (increased by \$10.7 million including capitalization and unloading expense), compared to \$39.0 million in the comparative quarter of 2012.

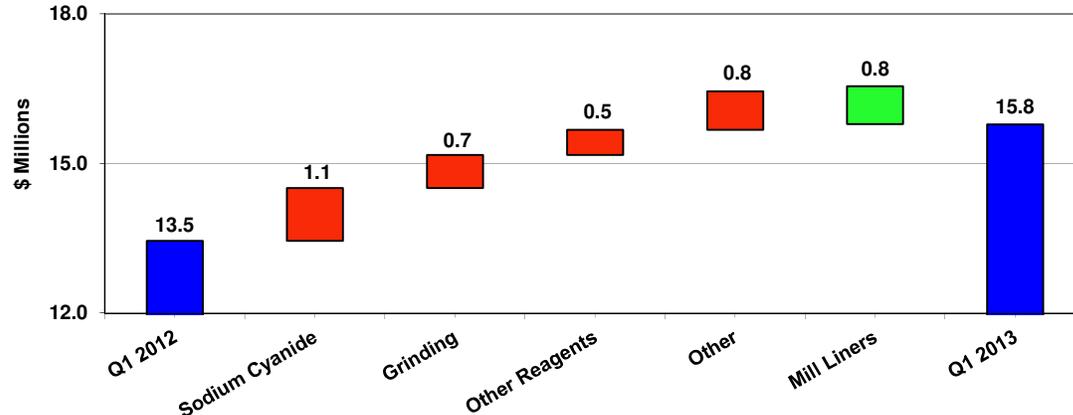
The movements in the major components of operating cash costs (mining, milling and site support) are explained as follows:

**Mining Costs – Kumtor, including capitalized stripping and abnormal mining costs (First Quarter 2013 compared to the First Quarter 2012):**



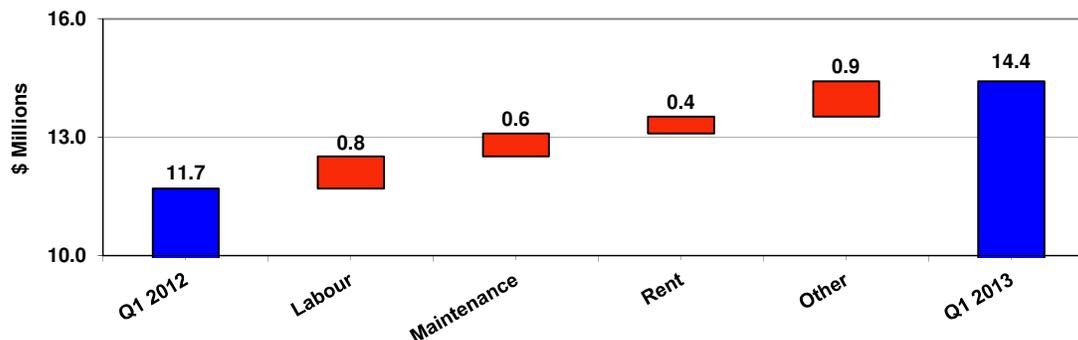
The increased cost of mining activities is primarily related to the increased operating days as the comparative period was affected by the work stoppage that reduced the operating time of the mining fleet, resulting in a reduction of consumables such as diesel, tires and maintenance work. Labour costs in the first quarter of 2013 increased as a result of the New Collective Bargaining Agreement ratified in December 2012.

**Milling Costs– Kumtor (First Quarter 2013 compared to the First Quarter 2012):**



Milling costs were higher in the first quarter of 2013 due to higher amount of material processed as the comparative period was affected by the ten day work stoppage that reduced the mill’s operating time. Other major cost increases are cyanide costs (increased by 15%) and increased usage of grinding media. This was partially offset by deferring mill liner replacements as these were done during the major shutdown that occurred in the third quarter of 2012.

## Site support costs – Kumtor (First Quarter 2013 compared to First Quarter 2012):



Site support costs increased primarily due to higher labour costs as a result of the new Collective Agreement and resulted in higher salaries and the increased number of days worked in the first quarter of 2013 (\$0.8 million), increased maintenance requirements on equipment and camp (\$0.6 million) and rent costs for temporary fuel storage to accommodate increased fuel volumes (\$0.4 million).

## Unit operating costs - Kumtor

### Operating cash cost per ounce produced - Kumtor

Operating cash cost per ounce produced in the first quarter of 2013 decreased to \$452 compared to \$642 per ounce in the comparative period of 2012. The decrease in 2013 reflects the impact of higher production levels, as a result of processing material with higher mill head grades and recoveries. This was partially offset by higher operating costs as explained previously.

## All-in cash costs - Kumtor

	2013		2012 <sup>(3)</sup>	
	\$ millions	(\$ per ounce produced)	\$ millions	(\$ per ounce produced)
<b>All-in Cash Costs<sup>(1)</sup>:</b>				
Operating cash costs	40.5	\$452	39.0	\$642
Capitalized stripping and ice unload - cash <sup>(1)</sup>	53.4	\$596	44.2	\$728
<b>Operating cash costs and capitalized stripping</b>	<b>93.9</b>	<b>\$1,048</b>	83.2	\$1,370
Sustaining capital (cash)	11.7	\$131	5.5	\$91
Growth capital (cash)	16.1	\$180	89.4	\$1,473
<b>Operating cash costs including capital<sup>(1)</sup></b>	<b>121.7</b>	<b>\$1,359</b>	178.1	\$2,934
<b>Corporate and other cash costs<sup>(2)</sup></b>	-	-	-	-
<b>All-in Cash Costs (pre-tax)<sup>(1)</sup></b>	<b>121.7</b>	<b>\$1,359</b>	178.1	\$2,934
Revenue-based tax	20.8	\$232	15.1	\$248
<b>All-in Cash Costs (including taxes)<sup>(1)</sup></b>	<b>142.5</b>	<b>\$1,591</b>	193.2	\$3,183

- (1) All-in cash costs, capitalized stripping –cash and sustaining and growth capital are non-GAAP Measures and are discussed under “Non-GAAP Measures”.
- (2) Corporate and other cash costs include corporate general and administrative expenses, global exploration expenses and community investments which are reflected with the all-in cash cost amounts reported at the consolidated level.
- (3) Operating cash costs and capitalized stripping for 2012 were restated by the impact on adoption of IFRIC 20 (see “Changes in Accounting Policies”).

Kumtor’s pre-tax all-in cash costs per ounce produced for the first quarter of 2013 was \$1,359, and includes all cash costs directly related to gold production, except for revenue-based taxes. This compares to pre-tax all-in cash costs of \$2,934 per ounce produced in the comparative period of 2012. The decrease is due to both higher production and a reduction in growth capital spending. During the comparative period Kumtor expanded the mining fleet at a cost of \$77.1 million or \$1,270 per ounce produced. The impact of the expanded mining fleet in 2012 was partially offset by lower operating costs and capitalized stripping as the operating time in 2012 was reduced by ten days due to the work stoppage.

Including revenue-based taxes, Kumtor’s all-in cash costs per ounce produced for the first quarter of 2013 was \$1,591 compared to \$3,183 in the comparative quarter of 2012.

All-in cash cost per ounce produced is a non-GAAP measure and is discussed under “Non-GAAP Measures”.

## Boroo Mine

The Boroo open pit mine, located in Mongolia, was the first hard rock gold mine in Mongolia. It has produced approximately 1.66 million ounces of gold since it began operation in 2004.

Boroo Operating Results	Three months ended March 31		
	2013	2012	% Change
Total tonnes mined - 000s	-	1,920	(100%)
Tonnes ore milled - 000s	572	590	(3%)
Average mill head grade - g/t <sup>(1)(2)</sup>	1.54	0.77	100%
Recovery (mill) - % <sup>(1)</sup>	54.0%	79.2%	(32%)
Tonnes placed (heap leach) - 000s	268	-	-
Tonnes under leach - 000s	1,803	-	-
Grade leached - g/t <sup>(2)</sup>	0.63	-	-
Recovery (heap leach) - %	29.7%	-	-
Gold produced – mill (ounces)	15,230	11,848	29%
Gold produced – heap leach (ounces)	10,372	-	-
Total gold produced (ounces)	25,602	11,848	116%

(1) Excludes heap leach ore.

