

**Centerra Gold Inc.**  
**Management's Discussion and Analysis**  
**For the fiscal year ended December 31, 2013**

<b>CENTERRA'S BUSINESS .....</b>	<b>1</b>
<b>ECONOMIC INDICATORS.....</b>	<b>3</b>
<b>GROWTH STRATEGY .....</b>	<b>5</b>
<b>RESERVES AND RESOURCES .....</b>	<b>6</b>
<b>CHANGES IN PRESENTATION OF NON-GAAP FINANCIAL PERFORMANCE MEASURES .....</b>	<b>10</b>
<b>DEVELOPMENTS IN 2013 .....</b>	<b>13</b>
<b>RESULTS OF OPERATIONS .....</b>	<b>17</b>
<b>2013 COMPARED TO 2012.....</b>	<b>17</b>
<b>FOURTH QUARTER RESULTS – 2013 COMPARED TO 2012.....</b>	<b>35</b>
<b>QUARTERLY RESULTS – LAST EIGHT QUARTERS.....</b>	<b>38</b>
<b>BALANCE SHEET .....</b>	<b>39</b>
<b>CONTRACTUAL OBLIGATIONS.....</b>	<b>40</b>
<b>NON-GAAP MEASURES.....</b>	<b>40</b>
<b>CRITICAL ACCOUNTING ESTIMATES .....</b>	<b>55</b>
<b>CHANGES IN ACCOUNTING POLICIES .....</b>	<b>58</b>
<b>DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING .....</b>	<b>59</b>
<b>2014 OUTLOOK.....</b>	<b>60</b>
<b>QUALIFIED PERSON &amp; QA/QC .....</b>	<b>67</b>
<b>RISK FACTORS .....</b>	<b>68</b>
<b>CAUTION REGARDING FORWARD-LOOKING INFORMATION .....</b>	<b>94</b>

The following discussion has been prepared as of February 19, 2014, and is intended to provide a review of the financial position and results of operations of Centerra Gold Inc. (“Centerra” or the “Company”) as at and for the financial year ended December 31, 2013 in comparison with those as at and for the financial year ended December 31, 2012. This discussion should be read in conjunction with the Company’s audited financial statements and notes thereto for the year ended December 31, 2013 prepared in accordance with International Financial Reporting Standards. In addition, this discussion contains certain forward-looking information regarding Centerra’s businesses and operations. Such forward-looking statements involve risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. See “Risk Factors” and “Caution Regarding Forward-Looking Information” in this discussion. All dollar amounts are expressed in United States (US) dollars, except as otherwise indicated. Additional information about Centerra, including the Company’s Annual Information Form for the year ended December 31, 2013, will be available on the Company’s website 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).

**All references in this document denoted with <sup>NG</sup>, indicate a non-GAAP term which is discussed under “Non-GAAP Measures” on pages 40 to 44.**

## **Centerra’s Business**

Centerra is a Canadian-based gold company, focused on acquiring, exploring, developing and operating gold properties in Asia, the former Soviet Union and other emerging markets around the world. Centerra’s principal operations are located in the Kyrgyz Republic and Mongolia and are subject to political and regulatory risks. See “Other Corporate Developments” and “Risk Factors”.

Centerra’s common shares are listed for trading on the Toronto Stock Exchange. As of February 19, 2014, being the date of this Management’s Discussion and Analysis (“MD&A”), there are 236,390,219 common shares issued and outstanding.

As of December 31, 2013, Centerra’s significant subsidiaries and jointly-controlled entities include its wholly-owned subsidiaries, 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 and Öksüt Madencilik A.S. in Turkey, and its forty percent interest in the Dvoynoy joint venture in Russia. Additionally, the Company is earning an interest in other joint venture exploration properties located in Russia, Turkey, China and starting in January 2014, Canada. The Gatsuurt property is in the development phase and the other Russian, Turkish, Chinese, Mongolian and Canadian properties are in the exploration phase.

Substantially all of Centerra’s revenues are derived from the sale of gold. The Company’s revenues are derived from production from its mines and gold prices realized. Gold doré production from the Kumtor mine is purchased by Kyrgyzaltyn JSC (“Kyrgyzaltyn”) for processing at its refinery in the Kyrgyz Republic while gold doré produced by the Boroo mine is exported for processing under a refining agreement with Johnson Matthey Limited and sold under a master sale agreement with Auramet Trading LLC or to the Bank of Mongolia, the Mongolian Central Bank, starting in January 2014.

The average spot price for gold in 2013 based on the London PM fix was \$1,411 per ounce, a decrease of 15% over the average in 2012. The average realized price<sup>NG</sup> of gold received by Centerra in 2013 was \$1,355 per ounce, a 20% decrease as compared to the average price realized<sup>NG</sup> in 2012. Centerra's average realized price<sup>NG</sup> for gold in 2013 was lower than the average spot price for the year because more than 50% of annual production at Kumtor was in the fourth quarter when the price of gold averaged \$1,276 per ounce.

The Company's costs are comprised primarily of the cost of producing gold from its two mines, exploration expenses relating to its own projects and its earn-in projects, administrative costs from the Toronto, Bishkek, Ulaanbaatar and exploration offices worldwide and also from depreciation and depletion. There are many operating variables that affect the cost of producing an ounce of gold.

In the mine, costs are influenced by the ore grade and the stripping ratio. The stripping ratio is the ratio of the tonnage of waste material which must be removed per one tonne of ore mined. Ore grade refers to the amount of gold contained in a tonne of ore. The significant costs of mining include labour, diesel fuel and equipment maintenance.

In the mill, costs are dependent mainly on the ore grade and the metallurgical characteristics of the ore which can impact gold recovery. For example, a higher grade ore would typically contribute to a lower unit production cost. The significant costs of milling are reagents, consumables, mill maintenance and energy.

Both mining and milling costs are also affected by labour costs, which depend on the availability of qualified personnel in the regions where the operations are located, the wages in those markets, and the number of people required. Mining and milling activities involve the use of many materials. The varying costs of acquiring these materials and the amount used in the processing of the ore also influence the cash costs of mining and milling. The non-cash costs (namely depreciation, depletion and amortization) are influenced by the amount of capital costs related to the mine's acquisition, development and ongoing capital requirements and the estimated useful lives of capital items.

Over the life of each mine, another significant cost that must be planned for is the closure, reclamation and decommissioning of each operating site. In accordance with standard practices for Western-based mining companies, Centerra carries out remediation and reclamation work during the operating period of the mine, where feasible, in order to reduce the final decommissioning costs. Nevertheless, the majority of rehabilitation work can only be performed following the completion of mining operations. Centerra's practice is to record estimated final decommissioning costs based on conceptual closure plans, and to accrue these costs according to the principles of IFRS. In addition, Kumtor has established a reclamation trust fund to pay for these costs (net of forecast salvage value of assets) from the revenues generated over the life of mine. At Boroo, 50% of the upcoming year's annual reclamation budget is deposited by Boroo into a government account and such funds are recovered by Boroo when the annual reclamation commitments are completed.

## Economic Indicators

### Gold Industry

The two principal uses of gold are bullion investment and product fabrication. A broad range of end uses is included within the fabrication category, the most significant of which is the production of jewelry. Other fabrication uses include official coins, electronics, miscellaneous industrial and decorative uses, medals and medallions.

In 2014, global gold production is anticipated to have modest growth despite the cancellation of some planned new projects and deferral of the expansion of existing projects in 2013. The flow through impact of capital project cancellation and deferral decisions taken in 2013 due to pressures to reduce the cost of production is not anticipated to reduce global production until 2015.

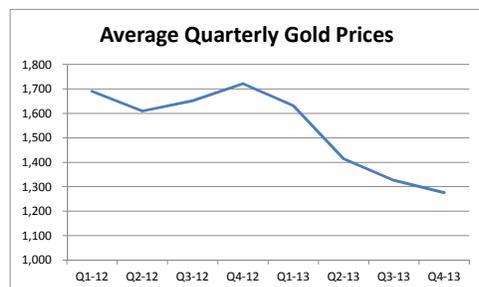
In addition to the supply factors impacting the industry as described above, external factors also impact the gold price. The underlying U.S. economic performance in 2013 continued to demonstrate signs of recovery from the global financial crisis with the U.S. monetary policy regulators commencing the tapering of quantitative easing measures in December 2013, resulting in a reduction in the gold price. It should be noted that since the initial implementation by the U.S. in 2008 of quantitative easing measures there has been no significant inflation to date.

The Company believes that fundamentals remain positive for gold in the coming year with a lower level of volatility expected compared to that experienced in 2013, and gold price reflecting the impact of quantitative easing measures in the U.S. The role of gold as a hedge against inflation is expected to support continued demand for the metal as should growing appetite by central banks and developing Asian nations seeking a more reliable store of value as compared with other investments. In addition, we anticipate physical demand of gold to increase from China and India at current gold price levels.

### Gold Price

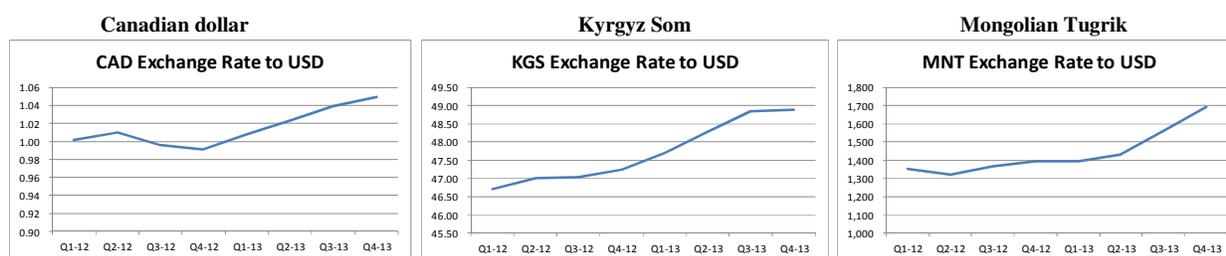
The average gold spot price fell during the fourth quarter of 2013 from US\$1,326/oz to US\$1,276/oz, a 3.8% decrease. The average gold spot price for the year was \$1,411 per ounce, a decrease of 15% over the average in 2012.

The following table shows the average afternoon gold price fixing, by quarter, on the London Bullion Market for 2012, and 2013:



<u>Quarter</u>	<u>Average Gold Price (\$)</u>
2012 Q1	1,721
2012 Q2	1,597
2012 Q3	1,667
2012 Q4	1,711
2013 Q1	1,631
2013 Q2	1,415
2013 Q3	1,326
2013 Q4	1,276

## Exchange Rates



There were two broad themes that have impacted global currencies in the last 12 to 24 months. The first theme saw Central banks, especially in the Asian region, take an active role in implementing monetary policy, including reducing lending interest rates, significant increases in government funded infrastructure projects and the issue of government backed securities to manage their own currency.

The second major theme related to lower overall interest rate environments. To emerge from the financial crisis that occurred in 2008, G10 nations, in particular U.S. and Europe, adopted very aggressive, low interest rate policies. The impact was that as long as the prospect existed that neither Europe nor the U.S. would raise interest rates, currencies of countries that did not significantly reduce their rates during the financial crisis were able to attract investment.

The low G-10 rates positively impacted the emerging country currencies as they were deemed "safer". In addition, commodities and therefore commodity-linked currencies were deemed attractive investments. Markets began to anticipate an end to the low rate environment, resulting in the sell-off of the emerging market currencies.

### *Canadian Dollar*

The Canadian dollar remained an attractive investment in 2012 in consideration of the low interest rate structure and commodity-weighted market. Canada kept its interest rates low but these were relatively higher than other G10 nations. This positive for the Canadian dollar was offset in 2013 as the prospect of the U.S. starting to reduce quantitative easing measures suggested that the Canadian currency rate advantage would start to dissipate. Thus, the Canadian dollar started to lose some lustre. This combined with the reduced correlation between the U.S. and Canadian economies indicates that the U.S. recovery is less supportive of the Canadian economy.

### *Mongolian Tugrik*

Mongolia has continued to experience political issues in 2012 and 2013 reducing the amount of foreign direct investment and subsequent demand for local currency. The other main factor affecting the Tugrik is the decline in Mongolian coal revenue, largely driven by a 15% commodity price reduction in 2013 thereby dropping state revenue from this major export by approximately 45%. This, in turn, put pressure on the amount of foreign currency Mongolia had to fund necessary imports. As the foreign currency revenue declined, the Tugrik was vulnerable to sell-offs which made it one of the "small" currencies most susceptible to selling pressure.

### ***Kyrgyz Som***

The Kyrgyz Republic managed its official interest rates, lowering them from 13% in 2011 to a low of 2.6% in early 2013 with a slight increase to approximately 4.2% in the second half of 2013. This slight increase in official interest rates did not offset the negative impact of the significant rate decline during the period on the Som.

### **Liquidity**

Financial liquidity provides the Company with the ability to fund future operating activities and investments. Centerra generated \$483.9 million in cash from operations in 2013 and has a balance of cash and short-term investments of \$501.5 million at December 31, 2013 which includes \$76 million drawn from its revolving line of credit. The Company's financial risk management policy focuses on cash preservation, while maintaining the liquidity necessary to conduct operations on a day-to-day basis. The Company manages counterparty credit risk, in respect of cash and short-term investments, by maintaining bank accounts with highly-rated U.S. and Canadian banks and investing only in highly-rated Canadian and U.S. Government bills, term deposits or banker's acceptances with highly-rated financial institutions, and corporate direct credit of highly-rated, highly-liquid issuers.

The global financial markets have improved during the year, however there continues to be caution in the markets with volatility still present. This has continued to constrain the ability of many companies to access capital markets financing.

In November 2013, Centerra extended its secured \$150 million revolving credit facility with the European Bank for Reconstruction and Development (EBRD) until February 2015. The facility provides Centerra available liquidity for working capital and future growth initiatives. The Company has \$76 million outstanding on this facility, repayable on August 11, 2014 under its current draw notice, however, at the Company's direction, this payment date can be extended to a future period. It is expected that all planned capital and operating expenditures can be funded out of operating cash flow for 2014. See "Caution Regarding Forward-Looking Information".