(2) g/t means grams per tonne.

### Overview of Operating Results - 2013 Versus 2012

Boroo produced 25,602 ounces of gold in the first quarter of 2013 compared to 11,848 ounces of gold in the first quarter of 2012. The increase in gold production was mainly due to the resumption of activities at the heap leach operation and the processing of higher grades of ore through the mill, partially offset by lower recoveries in 2013. Mill grades averaged 1.54 g/t with a recovery of 54% in 2013, compared to 0.77 g/t with a recovery of 79% in the first quarter of 2012.

Boroo processed ore in the first quarter of 2013 which was refractory in nature, resulting in lower recoveries (54% compared to 79.2%) than during the same period of 2012 when the mill processed non-refractory lower grade ore.

	Three months ended March 31		
	2013	2012	% Change
<b>Boroo Cost Performance</b>			
<b>Operating cash costs (\$ millions):</b>			
Mining - including capitalized stripping	-	2.8	(100%)
Mining - excluding capitalized stripping	-	-	-
Milling	5.7	5.9	(4%)
Leaching	2.5	0.0	100%
Site support	2.1	2.0	3%
Ullaanbaatar administration	1.5	1.4	7%
Production taxes and royalties	2.5	1.3	92%
Refining fees	0.1	0.0	100%
By-product credits	(0.1)	(0.1)	11%
Other	(0.6)	0.0	(100%)
Operating cash costs	13.7	10.7	28%
<b>Non-cash DD&amp;A costs</b>	7.2	1.8	294%
Total production costs	20.8	12.5	66%
<b>Unit operating costs</b>			
Milling costs (\$/t milled material)	9.92	10.06	(1%)
Operating cash costs (\$/t milled material)	23.93	18.18	32%
Operating cash costs (\$/oz produced) <sup>(1)</sup>	535	905	(41%)
All-in cash costs (pre-tax) - \$/oz produced <sup>(1)(2)</sup>	582	1,179	(51%)
All-in cash costs (including taxes) - \$/oz produced <sup>(1)(2)</sup>	782	1,311	(40%)

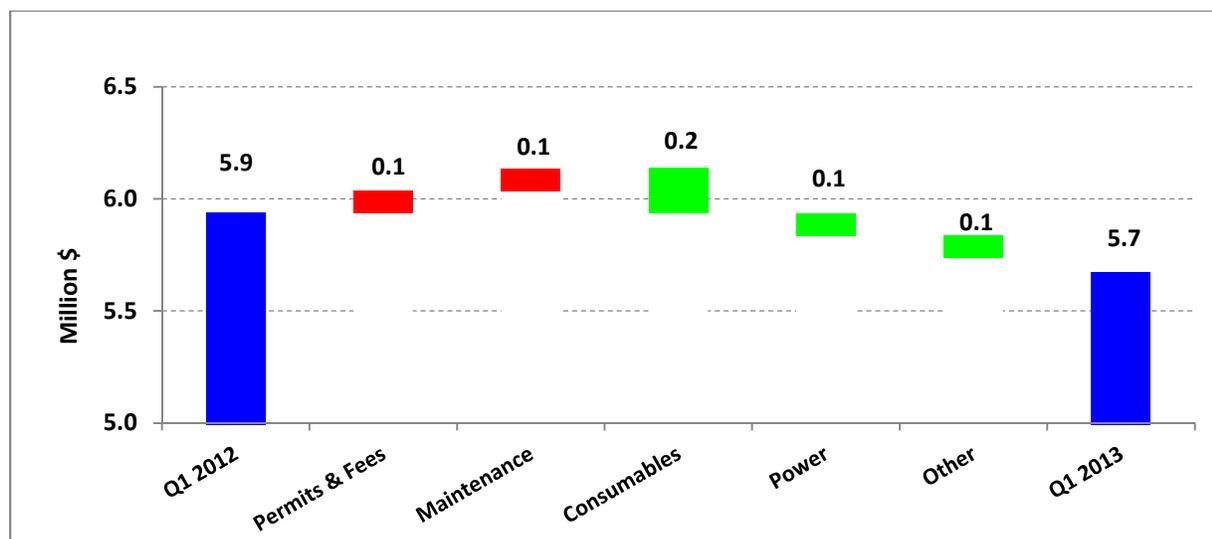
(1) Operating cash costs and all-in cash costs per ounce produced are non-GAAP Measures and are discussed under "Non-GAAP Measures".

(2) All-in cash costs per ounce produced is calculated and discussed on page 21.

Operating cash costs at Boroo (see "Non-GAAP Measures") increased by \$3 million in the first three months of 2013, excluding the capitalization of stripping costs at Pit 6 (\$0.2 million including capitalization), compared to the same period in 2012.

The movements in the major components of operating cash costs (milling and site support) are explained as follows:

## Milling costs – Boroo (First Quarter 2013 compared to First Quarter 2012):



Milling costs in the first quarter of 2013 were lower than the same period of 2012 reflecting lower operating costs for consumables as a result of lower tonnage milled in 2013 versus 2012. The decrease in other costs was mainly due to lower mine equipment costs incurred for stockpile re-handle. These favorable variances were partially offset by higher permits and fees, and higher maintenance costs incurred for rebuilding the pre-leach CIL pumps.

### Site support costs – Boroo:

Site support costs for the first quarter of 2013 increased slightly to \$2.1 million (\$2.0 million in 2012) due to a salary increase prescribed by the Collective Agreement which was ratified in July 2012.

Boroo regional administration costs in 2013 were \$1.5 million, \$0.1 million or 7% higher than in 2012. This was also largely due to higher payroll related costs.

### Other operating costs:

#### *Heap leach*

Costs for heap leaching activities in the first quarter of 2013 were \$2.5 million compared to no costs during the same period of 2012, as the operation was idle. Boroo resumed heap leaching activities in October 2012 following the receipt of operating permits from the Mongolian Government.

#### *Royalties*

Production taxes and royalties increased in the first quarter of 2013 to \$2.5 million compared to \$1.3 million in the first quarter of 2012 as a result of higher gold sales revenue.

## Unit operating costs – Boroo

### Operating cash costs per ounce - Boroo

Operating cash costs per ounce produced in the first quarter of 2013 was \$535 compared to \$905 per ounce in the same period of 2012. The decrease of 41% was a result of a 116% increase in production partially offset by higher operating costs resulting primarily by the resumption of heap leaching operations. Total operating cash costs per ounce produced is a non-GAAP measure and is discussed under “Non-GAAP Measures”.

### All-in cash costs - Boroo

	Three months ended March 31			
	2013		2012	
	\$ millions	(\$ per ounce produced)	\$ millions	(\$ per ounce produced)
<b>All-in Cash Costs <sup>(1)</sup>:</b>				
Operating cash costs	13.7	\$535	10.7	\$905
Capitalized stripping - cash <sup>(1)</sup>	-	-	2.8	\$234
<b>Operating cash costs and capitalized stripping</b>	<b>13.7</b>	<b>\$535</b>	13.5	\$1,139
Sustaining capital (cash)	1.2	\$47	0.5	\$40
Growth capital (cash)	-	-	-	-
<b>Operating cash costs including capital <sup>(1)</sup></b>	<b>14.9</b>	<b>\$582</b>	14.0	\$1,179
Corporate and other cash costs <sup>(2)</sup>	-	-	-	-
<b>All-in Cash Costs (pre-tax) <sup>(1)</sup></b>	<b>14.9</b>	<b>\$582</b>	14.0	\$1,179
Income tax	5.1	\$200	1.6	\$132
<b>All-in Cash Costs (including taxes) <sup>(1)</sup></b>	<b>20.0</b>	<b>\$782</b>	15.5	\$1,311

(1) All-in cash costs, capitalized stripping –cash and total capital are non-GAAP Measures and are discussed under “Non-GAAP Measures”.

(2) Corporate and other cash costs include corporate general and administrative expenses, global exploration expenses and community investments which are reflected with the all-in cash cost amounts reported at the consolidated level.