### **Growth Strategy**

Centerra's growth strategy is to increase its reserve base and expand its current portfolio of mining operations by:

- developing new reserves at or near its existing mines;
- advancing late-stage exploration properties, including earn-in properties where the Company's interests were earned by funding the costs of exploration drilling and feasibility studies; and
- pursuing selective acquisitions in Asia, the former Soviet Union and other markets worldwide.

Centerra's growth strategy could be impacted by the risk factors described on page 68.

## Reserves and Resources

During 2013, the Company continued its exploration drilling activities at its 100% owned Öksüt project in Turkey and on its various advanced exploration projects in the Asian region, while it discontinued its exploration activities on the Kumtor property. On February 5, 2014, the Company released the results of the updated reserve and resource estimates for the Kumtor and Boroo mines and updated resource estimates for its advanced projects, all as of December 31, 2013.

### Reserves:

During 2013, Centerra's proven and probable gold reserves decreased by 53,000 contained ounces, after accounting for processing in 2013 of 912,000 contained ounces. Reserves now total 10.2 million ounces of contained gold, compared to 11.1 million ounces as of December 31, 2012. The reserve decrease is a result of a negative production reconciliation from the Kumtor mine which is partially offset by a positive reconciliation of the Boroo stockpile grades and an increase in reserves at the Gatsuurt project. All 2013 year-end reserves were estimated using a gold price of \$1,300 per ounce compared to \$1,350 per ounce at December 31, 2012. The change in gold price had no impact on the number of ounces of reserves and resources.

At the Boroo mine, proven and probable reserves total 49,000 contained ounces of gold after accounting for approximately 146,000 contained ounces being processed in the mill and or loaded on the heap leach pad in 2013. The remaining reserves are entirely in existing ore stockpiles. The Boroo operation will continue to feed the mill from ore stockpiles to the end of 2014 and operate and recover gold from the heap leach pad into 2015. At the Gatsuurt project, proven and probable reserves have increased by 114,000 contained ounces of gold as a result of an updated block model and an expanded pit design and now total more than 1.6 million contained ounces of gold.

### Resources:

As of December 31, 2013, Centerra's measured and indicated resources are estimated to total 5.5 million ounces of contained gold. This represents an increase of 378,000 contained ounces of gold compared to the December 31, 2012 estimate. This is a result of the conversion of inferred resources and the expansion of indicated resources on the Öksüt project which is offset by the conversion of some resources to reserves at the Gatsuurt project.

The updated resource estimate for the 100% owned Öksüt project in Turkey has an indicated resource of 1.1 million ounces of contained gold and an inferred resource of 134,000 ounces of contained gold.

As of December 31, 2013, Centerra's inferred resources decreased by 394,000 contained ounces of gold over the December 31, 2012 estimate to total 3.7 million ounces of contained gold. The conversion of Öksüt and Gatsuurt inferred resources into the indicated resource category account for this decrease.

The 2013 year-end resource estimates for Boroo, ATO and Ulaan Bulag properties in Mongolia and the Kara Beldyr property in Russia are unchanged from 2012 year-end estimates.

**Centerra Gold Inc.**  
**2013 Year-End Gold Reserve and Resource Summary**  
**(as of December 31, 2013)**

<b>Gold Mineral Reserves <sup>(1) (3) (13) (14)</sup></b> <b>(tonnes and ounces in thousands)</b>									
<b>Property <sup>(3)</sup></b>	<b>Proven</b>			<b>Probable</b>			<b>Total Proven and Probable</b>		
	<b>Tonnes</b>	<b>Grade (g/t)</b>	<b>Contained Gold (oz)</b>	<b>Tonnes</b>	<b>Grade (g/t)</b>	<b>Contained Gold (oz)</b>	<b>Tonnes</b>	<b>Grade (g/t)</b>	<b>Contained Gold (oz)</b>
Kumtor <sup>(5)</sup>	4,841	1.9	296	80,345	3.2	8,220	85,186	3.1	8,516
Boroo <sup>(7)</sup>	2,364	0.6	49	-	-	-	2,364	0.6	49
Gatsuurt <sup>(8) (16)</sup>	-	-	-	17,129	2.9	1,603	17,129	2.9	1,603
<b>Total</b>	<b>7,205</b>	<b>1.5</b>	<b>345</b>	<b>97,474</b>	<b>3.1</b>	<b>9,823</b>	<b>104,679</b>	<b>3.0</b>	<b>10,168</b>
<b>Gold Measured and Indicated Mineral Resources <sup>(2) (3) (13) (14)</sup></b> <b>(tonnes and ounces in thousands)</b>									
<b>Property <sup>(3)</sup></b>	<b>Measured</b>			<b>Indicated</b>			<b>Total Measured and Indicated</b>		
	<b>Tonnes</b>	<b>Grade (g/t)</b>	<b>Contained Gold (oz)</b>	<b>Tonnes</b>	<b>Grade (g/t)</b>	<b>Contained Gold (oz)</b>	<b>Tonnes</b>	<b>Grade (g/t)</b>	<b>Contained Gold (oz)</b>
Kumtor Open Pit <sup>(4) (5)</sup>	21,975	2.3	1,631	12,113	2.3	898	34,088	2.3	2,529
Kumtor Stockwork Underground <sup>(6)</sup>	-	-	-	351	10.7	121	351	10.7	121
Boroo <sup>(4) (7)</sup>	452	2.2	32	4,464	1.5	210	4,916	1.5	242
Gatsuurt <sup>(4) (8) (16)</sup>	-	-	-	5,098	2.4	398	5,098	2.4	398
Ulaan Bulag <sup>(9)</sup>	-	-	-	1,555	1.5	73	1,555	1.5	73
ATO <sup>(10)</sup>	9,663	1.5	465	8,920	1.1	306	18,583	1.3	771
Kara Beldyr <sup>(11)</sup>	-	-	-	3,790	2.4	289	3,790	2.4	289
Öksüt <sup>(12)</sup>	-	-	-	28,894	1.2	1,088	28,894	1.2	1,088
<b>Total</b>	<b>32,090</b>	<b>2.1</b>	<b>2,128</b>	<b>65,185</b>	<b>1.6</b>	<b>3,383</b>	<b>97,275</b>	<b>1.8</b>	<b>5,511</b>
<b>Gold Inferred Mineral Resources <sup>(2) (3) (13) (14) (15)</sup></b> <b>(tonnes and ounces in thousands)</b>									
<b>Property <sup>(3)</sup></b>	<b>Tonnes</b>	<b>Grade (g/t)</b>	<b>Contained Gold (oz)</b>						
	<b>Tonnes</b>	<b>Grade (g/t)</b>	<b>Contained Gold (oz)</b>						
Kumtor Open Pit <sup>(4) (5)</sup>	9,339	2.4	712						
Kumtor Stockwork Underground <sup>(6)</sup>	2,002	11.0	705						
Kumtor SB Zone Underground <sup>(6)</sup>	3,413	11.2	1,229						
Boroo <sup>(4) (7)</sup>	7,323	1.0	235						
Gatsuurt <sup>(4) (8) (16)</sup>	5,475	2.5	440						
Ulaan Bulag <sup>(9)</sup>	315	1.3	13						
ATO <sup>(10)</sup>	386	0.7	8						
Kara Beldyr <sup>(11)</sup>	3,354	2.0	211						
Öksüt <sup>(12)</sup>	4,666	0.9	134						
<b>Total</b>	<b>36,273</b>	<b>3.2</b>	<b>3,687</b>						

- (1) The mineral reserves have been estimated based on a gold price of \$1,300 per ounce.
- (2) Mineral resources are in addition to reserves. Mineral resources do not have demonstrated economic viability.
- (3) Centerra's equity interests as of this MD&A are: Kumtor 100%, Gatsuurt 100%, Boroo 100%, Ulaan Bulag 100%, ATO 100%, Öksüt 100% and Kara Beldyr 70%. All contained ounces in table above are shown on a 100% basis.
- (4) Open pit resources occur outside the current ultimate pits which have been designed using a gold price of \$1,300 per ounce.
- (5) The open pit reserves and resources at Kumtor are estimated based on a cut-off grade of 0.85 gram of gold per tonne for the Central Pit and 1.0 grams of gold per tonne for the Southwest, Sarytor and Northeast deposits.
- (6) Underground resources occur below the Central pit and are estimated based on a cut-off grade of 6.0 grams of gold per tonne.
- (7) The open pit reserves and resources at Boroo are estimated based on a 0.5 gram of gold per tonne cut-off grade.
- (8) The open pit reserves and resources at Gatsuurt are estimated using a 1.4 grams of gold per tonne cut-off grade.
- (9) The open pit resources at Ulaan Bulag are estimated on a cut-off grade of 0.8, 0.9 or 1.0 grams of gold per tonne depending on ore type and process method.
- (10) The ATO open pit resources are estimated based on a Net Smelter Return (NSR) cut-off grade of \$6.50 NSR per tonne for oxide mineralization and \$25.50 NSR per tonne for sulphide mineralization.
- (11) The open pit resources at Kara Beldyr are estimated based on a 1.0 gram of gold per tonne cut-off grade and the contained ounces are shown on a 100% basis.
- (12) The open pit resources at Öksüt are estimated based on a 0.2 gram of gold per tonne cut-off grade.
- (13) A conversion factor of 31.10348 grams per ounce of gold is used in the reserve and resource estimates.
- (14) Numbers may not add up due to rounding.
- (15) Inferred mineral resources have a great amount of uncertainty as to their existence and as to whether they can be mined economically. It cannot be assumed that all or part of the inferred resources will ever be upgraded to a higher category.
- (16) In July 2009, the Mongolian Parliament enacted legislation that would prohibit mineral prospecting, exploration and mining in water basins and forest areas in the territory of Mongolia and provides for the revocation of mining and exploration licenses affecting such areas. The legislation exempts any "mineral deposit of strategic significance". If the legislation is not repealed or amended or if Gatsuurt is not designated as a "mineral deposit of strategic importance" that is exempt from this legislation, mineral reserves at Gatsuurt may have to be reclassified as mineral resources or removed from the reserve, resource statement.

## 2013 Year-End Polymetallic Resource Summary

(as of December 31, 2013)

Category	Tonnes (000's)	Gold Grade (g/t)	Contained Gold <sup>(22)</sup> (oz 000's)	Silver Grade (g/t)	Contained Silver (oz 000's)	Lead Grade (%)	Contained Lead (lb 000's)	Zinc Grade (%)	Contained Zinc (lb 000's)
<b>ATO Project</b> <sup>(17) (18) (19) (20) (21) (23) (24)</sup>									
<b>Oxide Mineral Resources (&gt; \$6.50 NSR cut-off Grade)</b>									
Measured Resources	3,677	1.3	148	8.5	1,010	-	-	-	-
Indicated Resources	3,294	0.7	78	7.2	758	-	-	-	-
<b>Measured and Indicated</b>	<b>6,971</b>	<b>1.0</b>	<b>226</b>	<b>7.9</b>	<b>1,768</b>	-	-	-	-
Inferred Resources <sup>(19)</sup>	87	0.8	2	4.9	14	-	-	-	-
<b>Sulphide Mineral Resources (&gt; \$25.50 NSR cut-off Grade)</b>									
Measured Resources	5,986	1.7	318	8.0	1,543	0.979	129,197	1,704	224,874
Indicated Resources	5,626	1.3	228	8.5	1,541	0.803	99,598	1,447	179,474
<b>Measured and Indicated</b>	<b>11,612</b>	<b>1.5</b>	<b>545</b>	<b>8.3</b>	<b>3,085</b>	<b>0.894</b>	<b>228,795</b>	<b>1,579</b>	<b>404,349</b>
Inferred Resources <sup>(19)</sup>	299	0.6	6	5.8	56	1.025	6,757	2,306	15,201

(17) Mineral resources have been estimated on the following metal prices (gold \$1,300 per ounce), (silver \$20 per ounce), (lead \$ 0.90 per lb), (zinc \$0.90 per lb).

(18) Mineral resources do not have demonstrated economic viability.

(19) Inferred mineral resources have a great amount of uncertainty as to their existence and as to whether they can be mined economically. It cannot be assumed that all or part of the inferred resources will ever be upgraded to a higher category.

(20) Centerra's equity interest in the ATO project is 100%.

(21) Numbers may not add up due to rounding.

(22) The contained gold resources have also been included in Centerra's 2013 Year-end Gold Reserve and Resource Summary.

(23) The ATO resources are estimated based on a Net Smelter Return cut-off grade of \$6.50 NSR per tonne for oxide mineralization and \$25.50 NSR per tonne for sulphide mineralization.