Boroo’s pre-tax all-in cash costs per ounce produced for the first quarter of 2013 was \$582 and included all costs directly related to gold production except for income tax paid in Mongolia. The same pre-tax all-in cash costs measure for the first quarter of 2012 was \$1,179 per ounce produced. The decrease in the all-in cash costs was primarily the result of the increase in production, reflecting the resumption of heap leaching operations and no mining activity in the first quarter of 2013. In the comparative quarter of 2012, mining costs accounted for \$234 per ounce produced.

Including income tax, Boroo’s all-in cash costs per ounce produced for the first quarter of 2013 was \$782 compared to \$1,311 in the comparative quarter of 2012. All-in cash cost per ounce produced is a non-GAAP measure and is discussed under “Non-GAAP Measures”.

Operating cash costs increased by \$3 million to \$13.7 million in the first quarter of 2013 compared to 2012, as a result of the restart of the heap leach operation. There were no costs incurred for capitalized stripping in the first quarter of 2013 as compared to \$2.8 million, accounting for \$234 per ounce, in the first quarter of 2012. Capital expenditures (cash), excluding capitalized stripping, increased from \$0.5 million (\$40 per ounce) in the first quarter of 2012 to \$1.2 million (\$47 per ounce) in the same period in 2013, reflecting increased spending in 2013 on tailings dam construction (\$0.3 million) and on mobile component change-outs (\$0.4 million).

## **Other Financial Information – Related Party Transactions**

### **Kyrgyzaltyn JSC**

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 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 Sales Agreement between KGC, Kyrgyzaltyn and the Government of the Kyrgyz Republic dated June 6, 2009 (the “Gold Sales Agreement”).

(\$ thousands)	Three months ended March 31	
	2013	2012
Management fees paid by KGC to Kyrgyzaltyn	\$ 92	\$ 62
Gross gold and silver sales from KGC to Kyrgyzaltyn	149,207	108,026
Deduct: refinery and financing charges	(514)	(294)
Net sales revenue received by KGC from Kyrgyzaltyn	148,693	107,732
Dividends declared to Kyrgyzaltyn (1)	\$ 2,869	\$ -

(1) See “Other Corporate Developments – Corporate”.

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 a Restated Gold and Silver Sale Agreement (the “Sales Agreement”). Amounts receivable from Kyrgyzaltyn arise from the sale of gold to Kyrgyzaltyn. Kyrgyzaltyn is required to pay for gold delivered within 12 days from the date of shipment. Default interest is accrued on any unpaid balance after the permitted payment period of 12 days.

The obligations of Kyrgyzaltyn are partially secured by a pledge of 2,850,000 shares of Centerra owned by Kyrgyzaltyn. Based on movements in Centerra’s share price and the value of individual or unsettled gold shipments during the first quarter of 2013, the maximum exposure reflecting the shortfall in the value of the security as compared to the value of any unsettled shipments, was

approximately \$24.3 million. The last shipment of the first quarter occurred on March 31, 2013 resulting in \$30.5 million in receivables outstanding (December 31, 2012 - \$48.3 million). Subsequent to March 31, 2013, the balance receivable from Kyrgyzaltyn was paid in full.

### ***Related party balances***

The assets and liabilities of the Company include the following amounts due from and to Kyrgyzaltyn:

(Thousands of US\$)	<b>March 31 2013</b>	<b>December 31 2012</b>
Prepaid amounts	<b>200</b>	-
Amounts receivable	<b>30,032</b>	48,325
<b>Total related party assets</b>	<b>\$ 30,232</b>	\$ 48,325
Dividend payable (net of withholding taxes)	<b>\$ 8,818</b>	\$ 5,949
Interest payable	<b>22</b>	-
<b>Total related party liabilities</b>	<b>\$ 8,840</b>	\$ 5,949

### ***Dividend payable and restricted cash held in trust***

Pursuant to an Ontario court order dated September 5, 2012, Kyrgyzaltyn's portion of the Centerra dividend declared on February 20, 2013 of \$3.1 million (\$2.9 million net after withholding taxes of \$0.2 million) is held in trust to the credit of the Sistem court proceedings. The court order sets a maximum of approximately US\$11.2 million to be held in trust. As at March 31, 2013 an accumulated amount of \$8.8 million is held in the trust account, representing Kyrgyzaltyn's portion of the August 1, 2012, November 7, 2012 and February 20, 2013 dividends declared.

## **Quarterly Results – Previous Eight Quarters**

Over the last eight quarters, Centerra's results reflect the impact of rising gold prices, especially in 2011 and 2012 while gold prices in the first quarter of 2013 declined, and cost increases. Of note, production and sales in 2012 were impacted by the accelerated ice movement at Kumtor which necessitated a change in the mine plan and a delay in the release of gold from the pit in 2012. Non-cash costs have also progressively increased over 2011, 2012 and into 2013 as depreciation at Kumtor grew with its expanded mining fleet and the amortization of capitalized stripping. Cost of sales in the second and third quarters of 2011 included a charge for the settlement of the Kyrgyz Social Fund audit totaling \$14.1 million and an increase to labour costs in the fourth quarter of 2011 resulting from the revised social fund calculation which now includes amounts payable on the high altitude premium. Other operating charges in second quarter of 2012 for social development programs include \$21 million spent by Kumtor on a national micro-credit financing program and \$1.1 million accrued by Boroo to increase its funding of a maternity hospital in Ulaanbaatar. Similarly Kumtor spent in the third quarter of 2011 \$10 million for special funding of a school improvement program in the Kyrgyz Republic. The fourth quarter of 2011 includes other charges of \$2.5 million for the resolution of a claim by the Mongolian authorities in relation to the sterilization

of alluvial reserves at the Boroo property. The quarterly financial results for the last eight quarters are shown below:

<i>Quarterly Data Unaudited</i> <i>\$ millions, except per share data</i>	2013	2012 (restated)				2011		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue	193	368	69	90	134	248	278	244
Net earnings (loss)	51	(71)	(34)	(49)	10	79	84	71
Earnings (loss) per share (basic and diluted)	0.22	(0.30)	(0.14)	(0.21)	0.04	0.34	0.35	0.30

## **Other Corporate Developments**

The following is a summary of corporate developments with respect to matters affecting the Company and its subsidiaries in the Kyrgyz Republic, Mongolia and Canada:

### **Kyrgyz Republic**

Since the Company's most recent MD&A prepared as of February 20, 2013, there have been several developments with respect to actions taken by the Kyrgyz Republic Parliament ("Parliament") and the Kyrgyz Republic Government ("Government") that impact upon Kumtor and the agreements that govern the Kumtor Project (the "Kumtor Project Agreements"). In particular, the following developments occurred in the Kyrgyz Republic, which will be discussed in greater detail below:

- (i) On February 21, 2013, the Parliament adopted Resolution #2805 ("Resolution #2805"), which among other things, recommends that the Government ensure the continuous operation of the Kumtor mine, and within three months of the date of the resolution, conduct negotiations with Centerra with a view to revising the Kumtor Project Agreements to return to conditions that existed prior to the restructuring of the project in 2003, but subject to the application of the current Kyrgyz legislation, and to enter into new agreements. The resolution calls on the Government to report back to the Parliament by June 1, 2013 on the implementation of the instructions set out in the Resolution #2805;
- (ii) Kumtor received on February 21, 2013, a claim from the State Agency for Environmental Protection and Forestry ("SAEPF") relating to alleged environmental damages at the Kumtor Project for an amount of approximately \$315 million. This claim is in addition to the claims received by Kumtor in December 2012 for an aggregate amount of approximately \$152 million (described in the Company's news releases dated December 14, 2012 and February 20, 2013);
- (iii) On March 12, 2013, the Government adopted decree #127 ("Decree #127") to implement the instructions set out in the Parliamentary Resolution #2805. Decree #127, among other things, established an advisory council for conducting consultations and negotiations with Centerra on the Kumtor Project to find mutually acceptable solutions on further implementation of the Kumtor Project;
- (iv) On April 9, 2013, an initiative group chaired by Mr. Beknazarov A.A. submitted a draft law (the "Law on Denunciation") for consideration by Parliament. The draft law "denounces" the Agreement on New Terms for the Kumtor Project ("ANT") entered on

- April 24, 2009, and recognizes as invalid all other agreements associated with the ANT, and calls for the Government to bring all of its decisions in accordance with the Law on Denunciation. As of May 8, 2013, the Law on Denunciation has not been considered by Parliament. Based on Kyrgyz media reports, an opposition party in the Parliament, the Respublika faction, has endorsed the Law on Denunciation;
- (v) The previously disclosed dispute with the Kyrgyz Republic Social Fund (the “Social Fund”) regarding the Social Fund’s efforts to invalidate previously issued acts (assessments) on Kumtor for the years 2004-2009 (see Company’s news release of August 1, 2012) was heard by the Kyrgyz Republic Supreme Court in May 2013. The Supreme Court dismissed the appeal by the Social Fund and upheld the decision of the lower courts; and
  - (vi) On May 3, 2013, the Company announced that a large section of Kumtor’s principal waste-rock dump, the Davidov Valley Waste-rock Dump (Central Valley Waste Dump), was experiencing a greater than anticipated rate of movement, requiring the Company to accelerate the planned demolition of the buildings and relocation of certain other infrastructure and to develop an alternative long-term waste-rock dumping plan for approval by relevant Kyrgyz Republic authorities.