(24) Variables used to calculate NSR values include:  
 Oxide total recovery of gold=69.8%  
 Oxide total recovery of silver=56.7%  
 Sulphide Net Smelter Return total recovery of gold=59.9%  
 Sulphide Net Smelter Return total recovery of silver=48.5%  
 Sulphide Net Smelter Return total recovery of lead=42.6%  
 Sulphide Net Smelter Return total recovery of zinc=27.7%  
 Payable royalty on total recovered gold=10.0%  
 Payable royalty on total recovered silver=6.75%  
 Payable royalty on total recovered lead=6.75%  
 Payable royalty on total recovered zinc=6.75%

**Centerra Gold Inc.**  
**Reconciliation of Gold Reserves and Resources**

(in thousands of ounces of contained gold) <sup>(4) (8) (9)</sup>

	December 31 2012 <sup>(1)</sup>	2013 Throughput <sup>(2)</sup>	2013 Addition (Deletion) <sup>(3)</sup>	December 31 2013
<b>Gold Proven and Probable Mineral Reserves</b>				
Kumtor <sup>(5)</sup>	9,466	766	(184)	8,516
Boroo	178	146	17	49
Gatsuurt <sup>(7)(11)</sup>	1,489	0	114	1,603
<b>Total Proven and Probable Reserves</b>	<b>11,133</b>	<b>912</b>	<b>(53)</b>	<b>10,168</b>
<b>Gold Measured and Indicated Mineral Resources</b>				
Kumtor <sup>(6)</sup>	2,529	0	0	2,529
Kumtor Stockwork Underground	121	0	0	121
Boroo	242	0	0	242
Gatsuurt <sup>(7)(11)</sup>	426	0	(28)	398
Ulaan Bulag	73	0	0	73
ATO	771	0	0	771
Kara Beldyr	289	0	0	289
Öksüt	682	0	406	1,088
<b>Total Measured &amp; Indicated Resources</b>	<b>5,133</b>	<b>0</b>	<b>378</b>	<b>5,511</b>
<b>Gold Inferred Mineral Resources <sup>(10)</sup></b>				
Kumtor Open Pit <sup>(6)</sup>	712	0	0	712
Kumtor Stockwork Underground	705	0	0	705
Kumtor SB Underground	1,229	0	0	1,229
Boroo	235	0	0	235
Gatsuurt <sup>(7)(11)</sup>	491	0	(51)	440
Ulaan Bulag	13	0	0	13
ATO	8	0	0	8
Kara Beldyr	211	0	0	211
Öksüt	477	0	(343)	134
<b>Total Inferred Resources</b>	<b>4,081</b>	<b>0</b>	<b>(394)</b>	<b>3,687</b>

- (1) Reserves and resources as reported in Centerra's Annual Information Form filed in March 2013.
- (2) Corresponds to mill feed at Kumtor and mill feed or stacked on heap leach pad at Boroo.
- (3) Changes in reserves or resources, as applicable, are attributed to information provided by drilling and subsequent reclassification of reserves or resources, changes in pit designs, reconciliation between the mill and the resource model, and changes to operating costs.
- (4) Centerra's equity interests as of the date of this MD&A are as follows: Kumtor 100%, Gatsuurt 100%, Boroo 100%, Ulaan Bulag 100%, ATO 100%, Öksüt 100% and Kara Beldyr 70%. Contained ounces are on a 100% basis in the table above at each property.
- (5) Kumtor open pit reserves include the Central Pit and the Southwest and Sarytor Pits.
- (6) Kumtor open pit resources include the Central Deposit, Southwest Deposit, Sarytor Deposit and Northeast Deposit.
- (7) Gatsuurt open pit reserves and resources include the Central Zone and Main Zone deposits.
- (8) Centerra reports reserves and resources separately. The amount of reported resources does not include those amounts identified as reserves.
- (9) Numbers may not add up due to rounding.
- (10) Inferred mineral resources have a great amount of uncertainty as to their existence and as to whether they can be mined economically. It cannot be assumed that all or part of the inferred resources will ever be upgraded to a higher category.
- (11) In July 2009, the Mongolian Parliament enacted legislation that would prohibit mineral prospecting, exploration and mining in water basins and forest areas in the territory of Mongolia and provides for the revocation of mining and exploration licenses affecting such areas. The legislation exempts any "mineral deposit of strategic significance". If the legislation is not repealed or amended or if Gatsuurt is not designated as a "mineral deposit of strategic importance" that is exempt from this legislation, mineral reserves at Gatsuurt may have to be reclassified as mineral resources or removed from the reserve, resource statement.

## Changes in Presentation of Non-GAAP Financial Performance Measures

In June 2013, the World Gold Council (WGC) published guidelines for reporting all-in sustaining costs<sup>NG</sup> and all-in costs<sup>NG</sup> performance measures. The WGC is a market development organization for the gold industry and is an association whose membership comprises leading gold mining companies, including Centerra. Although the WGC is not a regulatory organization, it worked closely with its member companies to develop these non-GAAP measures. Adoption of the all-in sustaining costs<sup>NG</sup> and all-in costs<sup>NG</sup> metrics is voluntary and although the WGC published a standardized definition, other companies may calculate these measures differently as a result of differences in interpretation.

Beginning with its 2012 Annual Report, the Company adopted a new non-GAAP performance measure, “all-in cash costs<sup>NG</sup>”, which was based on production and included operating cash costs, capitalized stripping, sustaining and growth capital<sup>NG</sup>, corporate general and administrative expenses, global exploration expenses and social development costs. The measure was presented including and excluding revenue-based taxes at Kumtor and income taxes at Boroo. A person may instead choose to treat revenue-based taxes as a royalty and include this amount as part of the all-in sustaining costs<sup>NG</sup> measure.

As disclosed in the Company’s second and third quarter reporting for 2013, Centerra reviewed the recommended measures and assessed their impact from adoption on its reporting. The WGC measures are similar to Centerra’s presentation of all-in cash costs<sup>NG</sup> in previous reports, except that they include accretion expense, allocate community investments and exploration spending to the operating sites and are based on sales of gold (rather than production), which incorporates inventory movements. The WGC measures are presented on a per ounce sold basis. Although not required, Centerra has also decided to show its all-in costs<sup>NG</sup> measure including and excluding revenue-based tax and income tax, as it believes that the inclusion of taxes (especially revenue-based tax in the Kyrgyz Republic) would be beneficial to the reader in understanding the full cash cost structure of its operations.

These new measures should not be considered in isolation, or as a substitute for, analysis of our results as reported under GAAP. The new measures have limitations as an analytical tool as they 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 in advance of accessing ore to be processed.

The following discussion presents a detailed calculation for both measures, and reconciles the transition from the old measures to the new measures that have now been adopted.

### Unit Cash Costs – Old Measures

The following table calculates Centerra’s actual all-in cash costs using the Company’s calculation methodology as presented in the first three quarters of 2013 and also compares the annual result with the Company’s most recent cost guidance for 2013 presented in its third quarter 2013 public disclosures.

	2013 Year - Actual <sup>(7)</sup>		
	Consolidated <sup>(6)</sup>	Kumtor	Boroo
<i>\$ millions, except as noted</i>			
<b>All-in Cash Costs:</b>			
Mining <sup>(1)</sup>	58.5	58.5	-
Milling	94.0	70.8	23.1
Leaching	10.6	-	10.6
Site support	68.1	60.0	8.1
Regional administration	23.7	18.1	5.8
Royalties	9.4	-	9.4
Management fees and other	(0.3)	0.6	(0.9)
Refining fees	3.8	3.5	0.3
By-product credits	(4.3)	(3.8)	(0.5)
<b>Operating cash costs <sup>(4)</sup></b>	<b>\$ 263.5</b>	<b>\$ 207.7</b>	<b>\$ 55.9</b>
Capitalized stripping and ice unload - cash	201.3	201.3	-
<b>Operating cash costs and capitalized stripping</b>	<b>464.8</b>	<b>409.0</b>	<b>55.9</b>
Sustaining capital (cash) <sup>(2)</sup>	57.7	49.7	7.4
Growth capital (cash) - including Gatsuurt <sup>(3)</sup>	39.9	39.2	-
<b>Operating cash costs including capital</b>	<b>562.4</b>	<b>497.8</b>	<b>63.4</b>
Corporate and other cash costs	68.1	-	-
<b>All-in Cash Costs - pre-tax <sup>(5)</sup></b>	<b>\$ 630.5</b>	<b>\$ 497.8</b>	<b>\$ 63.4</b>
Revenue-based tax and income tax	126.3	113.5	12.8
<b>All-in Cash Costs - including taxes <sup>(5)</sup></b>	<b>\$ 756.8</b>	<b>\$ 611.4</b>	<b>\$ 76.1</b>
<b>Ounces poured</b>	<b>690,720</b>	<b>600,402</b>	<b>90,318</b>
<b>Operating cash costs - \$/oz produced <sup>(4)</sup></b>	<b>\$ 382</b>	<b>\$ 346</b>	<b>\$ 619</b>
<b>All-in Cash Costs (pre-tax) - \$/oz produced <sup>(5)</sup></b>	<b>\$ 913</b>	<b>\$ 829</b>	<b>\$ 702</b>
All-in Cash Costs (including taxes) - \$/oz produced <sup>(5)</sup>	\$ 1,096	\$ 1,018	\$ 843
<b>2013 Full Year Cost Guidance (reported October 2013):</b>			
<b>Ounces poured</b>	<b>635,000 - 685,000</b>	<b>550,000 - 600,000</b>	<b>approx 85,000</b>
<b>Operating cash costs - \$/oz produced <sup>(4)</sup></b>	<b>\$375 - \$400</b>	<b>\$330 - \$360</b>	<b>approx \$680</b>
<b>All-in Cash Costs (pre-tax) - \$/oz produced <sup>(5)</sup></b>	<b>\$930 - \$1,000</b>	<b>\$820 - \$895</b>	<b>approx \$775</b>

<sup>(1)</sup> Excludes capitalized stripping and abnormal mining costs.

<sup>(2)</sup> Sustaining capital<sup>NG</sup> is a capital expenditure necessary to maintain existing levels of production. The sustaining capital<sup>NG</sup> expenditures maintain the existing mine fleet, mill and other facilities so that they function at levels consistent from year to year.

<sup>(3)</sup> Growth capital<sup>NG</sup> is capital expended to expand the business or operations by increasing productive capacity beyond current levels of performance.

<sup>(4)</sup> Operating cash costs<sup>NG</sup> include mine operating costs such as mining, processing, administration, royalties and operating taxes (except at Kumtor where revenue-based taxes are excluded), but exclude depreciation, depletion and amortization (DD&A), reclamation costs, financing costs, capital expenditures and exploration. Operating cash costs per ounce produced is calculated by dividing operating cash costs by the ounces produced.

<sup>(5)</sup> All-in cash costs per ounce produced<sup>NG</sup> includes operating cash costs<sup>NG</sup>, capitalized stripping, sustaining and growth capital<sup>NG</sup>, corporate general and administrative expenses, global exploration expenses and social development costs. The measure is presented including and excluding revenue-based taxes at Kumtor and income taxes at Boroo.

<sup>(6)</sup> Consolidated numbers may not add across the columns as corporate entities are not presented in this table, given these are not significant.

<sup>(7)</sup> Results may not add or compute due to rounding.

Both operations exceeded their production guidance in 2013, mainly as a result of a strong fourth quarter at Kumtor and better than expected annual production from the heap leach operation at Boroo. Centerra's performance in 2013 was within its third quarter operating cash costs guidance, and performed better than its all-in cash cost<sup>NG</sup> guidance due in part to Boroo which exceeded expectations. Kumtor had a strong production year in 2013 exceeding its ounce production (+90%), processing higher grades (+53%) and achieving higher recoveries (+5%) as compared to 2012.

## Unit Cash Costs – New Measures Reconciled

The following table reconciles the prior reported measure of consolidated all-in cash costs<sup>NG</sup> to the new all-in sustaining<sup>NG</sup> and all-in costs<sup>NG</sup> measures for the Company's 2013 actual results.

\$ millions, except as noted	2013 Year - Consolidated Actual <sup>(1)</sup>		
	Old Measures	New WGC Measures	
	All-in Cash Costs <sup>(2)</sup>	All-in Sustaining <sup>(2)</sup>	All-in Costs <sup>(2)</sup>
<b>Operating cash costs <sup>(2)</sup> and capitalized stripping</b>	464.8	464.8	464.8
Sustaining capital (cash) <sup>(2)</sup>	57.7	57.7	57.7
Growth capital (cash) <sup>(2)</sup>	39.9		39.9
<b>Operating cash costs <sup>(2)</sup> including capital</b>	562.4		
Corporate and general administration	30.3	30.3	30.3
Exploration and business development	29.6		29.6
Community investments (social development costs)	6.4	6.4	6.4
Other expenses	1.9		1.9
<b>All-in Cash Costs - pre-tax <sup>(2)</sup></b>	<b>\$ 630.5</b>		
Changes in Inventories		10.0	10.0
Reclamation expense		0.9	0.9
<b>All-in Sustaining Costs <sup>(2)</sup></b>		<b>\$ 570.1</b>	
<b>All-in Costs <sup>(2)</sup></b>			<b>\$ 641.4</b>
Revenue-based tax and Income tax	126.3		126.3
<b>All-in Cash Costs - including taxes <sup>(2)</sup></b>	<b>\$ 756.8</b>		
<b>All-in Costs (including taxes) <sup>(2)</sup></b>			<b>\$ 767.7</b>
<b>Ounces poured</b>	690,720		
<b>Ounces sold</b>		696,818	696,818
<b>Operating cash cost - \$/oz produced <sup>(2)</sup></b>	<b>\$ 382</b>		
<b>All-in Cash Costs (pre-tax) - \$/oz produced <sup>(2)</sup></b>	<b>\$ 913</b>		
<b>All-in Cash Costs (including taxes) - \$/oz produced <sup>(2)</sup></b>	<b>\$ 1,096</b>		
<b>All-in Sustaining Costs - \$/oz sold <sup>(2)</sup></b>		<b>\$ 818</b>	
<b>All-in Costs - \$/oz sold <sup>(2)</sup></b>			<b>\$ 920</b>
<b>All-in Costs (including taxes) - \$/oz sold <sup>(2)</sup></b>			<b>\$ 1,102</b>
<sup>(1)</sup> Results may not add or compute due to rounding.			
<sup>(2)</sup> Non-GAAP measure, see discussion under "Non-GAAP Measures"			

The impact of this change in presentation of the Company's all-in cost performance measures was not a significant departure from its previously reported measure for the reported periods. As presented in the above table, the consolidated all-in cash costs (pre-tax) per ounce produced<sup>NG</sup> (old measure) for 2013 was \$913, as compared to the consolidated all-in costs per ounce sold<sup>NG</sup> (new measure) of \$920. At Kumtor, all-in cash costs (pre-tax) per ounce produced<sup>NG</sup> (old measure) for 2013 was \$829 as compared to the all-in costs per ounce sold<sup>NG</sup> (new measure) of \$853, while at

Boroo, all-in cash costs (pre-tax) per ounce produced<sup>NG</sup> (old measure) for 2013 was \$701 as compared to the all-in costs per ounce sold<sup>NG</sup> (new measure) of \$765.