The Company addresses these developments in detail below. Reference should also be made to the historical information contained in the Company’s Annual Information Form for the year-ended December 31, 2012 (the “2012 Annual Information Form”). The Company believes that the Kumtor Project Agreements are legal, valid and enforceable obligations. The Kumtor Project Agreements were reviewed and approved by the Government and the Parliament, and were the subject of a positive decision of the Kyrgyz Republic Constitutional Court and a legal opinion by the Kyrgyz Republic Ministry of Justice. The Company has been in discussions with the Government with the objective of resolving these outstanding concerns through constructive dialogue. However, there can be no assurances that the Company will be able to successfully resolve any or all of these matters currently affecting the Kumtor Project. There can also be no assurance that the Government and/or Parliament will not take actions that are inconsistent with the Kyrgyz Republic’s obligations under the Kumtor Project Agreements or cancel government decrees, orders or licenses under which Kumtor currently operates. Any such actions could have a material adverse impact on the Company’s future cash flows, earnings, results of operations and financial condition. See “Material Assumptions & Risks” and “Caution Regarding Forward-Looking Information” below. For further information on risk factors relevant to Centerra and its operations, please see “Risk Factors” in the 2012 Annual Information Form.

### **Parliamentary Resolution #2805**

In connection with its consideration of the report from the State Commission established to inspect and review Kumtor’s compliance with Kyrgyz operational and environmental laws and regulations and community standards, the Parliament adopted Resolution #2805 (“Resolution #2805”) on February 21, 2013 regarding the Kumtor Project. The resolution recommends that the Government ensure the continuous operation of the Kumtor mine, and within three months of the date of the resolution, conduct negotiations with Centerra with a view to revising the Kumtor Project Agreements to return to conditions that existed prior to the restructuring of the project in 2003, but

subject to the application of current Kyrgyz legislation, and to enter into new agreements on these terms. Resolution #2805 also provides recommendations and orders to the Kyrgyz Republic General Prosecutor's Office and the Kyrgyz Republic National Security Committee (as further discussed below). The resolution set a deadline of June 1, 2013 for the Government, the Kyrgyz Republic General Prosecutor's Office and the Kyrgyz Republic National Security Committee to provide Parliament with information related to the implementation of the State Commission's recommendations and Resolution #2805.

Resolution #2805 states that if the parties cannot agree on mutually acceptable terms within such three month time period, the Government shall take certain actions with respect to the Kumtor Project, including among other things, to:

- (i) invalidate the legislation enacted by Parliament in 2009 approving the Kumtor Project Agreements, and to unilaterally terminate the Kumtor Project Agreements;
- (ii) invalidate the legislation enacted by Parliament in 2009 amending the Kyrgyz Republic Tax Code (which provides for the tax regime set out in the Kumtor Project Agreements);
- (iii) confiscate land plots in connection with the adoption of Government Decree, "On abolition of the Government Decree on allocation of lands to the Kumtor Gold Company CJSC dated March 25, 2010", approved by the Government Decree dated July 5, 2012. (This March 25, 2010 Decree granted Kumtor surface rights in relation to the Kumtor Project. See Centerra's news release dated July 6, 2012.); and
- (iv) authorize the State Inspectorate Office for Environmental and Technical Safety ("SIETS") to take measures to have Kumtor Operating Company pay fines and other charges for violations of environmental, mining and geological and subsoil legislation. (See Centerra's news releases dated December 14, 2012 and February 21, 2013 for information on significant claims received from SIETS on alleged environmental violations for an aggregate total of approximately \$467 million.)

In Resolution #2805, the Parliament also requests that the Government develop and submit to the Parliament for consideration certain matters, including the following:

- (i) draft amendments to existing legislation or draft new legislation relating to biosphere territories, the protection and preservation of glaciers, and prohibiting the placement of pollutants on glaciers;
- (ii) provide for the obligation of Kumtor to develop a technical plan on reclamation of the Kumtor Project in accordance with Kyrgyz legislation and to determine funding for reclamation based on such plan and to enforce this obligation;
- (iii) for the entire period of the Kumtor Project, to invoice Kumtor for the use of water and make Kumtor pay for changes in the glacial regime and disposal of waste; and
- (iv) when negotiating with Centerra and Kumtor Operating Company, to require that goods and services be purchased for the Kumtor Project in the domestic market.

The resolution instructs the General Prosecutor's Office and the National Security Committee to investigate allegations that Kumtor deliberately understated reserves, including silver and tellurium.

### **Additional Environmental Claim**

As previously disclosed, Centerra's operating subsidiary, Kumtor Operating Company CJSC, received on February 21, 2013, a claim from the State Agency for Environmental Protection and Forestry ("SAEF") relating to alleged environmental damages at the Kumtor Project. This claim is in addition to the five environmental claims that Kumtor received in December 2012 for an aggregate amount of \$152 million (see the Company's news releases dated December 14, 2012 and February 20, 2013 for information on these five claims). The claim issued by SAEF is for approximately \$315 million for alleged damage in relation to waste placed in the tailings management facility, waste rock dumps, and for the generation, management and treatment of other types of wastes. The claim covers the period from 1996 to 2011. Similar to the five claims received by the Kumtor Project in December 2012, the claim by SAEF references the review of the Kumtor Project carried out by the environmental and technical working group of the Kyrgyz Republic State Commission.

The Company is studying the claim but believes that the allegations contained in the claim are exaggerated or without merit. Centerra's Kumtor Project complies with Kyrgyz Republic laws on environmental, safety and health standards. The Kumtor Project has been the subject of systematic audits and investigations over many years by Kyrgyz and international experts. In particular, in August 2012, the Safety, Health and Environment Committee of the Board of Directors of Centerra engaged an independent internationally recognized consultant to carry out a due diligence review of Kumtor's performance on safety, health and environmental matters. The report issued in October 2012 concluded that "no major or materially significant environmental issues were identified" at Kumtor. The review focused on numerous environmental areas, including waste management and environmental management systems. The report can be found on the Kumtor website at <http://www.kumtor.kg/en/> under the "Environment" section (under "Reports").

The Company notes that the Kumtor Project Agreements provide a complete listing of all taxes and payments to be made to the Government, including a fixed environmental charge. Accordingly, no other tax, duties, or other obligations are to be paid to the Kyrgyz Republic, however they may be characterized. Centerra also notes that, as part of the Kumtor Project Agreements signed in 2009, Centerra, Kumtor and the Government, among other parties, entered into a release agreement on June 6, 2009 (the "Release Agreement"). Pursuant to the Release Agreement, the parties agreed to release each other from any claims, including any legal, tax and fiscal matter, in respect of any matter arising or existing prior to June 6, 2009, whether such matters were known or unknown as of June 6, 2009, subject to certain exemptions which are not applicable in the circumstances, including an exemption for "unknown environmental damage" as defined in the ANT.

### **Government Decree #127**

In order to implement Resolution #2805, the Government adopted Decree #127 on March 12, 2013 ("Decree #127"). Decree #127 among other things, establishes an advisory council for conducting consultations and negotiations with Centerra on the Kumtor Project to find mutually acceptable solutions on further implementation of the Kumtor Project. The advisory council is comprised of Government officials, including the Prime Minister Satybaldiev.