The Company believes that this change in presentation brings the Company's performance measure reporting more in-line with the rest of the gold industry and may provide investors with better comparability in assessing performance against other gold producers. It may also help investors to assess the ability of Centerra to generate cash flow for use in investing and other activities.

“All-in cash costs<sup>NG</sup>”, “all-in sustaining costs<sup>NG</sup>” and “all-in costs<sup>NG</sup>” are intended to provide additional information only and do not have standardized definitions under IFRS and should not be considered as a substitute for measures of performance prepared in accordance with IFRS (see discussion under “Non-GAAP Measures”).

These measures are not representative of all of the Company's cash expenditures as they do not include interest costs or dividend payments.

**Any further references to all-in costs or all-in sustaining costs (whether on a unit basis or not) in the remainder of this MD&A are under the definitions as developed by the World Gold Council and defined on page 41.**

## Developments in 2013

### Kumtor:

- Since the beginning of 2013, there have been several developments with respect to actions taken by the Kyrgyz Republic Parliament and the Kyrgyz Republic Government that may impact upon Kumtor and the agreements that govern the Kumtor Project. See “Other Corporate Developments - Kyrgyz Republic” for further details on these developments.
  - On December 24, 2013, Centerra entered a non-binding Heads of Agreement (the “HOA”) with the Government of the Kyrgyz Republic and Kyrgyzaltyn JSC (“Kyrgyzaltyn”) in connection with a potential restructuring transaction under which Kyrgyzaltyn would exchange its 32.7% equity interest in Centerra for a 50% interest in a joint venture company that would own the Kumtor Project.
  - On February 6, 2014, after their review of the HOA, the Kyrgyz Parliament adopted a resolution which appears to support the concept of the restructuring described in the HOA but also contains a number of recommendations that are materially inconsistent with the terms of the HOA. Among other things, the resolution calls for further audits of the Kumtor operation and for the Government and the General Prosecutor's Office to continue pursuing claims for environmental and economic damages, which the Company disputes.
  - The Company expects to continue its discussions with the Government regarding a potential restructuring transaction to resolve all outstanding concerns relating to the Kumtor Project. However, the Company continues to maintain that any agreement to resolve matters must be fair to all of Centerra's shareholders. Any definitive agreement for a potential restructuring remains subject to required approvals in the Kyrgyz Republic, including Government and Parliament of the Kyrgyz Republic, Centerra Special Committee and Board approval, and compliance with all applicable legal and regulatory requirements

and approvals, including a formal independent valuation and shareholder approval.

- The Company has also received a number of environmental claims from Kyrgyz regulatory authorities, including the State Inspectorate Office for Environmental and Technical Safety (SIETS), the State Agency for Environmental Protection and Forestry (SAEPF) as well as the Green Party of Kyrgyzstan. In addition, the Company has received a claim from the Kyrgyz Republic General Prosecutor's Office requesting a court to invalidate the Company's land use certificate and seize certain lands within Kumtor's concession. The Company believes the environmental claims are exaggerated and without merit and that the invalidation of the land use certificate and purported seizure of land is in violation of the Kyrgyz Republic Land Code and the Restated Investment Agreement. The Company continues to vigorously defend against all such claims in Kyrgyz courts. See "Other Corporate Developments - Kyrgyz Republic".
- As previously disclosed, during an inspection in June 2013, an increased number of cracks were observed in the ring gear of the Kumtor ball mill as compared to the previous inspection in April 2013. As a result the ring gear was rotated during a scheduled shutdown in August 2013, and is currently operating as designed. The Company continues to closely monitor the performance of the rotated ring gear. In the event that the ball mill cannot continue to operate with the existing rotated ring gear, a spare ring gear is available on site, although it would be expected to operate at approximately 95% of the capacity of the existing rotated ring gear. A replacement ring gear has been ordered and is expected to arrive in the third quarter of 2014.
- Beginning in mid-March 2013, the rate of movement of the Davidov Valley Waste-rock Dump (also referred to as the "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 such time as new facilities are constructed and as a result, the Company has recorded a write-down of \$2.2 million representing the book value of the infrastructure that will not be relocated.
- The Davidov Valley Waste Rock Dump has returned to its pre-March 2013 movement rate. The Company continues to monitor the movement of all the waste dumps closely and continues to make progress in relocating and/or replacing certain infrastructure that lies downgradient of the Davidov Valley Waste Rock Dump.
- Movement rates of ice and waste in the high movement area at Kumtor were as expected in the last half of 2013. The Company focused on mining the high-grade ore that was obtained upon gaining access through cut-back 15. During the fourth quarter of 2013, Kumtor immediately processed the higher grade ore, producing 348,130 ounces or 58% of its annual production.
- Kumtor experienced a work stoppage from May 30 to June 1, 2013 as a result of an illegal protest which blocked the road leading to the mine, thereby disrupting delivery of supplies. Protestors also interrupted the power supply to the mine. Milling operations were suspended during the period as a result of the power interruption. Mining operations were limited to management of the ice and waste in the high movement area of the open pit in order to preserve diesel inventory at the site.

- Kumtor concluded its triennial Conceptual Closure Plan (CCP) update. The CCP, provides an estimate of the total future closure cost to reclaim the mine site after the completion of mining activities. The Company's discounted value of estimated costs to close, reclaim and decommission the project site at the end of the mine life was updated to \$37 million, an increase of \$6 million over the prior year.
- During the fourth quarter of 2013, the Company discontinued all exploration activities at Kumtor. The Company does not expect to commence exploration at Kumtor in the foreseeable future and has de-recognized \$4.8 million of inventory held for exploration activities.

**Boroo:**

- The Boroo Stability Agreement expired on July 7, 2013 and the Company has been paying taxes in accordance with current Mongolian laws and regulations subsequent to that date. Royalties for gold sold to the Bank of Mongolia have recently been reduced and, as a result, the Company is exploring sales to the Bank of Mongolia.
- Mining activities at Boroo were completed in September 2012. The mill processed stockpiled ore during 2013 and is expected to operate through to November 2014.
- Active leaching of the Boroo heap leach continued through-out 2013. Crushing and stacking activities at the heap leach operation were completed by October 2013 and it is expected that the heap leach operation will continue to be actively leached through to the end of 2014 when the operation will transition to a drain down/closure status.

**Gatsuurt project:**

In May 2013, the Mongolian Government proposed to Parliament that seven deposits, including Gatsuurt, be added to the list of “mineral deposits of strategic importance”. Such a designation, which is subject to the approval of Parliament, would have the effect of excluding the Gatsuurt deposit from the application of the Water and Forest Law which would otherwise prohibit exploration and mining activities at the Gatsuurt deposit. Parliament did not consider this matter further during the fall sitting of Parliament and the Company now expects the matter to be addressed in the spring session of Parliament commencing in April 2014. If Parliament ultimately approves this designation, it would allow the Government of Mongolia to acquire up to a 34% interest in Gatsuurt. The terms of any such participation would be subject to negotiations with the Government. See “Other Corporate Developments – Mongolia”.

**Acquisition of Remaining Öksüt Interest:**

On January 24, 2013, the Company completed the purchase of the remaining 30% interest in the Öksüt Gold Project, located in the Kayseri region of central Turkey, from Stratex International Plc. Closing of the transaction was conditional on the conversion of six exploration licenses to two operation licenses and other customary conditions. The two operations licenses were received on January 16, 2013. With the closing, the Company became the sole owner of the Öksüt Gold Project and assumed day to day management of the project. Consideration for Stratex's interest in the project consisted of \$20 million paid at closing and a 1% Net Smelter Return royalty on the project, subject to a maximum of \$20 million.

## Consolidated Financial and Operating Highlights

The consolidated financial statements of Centerra are prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board and have been measured and expressed in United States dollars. Some of the information discussed below are non-GAAP measures. See “Non-GAAP Measures”.

Financial Summary (\$ millions, except as noted)	Year Ended December 31, <sup>(4)</sup>		
	2013	2012 <sup>(3)</sup>	2011 <sup>(3)</sup>
Revenue	\$ 944.4	\$ 660.7	\$ 1,020.3
Cost of sales	559.2	383.3	382.3
Abnormal mining costs	-	24.8	-
Mine standby costs	-	4.6	-
Regional office administration	23.7	21.0	21.3
<b>Earnings from mine operations</b>	<b>361.4</b>	<b>227.0</b>	<b>616.7</b>
Revenue-based taxes	113.5	74.7	131.8
Other operating expenses	8.3	34.3	15.5
Loss on de-recognition of underground assets	-	180.7	-
Exploration and business development	29.6	38.5	42.9
Corporate administration	30.6	27.0	44.9
<b>Earnings (loss) from operations</b>	<b>179.4</b>	<b>(128.2)</b>	<b>381.7</b>
Other (income) and expenses	3.6	(0.1)	(1.1)
Finance costs	5.0	4.0	3.5
<b>Earnings (loss) before income taxes</b>	<b>170.8</b>	<b>(132.0)</b>	<b>379.2</b>
Income tax expense	13.2	11.7	8.1
<b>Net earnings (loss)</b>	<b>\$ 157.7</b>	<b>\$ (143.7)</b>	<b>\$ 371.1</b>
Earnings (loss) per common share (basic) - \$/share	\$ 0.67	\$ (0.61)	\$ 1.57
Earnings (loss) per common share (diluted) - \$/share	\$ 0.64	\$ (0.61)	\$ 1.57
Weighted average common shares outstanding - basic (thousands)	236,382	236,369	236,088
Weighted average common shares outstanding - diluted (thousands)	236,663	236,369	236,354
Total assets	\$ 1,688	\$ 1,594	\$ 1,689
Long-term provision for reclamation, dividends payable and deferred income taxes	\$ 72	\$ 58	\$ 56
<b>Operating Summary</b>			
Gold produced - ounces poured	690,720	387,076	642,380
Gold sold - ounces sold	696,818	390,533	650,258
Average realized price - \$/oz <sup>(2)</sup>	\$ 1,355	\$ 1,692	\$ 1,569
Average gold spot market price - \$/oz <sup>(1)</sup>	\$ 1,411	\$ 1,669	\$ 1,572
Cost of sales - \$/oz sold <sup>(2)</sup>	\$ 803	\$ 982	\$ 588
Adjusted operating costs - \$/oz sold <sup>(2)</sup>	\$ 402	\$ 747	\$ 484
All-in sustaining costs – \$/oz sold <sup>(2)</sup>	\$ 818	\$ 1,449	\$ 608
All-in costs – \$/oz sold <sup>(2)</sup>	\$ 920	\$ 1,991	\$ 911
All-in costs (including taxes) – \$/oz sold <sup>(2)</sup>	\$ 1,102	\$ 2,212	\$ 1,118

<sup>(1)</sup> Average for the period as reported by the London Bullion Market Association (US dollar Gold P.M. Fix Rate).

<sup>(2)</sup> All-in sustaining costs per ounce sold, all-in costs per ounce sold, all-in costs (including taxes) per ounce sold, as well as average realized price per ounce sold and cost of sales per ounce sold, are non-GAAP measures and are discussed under “Non-GAAP Measures”.

<sup>(3)</sup> The 2012 comparative period was restated as a result of the adoption of IFRIC 20 (see Changes in Accounting Policies for impact). The 2011 comparative period was not restated for the impact of IFRIC 20.

<sup>(4)</sup> Results may not add or compute due to rounding.

## Results of Operations

### 2013 Compared to 2012

For the year ended December 31, 2013, the Company recorded net earnings of \$157.7 million or \$0.67 per share (basic), compared to net loss of \$143.7 million or \$0.61 per share in 2012. The increase in earnings in 2013 reflects significantly more ounces produced and sold (ounces sold increased 78% over 2012). The 2012 results reflected a charge for the de-recognition of the underground assets at Kumtor of \$180.7 million and the negative impact on production of the acceleration of ice and waste in the high movement area above the SB zone which delayed the release of ore and required a re-design of the production plan early in 2012. Production increases in 2013 were reported at both operations, with Kumtor benefiting from higher grades and recoveries mined and processed, and Boroo benefiting from a full year of heap leach production (which resumed operation in October 2012). These increases were partially offset by 20% lower realized prices in 2013.

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

Gold production for 2013 totaled 690,720 ounces compared to 387,076 ounces in the prior year. The lower ounces poured in 2012 were mainly due to the revised mine plan at Kumtor due to the need to remove ice and waste, as a result of the accelerated ice and waste movements in the SB zone. Kumtor recorded a 90% increase in ounces poured in 2013, while Boroo poured 26% more ounces in 2013 due to the heap leach operating for the full year.

The production increase at Kumtor was mainly due to higher ore volumes and higher grades moved from the pit and higher throughput with higher grades and recoveries processed through the mill. Kumtor recorded lower ore volumes in 2012 as a result of the revised mine plan, as well as lower grades and lower recoveries from the ore processed through the mill. Milling activities at Kumtor were temporarily suspended on July 23, 2012 upon depletion of the low grade stockpiles that were being processed while awaiting the release of ore from the pit. The mill resumed operation on September 28, 2012 with the release of ore from cut-back 14B. At Boroo, although total ounce production in 2013 was higher, the mill poured 22% less ounces due to processing stockpiled material with lower grades and recoveries than the previous year. The heap leach operation poured an additional 32,812 ounces as compared to 2012, benefiting from a full year of production.

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

##### *Environment*

Centerra had eight level II environmental incidents during 2013, seven at its Kumtor operation and one at its Boroo operation and one level III incident at the Boroo operation. Six of the seven level II incidents at Kumtor involved vehicle damage that led to small uncontained spills of fluids, primarily diesel fuel, while the seventh incident was related to defective lime tote bags. The level II incident at Boroo represented a minor, non-reportable excursion of heap leach solution from its heap leach pad. The level III incident at Boroo was related to a fuel spill caused by a faulty fuel filter on a contractor fuel supply truck. The location of the spill was far removed from any potential environmental receptors. In all cases, the Company undertook immediate remedial action.