Decree#127 also instructed various Government ministries to take actions with respect to the Kumtor Project, including compiling an inventory of Government decisions issued from 1992 to 2012 providing allotment of land parcels for the Kumtor Project, and ensuring efficiency of management of shares in Centerra held by Kyrgyzaltyn JSC (“Kyrgyzaltyn”). Kyrgyzaltyn is also permitted to engage international legal and financial services firms to represent the Government interests during consultations and negotiations with Centerra.

### **Draft Law to Invalidate the Kumtor Project Agreements**

On April 9, 2013 an initiative group chaired by Mr. Beknazarov A.A. submitted the Law on Denunciation for consideration by Parliament. The draft law “denounces” the Agreement on New Terms for the Kumtor Project (“ANT”) entered on April 24, 2009, and recognizes as invalid all other agreements associated with the ANT, and calls for the Government to bring all of its decisions in accordance with the Law on Denunciation. As of May 8, 2013, the Law on Denunciation has not been considered by Parliament. Based on Kyrgyz media reports, an opposition party in the Parliament, the Respublika faction, has endorsed the Law on Denunciation.

### **Kyrgyz Republic Social Fund Dispute**

As previously disclosed, the Social Fund commenced a claim in the Kyrgyz courts to invalidate documentary acts (assessments) issued by the Social Fund for the years 2004-2009. The claim was commenced by the Social Fund in late 2012. The matter was argued before the Bishkek Inter-district court on procedural matters in August 2012, which resulted in the matter being dismissed. The dismissal was subsequently appealed by the Social Fund and argued before the Bishkek City Court in November 2012, where the Social Fund claims were again dismissed. The Social Fund appealed the decision of the Bishkek City Court to the Kyrgyz Republic Supreme Court which heard the matter in March 2013. The Supreme Court dismissed the Social Fund’s appeal and upheld the decision of the lower courts.

For a further discussion regarding the Social Fund claim and the dispute for the 2010 taxation year regarding the payment of Social Fund contributions on the high altitude coefficient, please see the 2012 Annual Information Form.

## **Mongolia**

Centerra continues to be in discussions with the Mongolian Government regarding the development of the Gatsuurt property. Centerra remains reasonably confident that the economic and development benefits resulting from its exploration and development activities will ultimately result in the Mongolian Water and Forest Law having a limited impact on the Gatsuurt project, in particular, and other of the Company’s Mongolian activities including in relation to the ATO deposit. As previously disclosed, the Mongolian Water and Forest Law prohibits mineral prospecting, exploration and mining in water basins and forestry areas in Mongolia.

There can be no assurance, however, that the Mongolian Water and Forest Law will have a minimal impact on Centerra's Mongolian operations. Unless the Water and Forest Law is repealed or amended such that the law no longer applies to the Gatsuurt 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 (where Gatsuurt ore was planned to be milled).

## **Corporate**

The claim commenced in March 2011 by a Turkish company, Sistem Muhendislik Insaat Sanayi Ticaret SA ("Sistem") which alleges that the shares in Centerra owned by Kyrgyzaltyn are, in fact, legally and beneficially owned by the Kyrgyz Republic and continues to be subject to proceedings in the Ontario courts. Centerra is not a party to the proceedings, but understands that the matter is being scheduled for consideration on its merits.

Centerra continues to be subject to an Ontario court decision dated September 5, 2012 as amended November 23, 2012 (the "Court Order") whereby Centerra is required to hold in trust to the credit of the Sistem court proceeding, Kyrgyzaltyn's portion of dividends payable on shares of Centerra, up to a maximum of Cdn\$11.2 million. The Court Order is effective until the resolution of the court proceedings. As of April 30, 2013, Centerra holds in trust Cdn\$8.8 million of dividend payments, and Cdn\$27 thousand in interest income. The Court Order also places certain restrictions on 4 million of the Centerra shares held by Kyrgyzaltyn, including restrictions on the transfer or encumbrance of such shares. The Centerra shares pledged by Kyrgyzaltyn to Kumtor Gold Company and Kumtor Operating Company as security for payments due from Kyrgyzaltyn under the Restated Gold and Silver Sale Agreement dated as of June 6, 2009 are not subject to the Court Order. For a further discussion regarding the Sistem court matter and the Court Order, please see the 2012 Annual Information Form.

For a full discussion of risk factors that could have a material effect on the profitability, future cash flow, earnings, results of operations, stated mineral reserves or financial condition of the Company, please see "Risk Factors" in the 2012 Annual Information Form available on SEDAR at [www.sedar.com](http://www.sedar.com) and see also the discussion below under the heading "Cautionary Note Regarding Forward-looking Information".

## **Changes in Accounting Policies**

The Company adopted several new accounting standards effective January 1, 2013 (as described below) and as a result restated its accounting results for the 2012 comparative period to conform to the new standards. The impact of this change to the results, which was entirely limited to IFRIC 20, is described more fully in note 2 of the Company's Condensed Consolidated Interim Financial Statements of March 31, 2013.

### ***Adoption of New Accounting Standards – effective January 1, 2013***

On January 1, 2013, the Company adopted the new recommendations contained in IFRS 7 “*Financial Instruments – Disclosures*”, IFRS 10 “*Consolidated Financial Statements*”, IFRS 11 “*Joint Arrangements*”, IFRS 12 “*Disclosure of Interests in Other Entities*” and IFRS 13 “*Fair Value Measurement*”. The adoption of these standards did not have an impact on the Company’s consolidated financial statements.

The Company adopted the new recommendations of IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine* (“IFRIC 20”), which sets out the accounting for overburden waste removal (stripping) costs in the production phase of a surface mine. The new interpretation clarifies when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods. It considers when and how to account separately for benefits arising from the stripping activity and how to measure these benefits both initially and subsequently. It prescribes that the costs of stripping activity be accounted for in accordance with the principles of IAS 2 *Inventories* to the extent that the benefit from the stripping activity is realized in the form of inventory produced. On the other hand, the costs of stripping activity which provides a benefit in the form of improved access to ore in future periods is recognized as a non-current 'stripping activity asset' when specified criteria are met. As a result of adopting IFRIC 20, the book value of property plant and equipment increased by \$36.7 million and gold inventories increased by \$3.6 million with a corresponding offset of \$40.3 million to retained earnings as at December 31, 2012.

### ***Future Changes in accounting policies***

The IASB has issued IFRS 9 *Financial Instruments* (“IFRS 9”) which proposes to replace IAS 39 *Financial Instruments Recognition and Measurement*. The replacement standard has the following significant components: establishes two primary measurement categories for financial assets — amortized cost and fair value; establishes criteria for classification of financial assets within the measurement category based on business model and cash flow characteristics; and eliminates existing held to maturity, available-for-sale and loans and receivable categories. This standard is effective for the Company’s annual period beginning January 1, 2015 (as amended from January 1, 2013 by the IASB in December 2012). The Company will evaluate the impact of the change to its consolidated financial statements based on the characteristics of its financial instruments at the time of adoption.

### **Disclosure Controls and Procedures and Internal Control Over Financial Reporting**

The Company’s Chief Executive Officer and Chief Financial Officer, with the participation of management, last completed an evaluation of the design and operating effectiveness of the Company’s disclosure controls and internal control over financial reporting (“ICFR”) as at December 31, 2012. Based on this assessment, management concluded that the Company’s ICFR were operating effectively. The Chief Executive Officer and Chief Financial Officer have evaluated whether there were changes to the ICFR during the quarter ended March 31, 2013 that have materially affected, or are reasonably likely to materially affect, the ICFR. No such significant changes were identified through their evaluation.

## Outlook for 2013

The Company is monitoring the recent fluctuations in the gold price and assessing their impact on its operations. The Company is in the process of reviewing its spending plans for 2013, which may result in a delay of some capital expenditures to future years and a reduction of planned expenditures for some discretionary spending including exploration, business development, and community investments.