### *Safety*

Centerra had ten recordable injuries in 2013. Five injuries were recorded at Kumtor, two at the Öksüt project in Turkey, one at the ATO property in Mongolia and two at the Boroo operation, which included a fatality when a light duty vehicle was involved in a single vehicle rollover at the tailings facility on July 3, 2013.

### ***Revenue:***

Revenues for 2013 were \$944.4 million, an increase of \$283.6 million compared to the same period of 2012 due to a 78% increase in ounces sold partially offset by a 20% decrease in the realized gold price. Gold sold was 696,818 ounces in 2013 compared to the 390,533 ounces reported in 2012. The increase reflects higher gold production at both Kumtor and Boroo. The average realized gold price<sup>NG</sup> for 2013 was \$1,355 per ounce compared to \$1,692 per ounce in the same period of 2012, reflecting lower spot prices for gold throughout the year.

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

Cost of sales was \$559.2 million in 2013 compared to \$383.3 million in 2012, reflecting the significantly higher ounces sold in 2013. The volumes in 2012 were significantly reduced as a result of the ice movement and the revised mine plan at Kumtor which led to the suspension of milling activities for part of the year. Cost of sales in 2013 included an increase in depreciation, depletion and amortization (“DD&A”) of \$167 million, mainly due to higher ounces sold. Cost of sales in 2012 also included a charge of \$7.2 million representing a metal reconciliation variance between the gold content estimated in the stockpiles and the gold actually recovered through processing at Kumtor.

Depreciation, depletion, and amortization associated with production increased to \$309 million in 2013 from \$142.1 million in 2012 as a result of higher volumes, higher amortization of deferred stripping costs at Kumtor and higher depreciation for the expanded mobile fleet at Kumtor.

### ***Abnormal mining costs:***

Abnormal mining costs of \$24.8 million were recorded by Kumtor in 2012 (nil for 2013) representing the cost of the ice and waste removal from the high movement unload zone. The costs associated with this unloading activity resulted in a significant amount of mining costs which did not relate to the production of inventory in the period and were expensed immediately as abnormal mining costs.

### ***Other operating expenses:***

Other operating expenses for 2013 totaled \$8.3 million compared to \$34.3 million in 2012. The 2013 amount includes spending on social development programs (corporate social responsibility (“CSR”) programs) of \$6.3 million (\$26.2 million in 2012) and \$1.5 million spent on closure costs for the underground project at Kumtor (\$7.8 million in 2012). CSR spending in 2013 was \$6.2 million in the Kyrgyz Republic and \$0.1 million in Mongolia. In 2012, \$24 million was spent on CSR projects in the Kyrgyz Republic, including \$21 million as a contribution to a national micro-credit financing program, and \$2.2 million in Mongolia, including an additional contribution by Boroo to the Ulaanbaatar maternity hospital of \$1.1 million. A decision was made in 2012 to close the underground project at Kumtor which resulted in closure costs being incurred in 2012 and 2013.

***Loss on de-recognition of underground assets:***

The Company recorded a charge of \$180.7 million in the fourth quarter of 2012 for the de-recognition of the underground assets at Kumtor following the decision to expand the open pit, as announced on November 7, 2012. The larger open pit is expected to partially consume the declines rendering them unusable for future mining activities.

***Exploration and business development:***

Exploration and business development expenditures in 2013 totaled \$29.6 million, all of which represented exploration spending (2012 total \$38.5 million, including \$37.9 million of exploration). Exploration expenditures in 2013 decreased from 2012 mainly due to the suspension of all exploration programs in the Kyrgyz Republic in the second half of the year.

Exploration expenditures at Kumtor in 2013 totaled \$6.1 million (\$11.3 million in 2012), and included programs of surface drilling from the Central Pit focused on infilling portions of the SB Zone inferred resource below the planned KS-13 pit bottom, deep drilling to test the extensions to high grade mineralization beneath the Saddle Zone and on extending the limits of the “Hockey Stick” Zone. The infill drilling of the SB Zone inferred underground resource did not materially impact the current resource estimate. Drilling at the Saddle Zone has confirmed results of previous drilling and did not have an impact on resource estimates. Additional drilling was completed to test for extensions to a small zone of oxide gold mineralization near the leading edge of the Kumtor thrust in the area of the Southwest deposit. The results from these holes were negative.

All exploration drilling at Kumtor ceased in the fourth quarter of 2013 with no future plans for exploration work within the concession area or on a regional scope.

In Mongolia, 2013 exploration expenditures totaled \$5.5 million compared to \$10 million in 2012. The Mineral Resource Authority of Mongolia (“MRAM”) accepted an updated Reserves and Resources report for the Gatsuurt Deposit in late December 2013 and a feasibility study is in progress. Exploration activity at ATO included soil sampling, trenching, IP geophysics and drilling to test both the lateral and depth extent of the known mineralized area.

Expenditures in Russia were \$6.6 million in 2013 (\$5.9 million in 2012) and included drilling programs on the Kara Beldyr, Dvoynoy and Umlekan projects. At Kara Beldyr, drilling was completed in the second quarter and the decision was made to cease exploration with the project being put on care and maintenance. The Kara Beldyr project is currently preparing a resource report that will be filed with the state agency in the second quarter of 2014. Exploration works of trenching, geophysics and geochemical surveys advanced at the Dvoynoy and Umlekan projects. Drilling at both properties began late in the fourth quarter on priority targets that have been identified.

In Turkey, \$8.1 million was spent on exploration in 2013 (\$6.4 million in 2012). Exploration spending increased in 2013 with further drilling at the Öksüt Project. Work at Öksüt focused on the Keltepe deposit (formerly Ortacam North) with infill drilling and limited step-out drilling due to the Company’s inability to secure the required permits. Results of the drilling have increased the size and confidence level of the resource. A variety of metallurgical testworks, including bottle roll tests, agglomeration tests, and column leach tests were conducted on samples from both Keltepe and Guneytepe (formerly Ortacam). Preliminary column leach tests returned values from 78% to 82%. The Company continues to conduct environmental impact assessments on the Öksüt project.

Elsewhere, the Company initiated exploration on the Laogouxi property in Heilongjiang Province, China with disappointing results. The Company has notified its partners of its intention to withdraw from this project. Generative exploration programs continued in Russia, Central Asia, Europe and China.

***Corporate administration:***

Corporate administration costs in 2013 were \$30.6 million compared to \$27 million in the same period in 2012, reflecting increased activity on the Company's projects, start-up spending on an enterprise risk management program and a higher charge for share-based compensation. Share-based compensation expense was \$2.5 million in 2013 compared to a recovery of \$3.0 million in 2012, due to the higher volatility and relative performance of Centerra's share price compared to the gold index and reflecting the issuance of additional options and other stock-based compensation in 2013.

***Taxes:***

Centerra reported \$113.5 million in 2013 for revenue-based taxes at Kumtor compared to \$74.7 million in 2012, and \$13.2 million in 2013 for income taxes at Boroo compared to \$11.7 million in 2012.

The increase of \$38.8 million in the revenue-based tax expense at Kumtor resulted from increased revenues due to higher volumes sold in 2013, but was partially offset by lower realized gold prices. The increase of \$1.5 million in Boroo's income tax expense resulted from increased income due to the higher volumes sold in 2013, but was also partially offset by lower gold prices.

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 at an income tax rate of 25% on taxable income over 3 billion Mongolian Tugriks (MNT) (approximately \$1.8 million at the December 31, 2013 exchange rate) and a rate of 10% on taxable income up to that amount. Following the termination of the Boroo Stability Agreement in July 2013, Boroo's corporate income tax rate was unchanged, however the royalty paid to the government increased from 5% to a rate varying between 5% and 10% based on the price of gold to a maximum of 10% for gold prices at or above \$1,300 an ounce. On January 24, 2014, the Mongolian Parliament passed amendments to the Minerals Law that reduced the rate of royalty to 2.5% on gold sold to the Bank of Mongolia.

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

## Unit Operating Costs:

	Year Ended December 31, <sup>(5)</sup>		
	2013	2012 <sup>(4)</sup>	% Change
<i>(unaudited - \$ millions, except as noted)</i>			
<b>All-in Costs:</b>			
Operating costs (on a sales basis) <sup>(1)</sup>	250.2	241.2	4%
Regional office administration	23.7	21.0	13%
Community costs related to current operations	6.4	26.2	(76%)
Mine stand-by costs	-	4.6	(100%)
Refining fees	3.8	2.1	79%
By-product credits	(4.3)	(3.3)	29%
<b>Adjusted operating costs</b> <sup>(2)</sup>	<b>279.9</b>	291.9	(4%)
Corporate general and administrative costs	30.3	26.8	13%
Accretion expense	0.9	0.8	22%
Capitalized stripping and ice unload - cash	201.3	203.0	(1%)
Capital expenditures (sustaining) <sup>(2)</sup>	57.7	43.5	33%
<b>All-in Sustaining Costs</b> <sup>(2)</sup>	<b>570.1</b>	565.9	1%
Capital expenditures (growth) <sup>(2)</sup>	39.9	166.0	(76%)
Other costs <sup>(3)</sup>	31.5	45.5	(31%)
<b>All-in Costs</b> <sup>(2)</sup>	<b>641.4</b>	777.4	(17%)
Revenue-based tax and income taxes	126.3	86.4	46%
<b>All-in Costs - including taxes</b> <sup>(2)</sup>	<b>767.7</b>	863.8	(11%)
<b>Ounces sold - oz</b>	<b>696,818</b>	390,533	78%
<b>Adjusted Operating Costs - \$/oz sold</b> <sup>(2)</sup>	<b>402</b>	747	(46%)
<b>All-in Sustaining Costs - \$/oz sold</b> <sup>(2)</sup>	<b>818</b>	1,449	(44%)
<b>All-in Costs - \$/oz sold</b> <sup>(2)</sup>	<b>920</b>	1,991	(54%)
<b>All-in Costs - including taxes - \$/oz sold</b> <sup>(2)</sup>	<b>1,102</b>	2,212	(50%)

<sup>(1)</sup> Operating costs (on a sales basis) 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 reclamation costs and depreciation, depletion and amortization. Operating costs (on a sales basis) is the same as the cash component of cost of sales.

<sup>(2)</sup> All-in sustaining costs, all-in costs, all-in costs – including taxes (in \$ millions and per ounce), as well as adjusted operating costs and sustaining and growth capital (excluding stripping) are non-GAAP Measures and are discussed under “Non-GAAP Measures”.

<sup>(3)</sup> Other costs include global exploration expenses, business development expenses and project development costs not related to current operations.

<sup>(4)</sup> The 2012 comparative period was restated as a result of the adoption of IFRIC 20 (see Changes in Accounting Policies for impact).

<sup>(5)</sup> Results may not add or compute due to rounding.

Centerra’s all-in costs per ounce sold<sup>NG</sup> for 2013 was \$920, and includes all cash costs related to gold production, except for revenue-based taxes in the Kyrgyz Republic. This compares to all-in costs<sup>NG</sup> of \$1,991 per ounce sold in 2012. The decrease is mainly due to higher production at both sites (significantly higher at Kumtor), lower spending on growth capital<sup>NG</sup>, partially offset by higher operating costs and higher spending on capitalized stripping and ice and waste unload. Capital expenditures excluding capitalized stripping cash costs decreased by \$111.9 million from \$209.5 million (\$536 per ounce) in 2012 to \$97.6 million (\$140 per

ounce) in 2013 as the Kumtor mine completed the major portion of its mining fleet expansion during 2012.

## Cash Flow and Capital Resources

### Cash Flow:

\$ millions	Year ended December 31, <sup>(2)</sup>		
	2013	2012 <sup>(1)</sup>	% Change
Cash provided by (used in) operating activities	483.9	153.1	216%
Cash provided by (used in) investing activities :			
- Capital additions (cash)	(308.7)	(384.8)	(20%)
- Short-term investments net redeemed (net purchased)	(110.4)	324.7	(134%)
- other investing items	(22.0)	(6.9)	218%
Cash provided by (used in) investing activities - total	(441.0)	(67.0)	558%
Cash provided by (used in) financing activities	(33.9)	52.5	(165%)
Increase (decrease) in cash	9.0	138.6	(94%)

<sup>(1)</sup> The 2012 comparative period was restated as a result of the adoption of IFRIC 20 (see Changes in Accounting Policies for impact).

<sup>(2)</sup> Results may not add or compute due to rounding.

### Cash from operating activities

Cash provided from operations for 2013 totaled \$483.9 million compared to \$153.1 million in 2012, primarily as a result of significantly higher earnings at both operations in 2013, especially at Kumtor, partially offset by an increase in working capital levels.

Working capital items, which consist of amounts receivable, gold inventory, supplies inventory, prepaid expenses net of accounts payable and accrued liabilities, increased in 2013 by \$15.5 million, mainly due to the timing of gold shipments at the end of year, compared to an increase of \$20.1 million in 2012.

### Cash used in investing activities

Cash used in investing activities totaled \$441 million in 2013 compared to \$67 million in the prior year. Investing activities in 2013 primarily included investments in capital projects, the net purchase of short-term investments and the purchase of a further interest in the Öksüt Gold Project. In 2012, cash was used for investment in capital projects, substantially offset by a net redemption of short-term investments. Investments in capital projects were \$308.7 million in 2013 compared to \$384.8 million in 2012, representing higher spending on additions to the fleet at Kumtor in 2012, while higher capitalized stripping was spent at Kumtor in 2013. Spending for sustaining capital<sup>NG</sup> was higher at both operations. Investments in growth capital<sup>NG</sup>, excluding capitalized stripping, for 2013 totaled \$39.9 million (\$177.2 million in 2012), while \$57.7 million was invested in sustaining capital<sup>NG</sup> (\$43.5 million in 2012). Spending on capitalized stripping totaled \$201.3 million in 2013 compared to \$174.3 million in 2012. A net amount of \$110.4 million in short-term financial instruments were purchased in 2013, whereas a net amount of \$324.7 million in short-term financial instruments were sold in 2012.