Centerra's 2013 gold production and operating cash costs are unchanged from the previous guidance disclosed in the Company's news release of February 20, 2013. The forecast for all-in cash cost unit measure has been revised as explained below. The new ranges are as follows:

	<b>2013 Production Forecast</b> (ounces of gold)	<b>2013 Operating Cash Costs<sup>(1)</sup></b> (\$ per ounce produced)	<b>2013 All-in Cash Costs (pre-tax)<sup>(2)</sup></b> (\$ per ounce produced)
Kumtor	550,000 – 600,000	\$342 – 373	\$853 – 931
Boroo	55,000 – 60,000	\$1,055 – 1,151	\$1,225 – 1,336
<b>Consolidated</b>	<b>605,000 – 660,000</b>	<b>\$406 – 443</b>	<b>\$1,053 – 1,149</b>

(1) Operating cash costs per ounce produced is a non-GAAP measure and includes mine operating costs such as mining, processing, regional office administration, royalties and production taxes (except at Kumtor where revenue-based taxes are excluded), but excludes depreciation, depletion and amortization, reclamation costs, financing costs, capital investments, community investments, exploration expenses and corporate general and administration expenses.

(2) All-in cash costs per ounce (pre-tax) produced is a non-GAAP measure and includes operating cash cost, sustaining and growth capital, corporate general and administrative expenses, global exploration expenses, community investments and revenue-based taxes at Kumtor and income taxes at Boroo.

## **Production**

Centerra's 2013 consolidated gold production is forecast to be in the 605,000 to 660,000 ounce range, which is unchanged from the previous guidance.

In 2013, approximately 55% of Kumtor's gold production is expected to occur in the fourth quarter creating a potential variability to Kumtor's 2013 production guidance. Centerra estimates that the Kumtor mine will produce between 550,000 and 600,000 ounces in 2013, which is unchanged from the previous guidance. Ore production in the fourth quarter is planned to come from the high-grade SB Zone ore that has several years of production history. The high-grade ore from the SB Zone is only available for mining at the end of the third quarter when it is exposed by Cut Back 15.

At the Boroo mine, gold production is forecast to be approximately 55,000 to 60,000 ounces, which is unchanged from the previous guidance. The Boroo production includes about 24,000 ounces from heap leaching and 36,000 ounces from processing mill stockpiles. The Boroo mill is expected to process ore stockpiles during the year with an average grade of 0.90 g/t. The 2013 forecast assumes no mining activities at Boroo and Gatsuurt, and no gold production from Gatsuurt.

### All-in Unit Cash Costs:

Centerra's 2013 all-in pre-tax unit cash costs per ounce produced before revenue-based tax at Kumtor and current income tax at Boroo has been revised from the previous guidance disclosed in the Company's news release of February 20, 2013 to a range of \$1,053 to \$1,149. The Company has reduced its planned exploration expenditures from \$45 million to \$40 million and revised its estimates of revenue-based tax at Kumtor and current income tax at Boroo. The change to the taxes was due to a lower gold price assumption forecasted for the last three quarters of 2013 from \$1,700 per ounce sold to \$1,450 per ounce sold. Based on its revised estimates, the Company is forecasting all-in unit production costs as follows:

	<b>Kumtor</b>	<b>Boroo</b>	<b>Consolidated</b>
	(\$ per ounce produced)	(\$ per ounce produced)	(\$ per ounce produced)
Operating cash costs <sup>1</sup>	\$342 – 373	\$1,055 – 1,151	\$406 – 443
Capitalized stripping costs - cash	354 – 386	-	322 – 351
<b>Operating cash and stripping costs</b>	<b>\$696 – 759</b>	<b>\$1,055 – 1,151</b>	<b>\$728 – 794</b>
Sustaining capital (cash)	105 – 115	170 – 185	113 – 124
Growth capital (cash)	52 – 57	-	49 – 53
<b>Operating cash costs including capital</b>	<b>\$853 – 931</b>	<b>\$1,225 – 1,336</b>	<b>\$890 – 971</b>
Corporate and other cash costs <sup>2</sup>	-	-	163 - 178
<b>All-in cash costs (pre-tax)<sup>1</sup></b>	<b>\$853 – 931</b>	<b>\$1,225 – 1,336</b>	<b>\$1,053 – 1,149</b>
Revenue-based tax and income tax <sup>3</sup>	\$203 - 222	\$96 - 105	\$194 - 211
<b>All-in cash costs (including taxes)<sup>1,3</sup></b>	<b>\$1,056 – 1,153</b>	<b>\$1,321 – 1,441</b>	<b>\$1,247 – 1,360</b>

1. Operating cash costs, all-in cash costs (pre-tax) and total all-in cash costs including taxes per ounce produced are non-GAAP measures and are discussed under "Non-GAAP Measures".
2. Corporate and other cash costs per ounce produced include corporate general and administrative expenses, global exploration expenses, and community investments.
3. Revenue-based tax and income tax reflect actuals realized in the first quarter of 2013 and a change in the forecasted gold price assumption from \$1,700 per ounce sold to \$1,450 for the last three quarters of 2013.

### 2013 Exploration Expenditures:

Exploration expenditures of approximately \$40 million are now planned for 2013, a decrease of \$5 million from earlier forecasts. All of the decrease will occur at Kumtor, where limited pit access due to mining activity will result in decreased drilling activity for the year. Exploration expenditures at Kumtor are now estimated at \$8.5 million, a decrease of \$5 million from the original 2013 budget.

In Mongolia, approximately \$6.8 million is allocated for exploration programs at the Altan Tsagaan Ovoo ("ATO") project and in the greater ATO district.

Exploration spending in Turkey will increase to approximately \$9 million as work focuses on expanding and upgrading the Öksüt gold deposit resource, advancing ongoing metallurgical testwork and initiating detailed environmental and technical project studies. Funds are also allocated to a number of early-stage exploration projects in Turkey and Cyprus.

In Russia, drilling programs will continue on the Dvoynoy and Umlekan Joint Ventures in the Amur region. Expenditures in Russia are expected to total approximately \$6.5 million in 2013.

A China 2013 exploration program of \$2 million will fund the drilling of targets developed on the Laogouxi Joint Venture project and generative exploration programs in several prospective areas. Generative programs will also continue in Central Asia, Russia and Turkey and in several new regions to increase the Company's pipeline of projects.

### **2013 Capital Expenditures**

Centerra's capital expenditures for 2013, excluding capitalized stripping, are unchanged from the previous guidance and estimated to be \$107 million, including \$75 million of sustaining capital and \$32 million of growth capital.

Capital expenditures (excluding capitalized stripping) include:

<b>Projects</b>	<b>2013 Growth Capital</b> (millions of dollars)	<b>2013 Sustaining Capital</b> (millions of dollars)
Kumtor mine	\$31	\$64
Mongolia	\$1	\$10
Corporate	-	\$1
<b>Consolidated Total</b>	<b>\$32</b>	<b>\$75</b>

#### ***Kumtor***

At Kumtor, 2013 total capital expenditures, excluding capitalized stripping, are forecast to be \$95 million including \$64 million of sustaining capital. The largest sustaining capital spending will be the major overhaul maintenance of the heavy duty mine equipment (\$29 million), purchase of new mining equipment (\$17 million), tailings dam construction raise (\$5 million) and other items (\$13 million).

Growth capital investment at Kumtor for 2013 is forecast at \$31 million, which includes the relocation of certain infrastructure at Kumtor related to the KS-13 life-of-mine expansion (\$26 million) and other items (\$5 million).

The cash component of capitalized stripping costs related to the development of the open pit is expected to be \$212 million in 2013.

#### ***Mongolia (Boroo and Gatsuurt)***

At Boroo, 2013 sustaining capital expenditures are expected to be \$10 million primarily for raising the tailings dam at Boroo (\$6 million) and maintenance rebuilds and overhauls.

Growth capital for the Gatsuurt deposit is forecast at \$1 million, related to environmental studies.

### **2013 Corporate Administration and Community Investment**

Corporate and administration expenses for 2013 are unchanged from the previous guidance and forecast at \$45 million, which includes \$7 million for business development activities.

Total community investments for 2013 are unchanged from the previous guidance and forecast at \$27.5 million, which include \$7.5 million for donations and sustainable development projects in the various communities in which Centerra operates and \$20 million for strategic community investment projects. Note that these costs are not included in operating cash costs.

### **2013 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 tax 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 \$2.1 million at the March 31, 2013 end-of-day foreign exchange rate) with a tax rate of 10% for taxable income up to that amount while the royalty rate is 5%. These income tax and royalty rates will continue to apply until the termination of the Boroo Stability Agreement in July 2013. Upon termination of the Boroo Stability Agreement, Boroo Gold Company's corporate income tax rate will not change, and its royalty rate will vary from 5% to 10%, depending on the price of gold per ounce in U.S. dollars at the time of sale.

Production, cost and capital forecasts for 2013 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 & Risks" and "Caution Regarding Forward-Looking Information" and under the heading "Risk Factors" in the Company's 2012 Annual Information Form.

## Sensitivities:

Centerra's revenues, earnings and cash flows for 2013 are sensitive to changes in certain variables and the Company has estimated their impact on revenues, net earnings and cash from operations.

	Change	Impact on			
		(\$ millions)			
		Costs	Revenues	Cash flow	Earnings before income tax
Gold Price	\$50/oz	4.1	26.8	22.7	22.7
Diesel Fuel <sup>(1)</sup>	10%	8.0	-	8.0	8.0
Kyrgyz som <sup>(2)</sup>	1 som	1.5	-	1.5	1.5
Mongolian tugrik <sup>(2)</sup>	25 tugrik	0.3	-	0.3	0.3
Canadian dollar <sup>(2)</sup>	10 cents	2.2	-	2.2	2.2

(1) a 10% change in diesel fuel price equals \$15/oz produced

(2) appreciation of currency will result in higher costs and lower cash flow and earnings, depreciation of currency results in decreased costs and increased cash flow and earnings

## Material Assumptions & Risks:

Material assumptions or factors used to forecast production and costs for 2013 include the following:

- a gold price of \$1,450 per ounce,
- exchange rates:
  - \$1USD:\$0.97 CAD
  - \$1USD:48.0 Kyrgyz som
  - \$1USD:1,375 Mongolian tugriks
  - \$1USD:0.77 Euro
- diesel fuel price assumption:
  - \$0.75/litre at Kumtor
  - \$1.33/litre at Boroo

The assumed diesel price of \$0.75/litre at Kumtor assumes that no Russian export duty will be paid on the fuel exports from Russia to the Kyrgyz Republic. 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 \$110 per barrel.

Other material assumptions include the following:

- any recurrence of political or civil unrest in the Kyrgyz Republic will not impact operations, including movement of people, supplies and gold shipments to and from the Kumtor mine. No assurances can be given by the Company in this regard,
- the activities of the Parliament and Government, referred to under the heading "Other Corporate Developments – Kyrgyz Republic" do not have a material impact on operations or financial results. No assurances can be given by the Company in this regard,
- the previously disclosed environmental claims received from the Kyrgyz regulatory authorities in the aggregate amount of \$467 million and any further claims that may result from the State Commission, are resolved without material impact on Centerra's operations or financial results. No assurances can be given by the Company in this regard,

- the movement in the Davidov Valley Waste-rock Dump (Central Valley Waste Dump) at Kumtor will be managed to ensure continued safe operations, without impact to gold production, including the prompt development and approval by Kyrgyz regulatory authorities of alternative waste-rock dumping plans and the successful demolition of buildings and relocation of certain other infrastructure as planned. No assurances can be given by the Company in this regard,
- the activities of the special commission formed to visit the Kumtor mine site and inspect the waste-rock dump movement do not have a material impact on operations or financial results. No assurances can be given by the Company in this regard,
- grades and recoveries at Kumtor will remain consistent with the annual and life-of-mine plans to achieve the forecast gold production,
- the Company is able to manage the risks associated with the increased height of the pit walls at Kumtor,
- the design of the new and expanded waste dumps at Kumtor adequately address the risks associated with size and stability,
- the timing of the infrastructure move not impacting the maintenance of the mobile fleet and its availability,
- the dewatering program at Kumtor continues to produce the expected results and the water management system works as planned,
- the Company is able to satisfactorily manage the ice movement and to unload the ice and waste in the southeast portion of the Kumtor pit,
- prices of key consumables are not significantly higher than prices assumed in planning,
- no unplanned delays in or interruption of scheduled production from our mines, including due to civil unrest, natural phenomena, regulatory or political disputes, equipment breakdown or other developmental and operational risks,
- the royalty paid by Boroo will vary from 5% to 10% depending on the price of gold per ounce in U.S. dollars at the time of sale after the Boroo stability agreement expires in July 2013 and the current 25% income tax rate remains unchanged, and
- all necessary permits, licenses 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 and 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, results of operations or cash flows and the market price of Centerra's shares. See the section entitled "Caution Regarding Forward-Looking Information" in this discussion and also the Risk Factors listed in the Company's 2012 Annual Information Form, available on SEDAR at [www.sedar.com](http://www.sedar.com).

## Non-GAAP Measures

This MD&A presents information about operating cash costs of production of an ounce of gold produced, all-in cash costs per ounce produced and cost of sales per ounce sold for the operating properties of Centerra. Except as otherwise noted, operating cash costs per ounce produced is calculated by dividing operating cash costs by gold ounces produced for the relevant period. All-in cash costs per ounce produced includes operating cash costs, plus capitalized stripping, plus capital spent and accrued (sustaining and growth capital) 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. Operating cash costs, all-in cash costs per ounce produced, as well as cost of sales per ounce sold are non-GAAP measures.

Operating cash costs include mine operating costs such as mining, processing, administration, royalties and operating taxes (except at Kumtor where revenue-based 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. All-in cash costs includes operating cash costs, plus capitalized stripping and total sustaining and growth capital spent and accrued.

Operating cash costs per ounce produced, all-in cash costs 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 operating cash cost per ounce produced, all-in cash costs per ounce produced and cost of sales per ounce sold may enable investors to better understand year-over-year changes in production costs, which in turn affect profitability and cash flow.

The Company believes an all-in cash cost measure more fully reflects the actual cash cost of producing gold than the former Gold Institute total cash cost measure. The new measure does have limitations as an analytical tool as it may be distorted in periods where significant capital investments are being made to expand for future growth or where significant cash mining costs are being expended on stripping to benefit future periods. This new measure should therefore not be considered in isolation, or as a substitute for, analysis of our results as reported under GAAP.

It should also be noted that the mining industry is in early stages of defining an industry-wide standard on the reporting of “all-in cash costs” hence, the definition adopted by the mining industry may differ from the Company’s current definition. The Company may modify the calculation of its “all-in cash cost” to conform to the industry’s standard once it is known.

Management uses all-in cash cost per ounce produced to evaluate current operating performance and for planning and forecasting of future periods. Management believes that the presentation of this new measure is useful for the investor because it allows investors to view results in a manner similar to the method used by management.

## Operating Cash Cost per Ounce Produced can be reconciled as follows:

(Unaudited)	Three months ended	
	March 31,	
(\$ millions, unless otherwise specified)	2013	2012
<b><u>Centerra:</u></b>		
Cost of sales, as reported	\$ 91.2	\$ 79.1
Less: Non-cash component	43.8	18.3
Cost of sales, cash component	\$ 47.4	\$ 60.9
Adjust for: Refining fees & by-product credits	(0.1)	(0.2)
Regional office administration	5.6	4.8
Mining Standby Costs	-	4.6
Non-operating costs	-	-
Inventory movement	1.4	(20.5)
Operating cash cost	\$ 54.3	\$ 49.6
Ounces poured (000)	115.2	72.5
Operating cash cost per ounce produced	\$ 471	\$ 685
 <b><u>Kumtor:</u></b>		
Cost of sales, as reported	\$ 66.3	\$ 62.8
Less: Non-cash component	34.1	15.7
Cost of sales, cash component	\$ 32.2	\$ 47.2
Adjust for: Refining fees & by-product credits	(0.1)	(0.2)
Regional office administration	4.1	3.4
Mining Standby Costs	-	4.6
Non-operating costs	-	-
Inventory movement	4.5	16.1
Operating cash cost	\$ 40.6	\$ 38.9
Ounces poured (000)	89.6	60.7
Operating cash cost per ounce produced	\$ 452	\$ 642
 <b><u>Boro:</u></b>		
Cost of sales, as reported	\$ 24.9	\$ 16.3
Less: Non-cash component	9.7	2.6
Cost of sales, cash component	\$ 15.2	\$ 13.7
Adjust for: Refining fees & by-product credits	-	-
Regional office administration	1.5	1.4
Mining Standby Costs	-	-
Non-operating costs	-	-
Inventory movement	(3.1)	(4.4)
Operating cash cost	\$ 13.7	\$ 10.7
Ounces poured (000)	25.6	11.8
Operating cash cost per ounce produced	\$ 535	\$ 905