### *Cash from/used in financing activities*

Cash used in financing activities in 2013 was \$33.9 million (cash provided of \$52.5 million in 2012), and included dividend payments totaling \$31.1 million (\$22.2 million paid in 2012) and the payment of interest on borrowings of \$2.8 million (\$1.4 million in 2012). The comparative 2012 year included the borrowing of \$76 million from Centerra's revolving credit facility with EBRD.

Cash, cash equivalents and short-term investments at December 31, 2013 increased to \$501.5 million from \$382.1 million at the end of 2012.

### *Capital Expenditures (spent and accrued):*

\$ millions	Year ended December 31, <sup>(2)</sup>		
	2013	2012 <sup>(1)</sup>	% Change
Capital expenditures (Kumtor)	367.5	453.3	(19%)
Capital expenditures (Boroo & Gatsuurt)	8.6	10.2	(16%)
Capital expenditures (Corporate & Others)	0.6	0.5	16%
Capital expenditures (Consolidated)	376.6	464.0	(19%)

<sup>(1)</sup>The 2012 comparative period was restated as a result of the adoption of IFRIC 20 (see Changes in Accounting Policies for impact).

<sup>(2)</sup> Results may not add or compute due to rounding.

Capital expenditures (spent and accrued) in 2013 were \$376.6 million as compared to \$464 million in the prior year. Sustaining capital<sup>NG</sup> in 2013 was \$58.2 million (including \$49.7 million at Kumtor, \$7.9 million at Boroo and \$0.5 million at corporate), compared to \$44 million in 2012 (including \$40.8 million at Kumtor, \$2.6 million at Boroo and \$0.6 million at corporate). Growth capital<sup>NG</sup>, excluding capitalized stripping, was \$39.9 million in 2013, compared to \$168.4 million the prior year, primarily reflecting \$39.2 million of spending at Kumtor mainly on the infrastructure relocation project (\$19.1 million), fleet expansion (\$17.7 million) and spending at Gatsuurt of \$0.7 million for maintenance of the site. Capitalized stripping in 2013 totaled \$278.6 million, as compared to \$251.7 million in the prior year, spent on stripping activities in cut-backs and in the unload areas at Kumtor.

### *Credit and Liquidity:*

On August 8, 2013, the Company drew \$76 million under its \$150 million revolving credit facility with EBRD, leaving a balance of \$74 million undrawn at December 31, 2013. The \$76 million drawn amount was subsequently redrawn on February 10, 2014 and is due to be repaid on August 11, 2014 or, at the Company's discretion, repayment of the loaned funds may be extended until February 2015.

### *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 2013, the Company incurred combined costs (including capital) totaling roughly \$820 million. Approximately \$368 million of this (45%) 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: 45% in Kyrgyz soms, 19% in Canadian dollars, 18% in Mongolian tugriks, 12% in Euros, and approximately 6% in Russian Rubles, Australian dollars, Turkish

Lira, British pounds, Chinese Yuan, Japanese and Swiss Franc combined. In 2013, the average value of the currencies of the Japanese Yen, Mongolian Tugrik, Australian dollar, Turkish Lira, Russian Ruble, British Pound, Canadian dollar, Kyrgyz Republic and the Swiss Franc appreciated against the U.S. dollar by approximately 12.5%, 9.4%, 7.7%, 6.8%, 4.4%, 3.9%, 3.8%, 2.2% and 1.2% respectively, from their value at December 31, 2012. The Chinese Yuan and the Euro increased in value against the U.S. dollar by 1.3% and the 0.6%, respectively. 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 \$12.7 million (increase of \$0.8 million in 2012).

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

The Company had no gold hedges in place as of December 31, 2013. Centerra currently intends that its future gold production will remain unhedged.

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.

## **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 9.3 million ounces of gold to December 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 Central Valley Waste Dump, was experiencing a greater than anticipated rate of movement. The movement of the waste-rock dump has expedited the relocation and demolition of certain site infrastructure. Kumtor has evacuated and demolished the administration and workshop buildings and commenced construction of new administration building and accommodation quarters. The Company continues to make progress in relocating and reconstructing affected infrastructure.

During the third quarter of 2013, Kumtor received final regulatory approval for the revised 2013 annual waste rock dump management plan that among other things allows for the placement of waste rock in the Sarytor Valley, Davidov Valley and Lysii Valley. Kumtor is currently working in accordance with the revised plans.

Movement rates of ice and waste in the high movement area at Kumtor were as expected during the fourth quarter.

#### **Ring Gear**

The rotated ring gear at the Kumtor ball mill continued to operate at design capacity during the fourth quarter of 2013. The Company continues to closely monitor the performance of the rotated ring gear. In the event that the ball mill cannot continue to operate with the existing ring gear until the replacement arrives, a spare ring gear is available on site, although it would

be expected to operate at approximately 95% of the capacity of the existing ring gear. A newly fabricated ring gear is scheduled for delivery in the fourth quarter of 2014.

### Overview of Operating Results - 2013 Versus 2012

Kumtor Operating Results	Year Ended December 31, <sup>(2)</sup>			
	2013	2012	Change	% Change
Tonnes mined - 000s	176,693	147,610	29,083	20%
Tonnes ore mined - 000s	7,289	4,955	2,334	47%
Average mining grade - g/t <sup>(1)</sup>	3.64	2.95	0.69	23%
Tonnes milled - 000s	5,596	4,756	840	18%
Average mill head grade - g/t <sup>(1)</sup>	4.26	2.79	1.47	53%
Recovery - %	79.3	75.6	3.7	5%
<b>Gold produced – ounces</b>	<b>600,402</b>	<b>315,238</b>	<b>285,164</b>	<b>90%</b>

(1) g/t means grams per tonne.

(2) Results may not add or compute due to rounding.

### Overview of Operating Results - 2013 Versus 2012

During 2013, the mining activities focused on developing cut-back 15. Kumtor completed waste stripping in the first eight months to establish access to the ore body, and then mined, stockpiled and processed this ore for the remainder of 2013.

The total waste and ore mined for the year of 2013 was 176.7 million tonnes compared to 147.6 million tonnes in the comparative period of 2012, representing an increase of 20%. The increased volume is due to both the increased capacity of the mobile fleet and the increased volume of higher density material mined from cut-back 15 compared to the comparative period. The tonnes mined in 2012 were lower due to greater mining of ice and lower density material associated with the unexpected ice movement.

Kumtor produced 600,402 ounces of gold in 2013 compared to 315,238 ounces of gold in the comparative period of 2012. The prior year was negatively affected by the change in the mine plan and the mining of ice and waste, necessitated by the accelerated ice movement, which postponed the release of ore from the Central Pit and idled the mill for seven weeks after stockpiles were depleted. During 2013, Kumtor's average mill head grade was 4.26 g/t with a recovery of 79.3%, compared with 2.79 g/t and a recovery of 75.6% for the same period of 2012. Tonnes processed were approximately 5.6 million for 2013, 18% higher than the comparative period as a result of reduced mill operating time due to the seven week mill shutdown that occurred in the third quarter of 2012.

Kumtor Cost Performance (\$ millions, except as noted)	Year Ended December 31, <sup>(3)</sup>		
	2013	2012	% Change
Mining costs - total (including capitalized stripping and abnormal mining costs)	259.8	233.5	11%
<b>Operating Costs:</b>			
Mining - excluding capitalized stripping and abnormal mining costs <sup>(1)</sup>	58.5	36.8	59%
Milling	70.8	58.2	22%
Site support	60.0	53.3	13%
Changes in inventories	1.1	37.3	(97%)
Management fees and other	0.6	0.3	88%
<b>Operating costs (on a sales basis)</b>	<b>191.0</b>	185.9	3%
Bishkek administration	18.1	15.5	16%
Mine stand-by costs	-	4.6	(100%)
Refining fees	3.5	1.9	84%
By-product credits	(3.8)	(2.9)	32%
Community costs related to current operations	6.2	24.0	(74%)
<b>Adjusted Operating Costs <sup>(2)</sup></b>	<b>215.0</b>	229.0	(6%)
<b>Unit operating costs</b>			
Mining costs - total (\$/t mined material)	1.47	1.58	(7%)
Milling costs (\$/t milled material)	12.66	12.24	3%

<sup>(1)</sup> Mining costs charged to operations reduced by amounts charged to capital for stripping – cash component (2013 \$201.3 million; 2012 \$179.1 million) and amounts accounted for as abnormal mining costs – cash component (2013 \$nil; 2012 \$17.6 million).

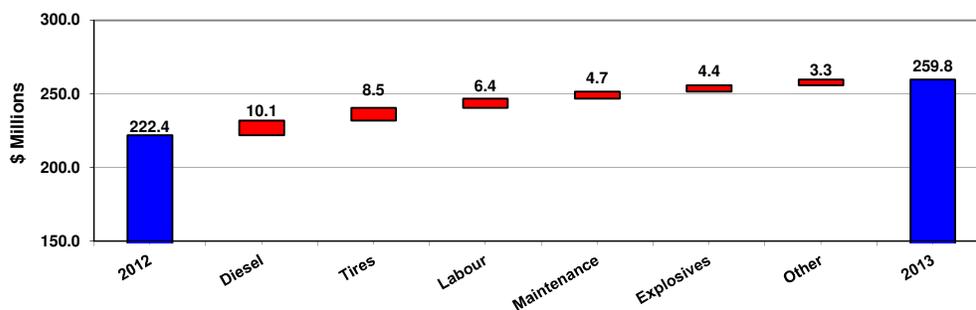
<sup>(2)</sup> Adjusted operating costs is a non-GAAP Measure and is discussed under “Non-GAAP Measures”.

<sup>(3)</sup> Results may not add or compute due to rounding.

Adjusted operating costs<sup>NG</sup> at Kumtor in 2013 decreased by \$14 million to \$215.0 million, excluding the capitalization of stripping activities and the expensing of unloading activities.

The movements in the major components of operating costs<sup>NG</sup> (mining, milling and site support) are explained as follows:

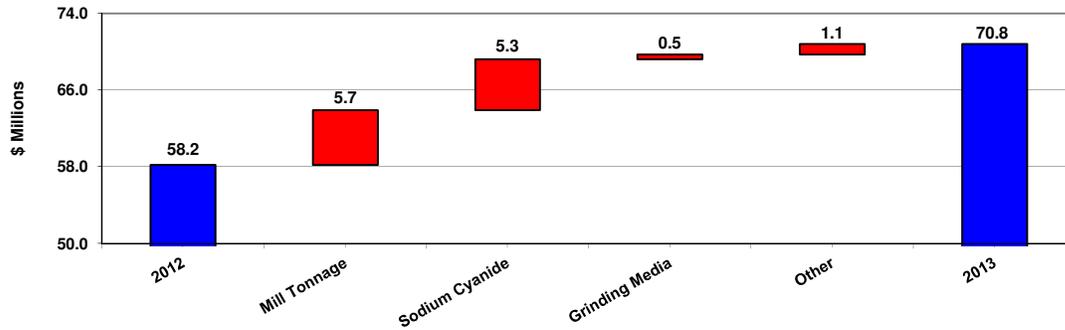
### Mining Costs – Kumtor, including capitalized stripping and abnormal mining costs (2013 compared to 2012):



Mining costs, including capitalized stripping and abnormal mining costs, totaled \$259.8 million in 2013 compared to \$222.4 million in the comparative period of 2012. The increase was due to the increased diesel (\$10.1 million) and blasting costs (\$4.4 million) resulting from greater tonnage of higher density material mined. Labour costs also increased (\$6.4 million) as

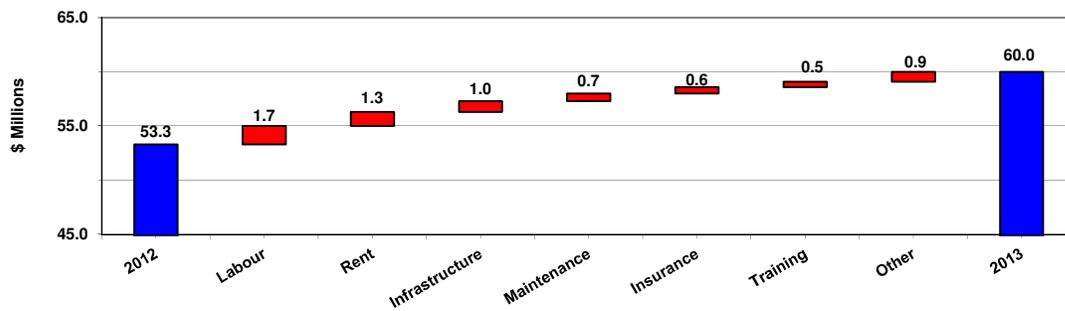
a result of the new collective bargaining agreement ratified in December 2012. Other increases include increased tire requirements (\$8.5 million) and maintenance (\$4.7 million) due to the expanded fleets of CAT 789 trucks, Hitachi shovels and DR460 drills.

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



Milling costs of \$70.8 million in 2013 compares to \$58.2 million in the same period of 2012. The 2013 milling costs were higher than the comparative period due to \$5.7 million greater reagent and electricity consumption as the mill processed 18% more tonnes than the comparative period, as 2012 was impacted by a prolonged shutdown of the mill. Other costs increases include an additional \$5.3 million of cyanide cost usage due to the higher head grade and a 19% price increase.

**Site support costs – Kumtor (2013 compared to 2012):**



Site support costs for 2013 totaled \$60.0 million compared to \$53.3 million in the comparative period of 2012. The increase is primarily due to higher labour costs as a result of the new collective bargaining agreement ratified in December 2012 (\$1.7 million), rental costs for temporary fuel storage to accommodate increased fuel volumes (\$1.3 million), equipment to assist with short-term requirements associated with the infrastructure relocation (\$1.0 million), increased maintenance requirements on equipment and camp infrastructure (\$0.7 million), increased insurance premiums (\$0.6 million), increased employee training programs (\$0.5 million) and other expenditure (\$0.9 million).