**Total capital and capitalized stripping presented in the All-In Cash Cost calculation can be reconciled as follows:**

<b>First Quarter – 2013 (Unaudited)</b>	<b>Kumtor</b>	<b>Boroo</b>	<b>All other</b>	<b>Consolidated</b>
(\$ millions)				
Capitalized stripping –cash	\$ 53.4	\$ -	\$ -	\$ 53.4
Sustaining capital - cash	11.7	1.2	0.4	13.3
Growth capital - cash	16.1	-	0.1	16.2
Net decrease in accruals included in additions to PP&E	(9.3)	-	-	(9.3)
<b>Total - Additions to PP&amp;E</b>	<b>\$ 71.9</b>	<b>\$ 1.2</b>	<b>\$ 0.5</b>	<b>\$ 73.6 <sup>(1)</sup></b>
<b>First Quarter – 2012 (Unaudited)</b>	<b>Kumtor</b>	<b>Boroo</b>	<b>All other</b>	<b>Consolidated</b>
(\$ millions)				
Capitalized stripping – cash	\$ 44.2	\$ 2.8	\$ -	\$ 47.0
Sustaining capital – cash	5.5	0.5	0.1	6.1
Growth capital - cash	89.4	-	-	89.4
Net increase in accruals included in additions to PP&E	1.3	-		1.3
<b>Total - Additions to PP&amp;E</b>	<b>\$ 140.4</b>	<b>\$ 3.3</b>	<b>\$ 0.1</b>	<b>\$ 143.8 <sup>(1)</sup></b>

(1) As reported in the Company’s Consolidated Statement of Cash Flows as “Investing Activities – Additions to property, plant & equipment”.

**Corporate and other cash costs presented in the All-In Cash Costs calculation can be reconciled as follows:**

<i>Unaudited</i>	<b>Three months ended</b>	
	<b>2013</b>	<b>March 31, 2012</b>
(\$ millions)		
Other operating expenses	\$ 1.9	\$ 1.5
Exploration and business development	7.2	8.3
Corporate administration	6.7	8.5
<b>Total Corporate and other cash costs <sup>(1)</sup></b>	<b>\$ 15.8</b>	<b>\$ 18.3</b>

(1) As reported on the Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss) for the reported periods.

## **Caution Regarding Forward-Looking Information**

Information contained in this MD&A which are not statements of historical facts, and the documents incorporated by reference herein, may be “forward-looking information” for the purposes of 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. The words “believe”, “expect”, “anticipate”, “contemplate”, “target”, “plan”, “intends”, “continue”, “budget”, “estimate”, “may”, “will”, “schedule” and similar expressions identify forward-looking information. These forward-looking statements relate to, among other things, the successful resolution of outstanding matters in the Kyrgyz Republic to the benefit of all shareholders including matters relating to the State Commission report, Parliamentary Resolution #2805 and Government Decree #127, discussions with the Kyrgyz Government on the Kumtor Project Agreements, the resolution of environmental claims received by Kumtor in December 2012 and February 2013 for the aggregate amount of \$467 million, and the draft Kyrgyz law on denunciation having no material impact on Kumtor operations, the Company’s ability to manage the increased rate of movement of the Davidov Waste-rock Dump (Central Valley Waste Dump), the activities of a special commission formed to inspect the increased movement of the Davidov Waste-rock Dump, the Company’s ability to develop a long-term waste-rock plan at Kumtor and promptly obtain the necessary permits and approvals for such long-term plan, and the Company’s ability to successfully demolish certain buildings and relocate other infrastructure at Kumtor and to maintain the availability of the Kumtor mobile fleet, statements regarding the Company’s future production in 2013, including estimates of cash operating costs and all-in unit cash costs, exploration plans and expenditures and the success thereof, capital expenditures, mining plans at Kumtor, statements regarding having sufficient cash and investments to carry out the Company’s business plans for 2013, the continued success with the management of ice and waste movement at Kumtor; the outcome of discussions with the Mongolian government on the potential development of the Company’s Gatsuurt deposit, the impact of the Water and Forest Law on the Company’s Mongolian activities; the Company’s business and political environment and business prospects; and the timing and development of new deposits.

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. Factors that could cause actual results or events to differ materially from current expectations include, among other things: (A) political and regulatory risks, including the political risks associated with the Company’s principal operations in the Kyrgyz Republic and Mongolia, resource nationalism, the impact of changes in, or to the more aggressive enforcement of, laws, regulations and government practices in the jurisdictions in which the Company operates, the impact of any actions taken by the Government and Parliament relating to the Kumtor Project Agreement, any impact on the purported cancellation of Kumtor’s land use rights at the Kumtor Project, the effect of the Water and Forest Law on the Company’s operations in Mongolia, the effect of the 2006 Mongolian Minerals Law on the Company’s Mongolian operations, the effect of the November 2010 amendments to the 2006 Mongolian Minerals Law on the royalties payable in connection with the Company’s Mongolian operations, the impact of continued scrutiny from Mongolian regulatory authorities on the Company’s Boroo project, 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 successfully

negotiate an investment agreement for the Gatsuurt project 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 project; (B) risks related to operational matters and geotechnical issues, including the movement of the Davidov Waste-rock Dump (Central Valley Waste Dump), the waste and ice movement at the Kumtor Project and the Company's continued ability to successfully manage such matters, the occurrence of further ground movements at the Kumtor Project, the timing of the infrastructure move potentially impacting the maintenance of the mobile fleet and its availability, the success of the Company's future exploration and development activities, including the financial and political risks inherent in carrying out exploration activities, the adequacy of the Company's insurance to mitigate operational risks, mechanical breakdowns, the Company's ability to obtain the necessary permits and authorizations to (among other things) raise the tailings dam at the Kumtor Project to the required height, the Company's ability to replace its mineral reserves, the occurrence of any labour unrest or disturbance and the ability of the Company to successfully re-negotiate collective agreements when required, 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, reliance on a limited number of suppliers for certain consumables, equipment and components, illegal mining on the Company's Mongolian properties, the Company's ability to accurately predict decommissioning and reclamation costs, the Company's ability to attract and retain qualified personnel, competition for mineral acquisition opportunities, and risks associated with the conduct of joint ventures; (C) risks relating to financial matters including the sensitivity of the Company's business to the volatility of gold prices, the imprecision of the Company's mineral reserves and resources estimates and the assumptions they rely on, the accuracy of the Company's production and cost estimates, the impact of restrictive covenants in the Company's revolving credit facility which may, among other things, restrict the Company from pursuing certain business activities, the Company's ability to obtain future financing, the impact of global financial conditions, the impact of currency fluctuations, the effect of market conditions on the Company's short-term investments, the Company's ability to make payments including any payments of principal and interest on the Company's debt facilities depends on the cash flow of its subsidiaries; and (D) risks related to environmental and safety matters, including the ability to continue obtaining necessary operating and environmental permits, licenses and approvals, the impact of the significant environmental claims made in December 2012 and February 2013 relating to the Kumtor Project, inherent risks associated with using sodium cyanide in the mining operations; legal and other factors such as litigation, defects in title in connection with the Company's properties, the Company's ability to enforce its legal rights, risks associated with having a significant shareholder, 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 2012 Annual Information Form available on SEDAR at [www.sedar.com](http://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.

Mineral resources are not mineral reserves, and do not have demonstrated economic viability, but do have reasonable prospects for economic extraction. Measured and indicated resources are sufficiently well defined to allow geological and grade continuity to be reasonably assumed and permit the application of technical and economic parameters in assessing the economic viability of the resource. Inferred resources are estimated on limited information not sufficient to verify geological and grade continuity or to allow technical and economic parameters to be applied. Inferred resources are too speculative geologically to have economic considerations applied to them to enable them to be categorized as mineral reserves. There is no certainty that mineral resources of any category can be upgraded to mineral reserves through continued exploration.

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 herein or incorporated by reference. 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 May 8, 2013. 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.