## Kumtor Unit operating costs

	Year Ended December 31, <sup>(4)</sup>		
	2013	2012 <sup>(3)</sup>	% Change
<i>(unaudited - \$ millions, except as noted)</i>			
<b>All-in Unit Costs:</b>			
Adjusted operating costs <sup>(1)</sup>	215.0	229.0	(6%)
Corporate General Administrative costs	-	-	-
Accretion expense	0.6	0.6	2%
Capitalized stripping and ice unload - cash	201.3	196.7	2%
Capital expenditures (sustaining) <sup>(1)</sup>	49.7	40.8	22%
<b>All-in Sustaining Costs <sup>(1)</sup></b>	<b>466.6</b>	467.1	(0%)
Capital expenditures (growth) <sup>(1)</sup>	39.2	165.2	(76%)
Other costs <sup>(2)</sup>	7.6	17.8	(57%)
<b>All-in Costs <sup>(1)</sup></b>	<b>513.4</b>	650.2	(21%)
Revenue-based tax	113.5	74.7	52%
<b>All-in Costs - including taxes <sup>(1)</sup></b>	<b>627.0</b>	724.9	(14%)
<b>Ounces sold - oz</b>	<b>601,887</b>	314,987	91%
<b>Adjusted Operating Costs - \$/oz sold <sup>(1)</sup></b>	<b>357</b>	727	(51%)
<b>All-in Sustaining Costs - \$/oz sold <sup>(1)</sup></b>	<b>775</b>	1,483	(48%)
<b>All-in Costs - \$/oz sold <sup>(1)</sup></b>	<b>853</b>	2,064	(59%)
<b>All-in Costs - including taxes - \$/oz sold <sup>(1)</sup></b>	<b>1,042</b>	2,301	(55%)

<sup>(1)</sup> All-in sustaining costs, all-in costs, all-in costs – including taxes (in \$ millions and per ounce), as well as adjusted operating costs and sustaining and growth capital (excluding stripping) are non-GAAP Measures and are discussed under “Non-GAAP Measures”.

<sup>(2)</sup> Other costs include global exploration expenses business development expenses and project development costs not related to current operations.

<sup>(3)</sup> The 2012 comparative period was restated as a result of the adoption of IFRIC 20 (see Changes in Accounting Policies for impact).

<sup>(4)</sup> Results may not add or compute due to rounding.

The all-in costs per ounce sold<sup>NG</sup> for 2013 was \$853 compared to \$2,064 for the comparative period. The all-in costs<sup>NG</sup> include all cash costs related to gold production, except for revenue-based taxes in the Kyrgyz Republic. The decrease in all-in costs<sup>NG</sup> is predominantly due to a 91% increase in gold sold in 2013. In addition, actual expenditure decreased, as growth capital<sup>NG</sup> expenditures (excluding capitalized stripping) were reduced from \$176.4 million to \$39.2 million (\$65 per ounce) as the Company concluded the significant investment in new mining equipment during 2012. The reduction in growth capital<sup>NG</sup> was partially offset by higher sustaining capital<sup>NG</sup> (including capitalized stripping and ice unload activities), that increased \$8.9 million.

## Boroo and Gatsuurt

### Boroo Mine

The Boroo open pit mine, located in Mongolia, was the first hard rock gold mine in Mongolia. It has produced approximately 1.75 million ounces of gold since it began operation in 2004.

Mining activities at Boroo were completed in September 2012. Heap leach operations resumed in October 2012.

Boroo Operating Results	Year Ended December 31, <sup>(2)</sup>			
	2013	2012	Change	% Change
Total tonnes mined - 000s	-	6,338	(6,338)	(100%)
Average mining grade (non heap leach material) - g/t <sup>(1)</sup>	-	2.00	(2.00)	(100%)
Tonnes mined heap leach - 000s	-	143	(143)	(100%)
Tonnes ore mined direct mill feed - 000s	-	907	(907)	(100%)
Tonnes ore milled - 000s	2,394	2,382	12	1%
Average mill head grade - g/t <sup>(1)</sup>	1.12	1.32	(0.20)	(15%)
Recovery (mill) - %	57.6%	64.0%	(6%)	(10%)
Tonnes placed (heap leach) - 000s	2,644	456	2,188	480%
Tonnes leached - 000s	4,248	904	3,344	370%
Average grade leached - g/t <sup>(1)</sup>	0.70	0.70	0	0%
Recovery (heap leach) - %	42.8	40.9	1.9	5%
Gold produced – mill (ounces)	50,020	64,352	(14,332)	(22%)
Gold produced – heap leach (ounces)	40,298	7,486	32,812	438%
<b>Total gold produced (ounces)</b>	<b>90,318</b>	<b>71,838</b>	<b>18,480</b>	<b>26%</b>

<sup>(1)</sup> g/t means grams per tonne.

<sup>(2)</sup> Results may not add or compute due to rounding.

### Overview of Operating Results - 2013 Versus 2012

Boroo produced 90,318 ounces of gold in 2013 as compared to 71,838 ounces of gold in 2012, mainly due to 32,812 higher ounces poured from the heap leach operation in 2013 which resumed production in October 2012, partially offset by lower grade and recovery achieved from processing low grade ore stockpile in 2013. The processed ore grade averaged 1.12 g/t with a recovery of 57.6% in 2013, compared to 1.32 g/t with a recovery of 64% in 2012.

Boroo Cost Performance (\$ millions, except as noted)	Year Ended December 31. <sup>(3)</sup>		
	2013	2012	% Change
Mining costs- total (including capitalized stripping)	-	12.1	82%
<b>Operating costs:</b>			
Mining - excluding capitalized stripping <sup>(1)</sup>	-	5.8	(100%)
Milling	23.1	22.4	3%
Leaching	10.6	2.1	396%
Site support	8.1	8.3	(2%)
Royalties & other	8.4	6.2	35%
Changes in inventories	8.9	10.5	(15%)
<b>Operating Costs (on a sales basis)</b>	<b>59.2</b>	55.3	7%
Ullaanbaatar administration	5.7	5.5	3%
Refining fees	0.3	0.3	37%
By-product credits	(0.5)	(0.4)	9%
Community costs related to current operations	0.1	2.2	(94%)
<b>Adjusted operating costs <sup>(2)</sup></b>	<b>64.8</b>	62.9	3%
<b>Unit operating costs</b>			
Mining costs - total (\$/t mined material)	-	2.98	(100%)
Milling costs (\$/t milled material)	9.66	9.39	3%

<sup>(1)</sup> Mining costs charged to operations reduced by amounts charged to capital for stripping – cash component (2013 \$nil; 2012 \$6.3 million)

<sup>(2)</sup> Adjusted operating costs is a non-GAAP Measures and is discussed under “Non-GAAP Measures”.

<sup>(3)</sup> Results may not add or compute due to rounding.

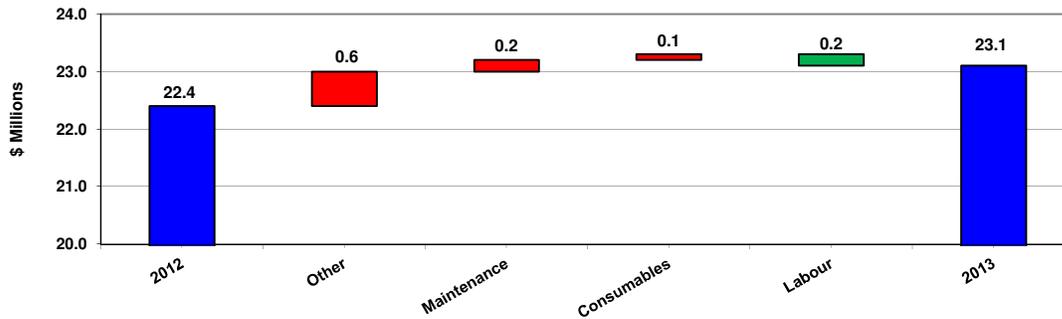
Operating costs<sup>NG</sup> (on a sales basis) at Boroo increased by \$3.9 million in 2013 excluding the capitalization of stripping costs at Pit 6 (decrease of \$2.4 million including capitalization) compared to 2012.

The movements in the major components of operating costs (on a sales basis)<sup>NG</sup>, mining, milling, leaching and administration, are explained as follows:

### Mining Costs – Boroo (2013 compared to 2012):

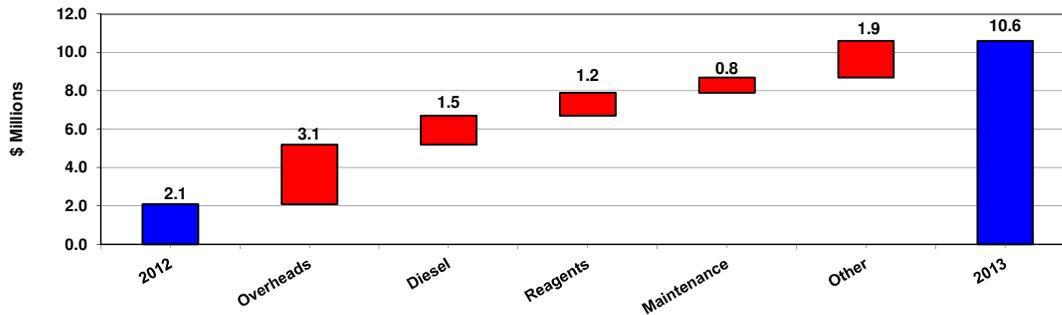
There was no active in-pit mining activity in 2013 as mining operations ceased in September 2012. In 2012, Boroo completed its mining activities in Pit 6 which provided ore to the mill and to heap leach stockpiles. Mining costs in 2012 (including capitalized stripping) totaled \$12.1 million.

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



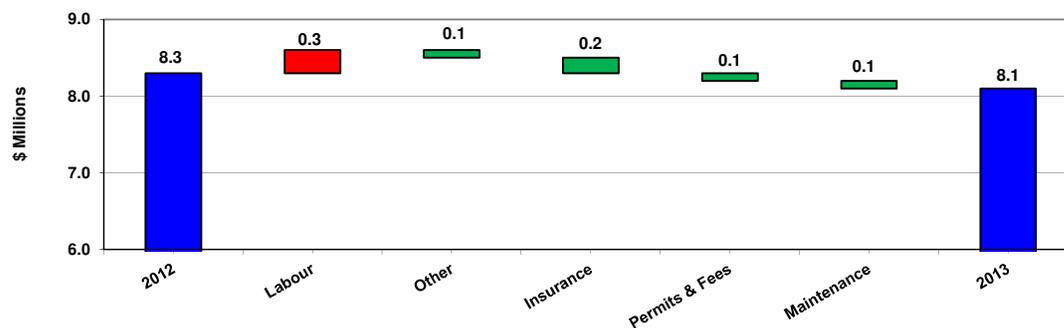
Milling costs for 2013 totaled \$23.1 million, \$0.7 million higher than in 2012, due to an increase in costs as mill throughput was the same for both years. Costs in 2013 reflect higher water usage fees, higher mine overheads and increased diesel usage. These unfavorable variances were partially offset by lower costs incurred for payroll due to reduced manpower requirements.

### Leaching costs - Boroo (2013 compared to 2012):



Costs for heap leaching activities in 2013 were \$10.6 million compared to \$2.1 million in 2012. In 2013, the heap leach was in operation for the full 12 months, compared to 2012 where resumption of heap leach operation commenced in November 2012. The cost increases are a reflection of the longer period of operations in 2013 compared to 2012.

### Site support costs – Boroo (2013 compared to 2012):



Site support costs for 2013 of \$8.1 million decreased by \$0.2 million compared to 2012, mainly due to lower insurance premiums, lower permit and fees as result of lower number of permits renewed and lower costs for maintenance contractors.

Boroo regional administration costs in 2013 were \$5.7 million, \$0.3 million or 5% higher than in 2012. The increase was mainly due to higher consultancy fees, as a result of the requirement to update various statutory studies, including the Boroo Feasibility Study.

### Other operating costs:

#### *Royalties*

Production taxes and royalties increased in 2013 to \$9.4 million compared to \$6.1 million in 2012, primarily due to higher sales revenue and the increase in the graduated royalty rate applicable since the expiration of the Boroo Stability Agreement in July 2013.

## Boroo Unit operating costs

	Year Ended December 31, <sup>(3)</sup>		
	2013	2012	% Change
<i>(unaudited - \$ millions, except as noted)</i>			
<b>All-in Unit Costs:</b>			
Adjusted operating costs <sup>(1)</sup>	<b>64.8</b>	62.9	3%
Corporate General Administrative costs	-	-	-
Accretion expense	<b>0.3</b>	0.2	102%
Capitalized stripping - cash	-	6.3	(100%)
Capital expenditures (sustaining) <sup>(1)</sup>	<b>7.4</b>	2.1	252%
<b>All-in Sustaining Costs <sup>(1)</sup></b>	<b>72.6</b>	71.5	2%
Capital expenditures (growth) <sup>(1)</sup>	-	0.3	(100%)
Other costs <sup>(2)</sup>	-	0.2	(100%)
<b>All-in Costs <sup>(1)</sup></b>	<b>72.6</b>	71.9	1%
Income tax	<b>12.8</b>	11.7	9%
<b>All-in Costs - including taxes <sup>(1)</sup></b>	<b>85.4</b>	83.7	2%
<b>Ounces sold - oz</b>	<b>94,931</b>	75,546	26%
<b>Adjusted Operating Costs - \$/oz sold <sup>(1)</sup></b>	<b>683</b>	832	(18%)
<b>All-in Sustaining Costs - \$/oz sold <sup>(1)</sup></b>	<b>765</b>	946	(19%)
<b>All-in Costs - \$/oz sold <sup>(1)</sup></b>	<b>765</b>	952	(20%)
<b>All-in Costs - including taxes - \$/oz sold <sup>(1)</sup></b>	<b>899</b>	1,108	(19%)

<sup>(1)</sup> All-in sustaining costs, all-in costs, all-in costs – including taxes (in \$ millions and per ounce), as well as adjusted operating costs and sustaining and growth capital (excluding stripping) are non-GAAP Measures and are discussed under “Non-GAAP Measures”.

<sup>(2)</sup> Other cash costs include corporate general and administrative expenses, global exploration expenses, business development expenses and community investments.

<sup>(3)</sup> Results may not add or compute due to rounding.

Boroo’s all-in costs per ounce sold<sup>NG</sup> for 2013 was \$765 and include all costs directly related to gold production except for income tax paid in Mongolia. The same all-in costs per ounce sold<sup>NG</sup> measure for 2012 was \$952. The decrease in all-in costs<sup>NG</sup> is due to a 26% increase in ounces sold at Boroo year-over-year, partially offset by higher costs.

The increase in operating costs is primarily due to the full year of heap leach activities in 2013, the increase in royalties due to the rate increase and higher volumes sold and increase in sustaining capital<sup>NG</sup> for tailings dam work.

## Gatsuurt Project

As at December 31, 2013, proven and probable reserves for the Gatsuurt Project increased to 17.1 million tonnes averaging 2.9 g/t for a total of 1.6 million ounces of contained gold. Measured and Indicated resources are exclusive of proven and probable reserves and are

estimated at 5.1 million tonnes averaging 2.4 g/t for a total of 398,000 ounces of contained gold.

In December 2005, a feasibility study was completed with the conclusion that mining and processing of the Gatsuurt Project ores was technically and economically feasible. The plan proposed in the feasibility study is to mine the Gatsuurt Project ores by open pit mining methods, to transport the mined ore by a 55 kilometres haulage road to the Boroo processing plant for gold extraction, and the production of doré bars for sale. The mined waste will be stored at the Gatsuurt site in areas designated for that purpose.

The Gatsuurt Project anticipates mining and processing of the Gatsuurt Project ores in two phases; an oxide ore phase and a sulphide ore phase. The oxide ore phase encompasses mining of the Gatsuurt oxide and transition ores, haulage of the ores to the Boroo processing plant, and processing of the ores utilizing the existing Boroo CIL facility. As sulphide ores are encountered during mining, they will be stockpiled at the Gatsuurt site for future processing. Concurrent with the oxide ore phase, a flotation and bio-oxidation facility will be constructed at the Boroo processing plant in preparation of processing the Gatsuurt Project sulphide phase ores. The sulphide ore phase encompasses the mining, haulage and processing of the Gatsuurt Project sulphide ores, which are refractory in nature, through a flotation and bio-oxidation facility constructed at the Boroo processing plant.

The Company anticipates overall gold recovery of the blended oxide/transitional ore mill feed will be 76% using the existing Boroo processing facility. Pilot plant test results have confirmed that an overall gold recovery of 87% is achievable for the refractory sulphide ore utilizing bio-oxidation technology followed by cyanide leaching.

Approval to begin construction of the Gatsuurt Project was received from Centerra's Board of Directors in December 2008. To date, \$34 million has been expended on pre-production site construction and initial engineering of the proposed flotation and bio-oxidation facility. The Gatsuurt Project site infrastructure and basic engineering for the flotation and bio-oxidation facility are substantially complete. Completed site infrastructure includes a 55 kilometres haul road to the Boroo mill, a services and administration building, a construction camp, pads for ore and waste stockpiles, and a fueling station.

Going forward, all detailed engineering development and construction activities at Gatsuurt have been suspended due to the impact of the Water and Forest Law on the Gatsuurt Project. The Company expects that the Mongolian Parliament will consider, in the second quarter of 2014, the designation of Gatsuurt as a "mineral deposit of strategic importance". Such a designation would have the effect of excluding the Gatsuurt deposit from the application of the Water and Forest Law. See "Other Corporate Developments – Mongolia".

The Gatsuurt deposit is described in the Company's most recently filed AIF and a technical report dated May 9, 2006 prepared in accordance with NI 43-101, which are available on SEDAR at [www.sedar.com](http://www.sedar.com). The technical report describes the exploration history, geology and style of gold mineralization at the Gatsuurt deposit. Sample preparation, analytical techniques, laboratories used and quality assurance-quality control protocols used during the drilling programs at the Gatsuurt site are the same as, or similar to, those described in the technical report.

The development of Gatsurt is subject to certain risks and uncertainties. See “Other Corporate Developments – Mongolia” and “Risk Factors”.

## Fourth Quarter Results – 2013 compared to 2012

Financial Summary (\$ millions, except as noted) - <i>Unaudited</i>	Three Months Ended December 31, <sup>(4)</sup>			
	2013	2012 <sup>(3)</sup>	Change	% Change
Revenue	\$ 468.9	\$ 368.5	\$ 100.5	27%
Cost of sales	271.8	167.9	103.9	62%
Abnormal mining costs	-	8.9	(8.9)	100%
Regional office administration	6.1	5.6	0.5	9%
<b>Earnings from mine operations</b>	<b>191.0</b>	<b>186.1</b>	<b>4.9</b>	<b>3%</b>
Revenue-based taxes	62.9	44.5	18.4	41%
Other operating expenses	1.9	4.8	(2.9)	(61%)
Loss on de-recognition of underground assets	-	180.7	(180.7)	100%
Exploration and business development	8.8	11.6	(2.8)	(24%)
Corporate administration	8.1	8.8	(0.7)	(8%)
<b>Earnings (loss) from operations</b>	<b>109.4</b>	<b>(64.2)</b>	<b>173.6</b>	<b>(270%)</b>
Other (income) and expenses	0.5	(0.1)	0.6	(1042%)
Finance costs	1.2	1.3	(0.0)	(2%)
<b>Earnings (loss) before income taxes</b>	<b>107.6</b>	<b>(65.4)</b>	<b>173.0</b>	<b>(264%)</b>
Income tax expense	1.0	5.2	(4.2)	(80%)
<b>Net earnings (loss)</b>	<b>\$ 106.6</b>	<b>\$ (70.7)</b>	<b>\$ 177.2</b>	<b>(251%)</b>
Earnings (loss) per common share (basic) - \$/share	\$ 0.45	\$ (0.30)	0.8	(250%)
Earnings (loss) per common share (diluted) - \$/share	\$ 0.44	\$ (0.30)	0.7	(247%)
Weighted average common shares outstanding - basic (thousands)	236,388	236,339	49.3	0%
Weighted average common shares outstanding - diluted (thousands)	236,646	236,339	307.3	0%
<b>Operating Summary</b>				
Gold produced - ounces poured	362,234	219,316	142,918	65%
Gold sold – ounces sold	368,954	215,361	153,593	71%
Average realized price – \$/oz sold <sup>(2)</sup>	\$ 1,271	\$ 1,711	(440)	(26%)
Average gold spot market price – \$/oz <sup>(1)</sup>	\$ 1,276	\$ 1,721	(445)	(26%)
Cost of sales - \$/oz sold <sup>(2)</sup>	\$ 737	\$ 780	(43)	(6%)
Adjusted operating costs - \$/oz sold <sup>(2)</sup>	\$ 247	\$ 366	(119)	(33%)
All-in sustaining costs – \$/oz sold <sup>(2)</sup>	\$ 433	\$ 664	(231)	(35%)
All-in costs – \$/oz sold <sup>(2)</sup>	\$ 474	\$ 850	(376)	(44%)
All-in costs (including taxes) – \$/oz sold <sup>(2)</sup>	\$ 644	\$ 1,087	(443)	(41%)

<sup>(1)</sup> Average for the period as reported by the London Bullion Market Association (US dollar Gold P.M. Fix Rate).

<sup>(2)</sup> All-in sustaining costs per ounce sold, all-in costs per ounce sold, all-in costs (including taxes) per ounce sold, as well as average realized price per ounce sold and cost of sales per ounce sold, are non-GAAP measures and are discussed under “Non-GAAP Measures”.

<sup>(3)</sup> The 2012 comparative period was restated as a result of the adoption of IFRIC 20 (see Changes in Accounting Policies for impact).

<sup>(4)</sup> Results may not add or compute due to rounding.

## Overview

In the fourth quarter of 2013, the Company recorded net earnings of \$106.6 million (\$0.45 per common share - basic). This compares to a net loss of \$70.7 million (\$0.30 per common share – basic) in 2012, after a charge of \$180.7 million in the fourth quarter of 2012 for the de-recognition of the underground assets at Kumtor.

- Gold production for the fourth quarter of 2013 was 362,234 ounces compared to 219,316 ounces in the same quarter of 2012. The increased gold production in the fourth quarter of 2013 reflects 84% higher production at Kumtor as compared to the same quarter in

2012 as higher grades from cut-back 15 were mined and milled in the fourth quarter at Kumtor (58% of Kumtor's 2013 production was in the fourth quarter). The mill at Kumtor processed 73% higher grades in the fourth quarter of 2013 (8.88 g/t compared to 5.13 g/t in the same period of 2012) and achieved 8% higher recoveries in the fourth quarter of 2013 (84.1% compared to 77.7% in the same period of 2012). Boroo recorded lower production in the fourth quarter of 2013 compared to the same period of 2012, as it processed lower feed grades through the mill as compared to the higher grade and higher recovery materials from Pit 6 processed in the same period of 2012. Lower ounces were also poured from the heap leach operation as a result of maintenance performed at the heap leach pond in the fourth quarter of 2013.

- Revenues in the fourth quarter of 2013 increased by \$100.4 million to \$468.9 million from \$368.5 million in the same period last year mainly as a result of 71% higher ounces sold, partially offset by 26% lower realized gold price. Ounces sold for the fourth quarter of 2013 totaled 368,954 compared to 215,361 in the fourth quarter of 2012, reflecting the increased production at Kumtor. Boroo's production and sales in the fourth quarter of 2013 were lower than the same period in 2012, reflecting lower stockpiled mill material and the initial surge in production from the heap leach start-up that benefited the operation in the fourth quarter of 2012. The average gold price realized in the fourth quarter of 2013 was \$1,271 per ounce, a 26% decrease from \$1,711 per ounce realized in the same quarter of 2012.
- Cost of sales for the fourth quarter of 2013 was \$271.8 million compared to \$167.9 million in the same quarter of 2012. The increase reflects significantly more ounces sold at Kumtor, higher depreciation of capitalized stripping at Kumtor, higher operating costs due to increased consumption of reagents, cyanide and power from increased throughput and head grades at Kumtor's mill and volume increases due to the increased use of consumables for the expanded fleet at Kumtor.

DD&A included in costs of sales for the fourth quarter of 2013 of \$188.7 million increased by \$92.8 million compared to the same period last year, due in part to the processing and sale of more ounces in the fourth quarter of 2013 at Kumtor, partially offset by fewer ounces at Boroo. The fourth quarter of 2013 at Kumtor reflects the higher depletion of the capitalized stripping associated with cut-back 15, compared to cut-back 14B that was mined in the comparative period. During the fourth quarter of 2013, Kumtor depleted the majority of the 142 million tonnes associated with cut-back 15, compared to 61 million tonnes from cut-back 14B in the comparative period. The increased depreciation charge was partially offset by mining and stockpiling greater ounces from cut-back 15 that will defer recognition of depreciation until the ounces are processed in 2014. The four quarters of 2013 also reflect a full-year depreciation of Kumtor's mining fleet expansion which was substantially completed during 2012.

- There were no abnormal mining costs in the fourth quarter of 2013 compared to \$8.9 million in the comparative period of 2012. Abnormal mining costs represent the cost of removing the ice and waste from the high movement unload zone necessitated by the unexpected ice movement. Following the decision to expand the open pit at Kumtor, announced in early November 2012, the cost to unload the high movement area was capitalized and will be amortized over the ore produced from the area.

- Other operating expenses for the fourth quarter of 2013 totaled \$1.9 million compared to \$4.8 million in the same quarter of 2012. Costs in the fourth quarter of 2012 included \$2.9 million for the closure of the underground development project at Kumtor. Approximately \$1.9 million was spent in the fourth quarter in 2013 and 2012 for ongoing sustainable development projects in both the Kyrgyz Republic and Mongolia.
- A charge of \$180.7 million was recorded in the fourth quarter of 2012 to reflect the de-recognition of the underground assets at Kumtor. This results from the decision in early November to expand the open pit at Kumtor and, as a result, consume a major portion of the underground infrastructure.
- Exploration expenditures for the fourth quarter of 2013 were \$8.8 million compared to \$11.6 million in the same quarter of 2012 mainly reflecting a cessation of drilling activities at Kumtor and on-going drilling programs at the Öksüt project in Turkey and the ATO Project in Mongolia. In response to declining gold prices, a decision was made in early July 2013 to cease exploration activities at Kumtor, and as a result minimal exploration costs were incurred at Kumtor in the fourth quarter of 2013.
- Corporate administration costs for the fourth quarter of 2013 were \$8.1 million, a reduction of \$0.7 million from the same period in 2012, reflecting a lower charge for share-based compensation primarily as a result of the lower market price of Centerra's common shares.
- Centerra reported \$62.9 million in the fourth quarter of 2013 for revenue-based taxes at Kumtor compared to \$44.5 million in the fourth quarter of 2012, and \$1 million in the fourth quarter of 2013 for income taxes at Boroo compared to \$5.2 million in the fourth quarter of 2012. The increase of \$18.4 million in the revenue-based tax expense resulted from higher volumes sold in the fourth quarter of 2013 at Kumtor, partially offset by lower gold prices. The decrease of \$4.2 million in Boroo's income tax expense is a result of both the lower volumes sold and the lower gold prices realized in the fourth quarter of 2013.
- Cash provided by operations was \$359.5 million in the fourth quarter of 2013 compared to \$209.1 million in the same period of 2012. The increase over 2012 reflects increased earnings from higher production and ounces sold and a reduction in working capital levels, partially offset by lower realized prices and higher operating costs.

Cash used in investing activities in the fourth quarter of 2013 totaled \$205.3 million, including the purchase of \$120.6 million of short-term investments in government securities and commercial paper, and investments of \$86 million in sustaining and growth capital<sup>NG</sup> and capitalized stripping at Centerra's operations. The comparative amount in 2012 of \$126.6 million includes the purchase of \$46 million in short-term investments in government securities and commercial paper and investments of \$84.3 million of sustaining and growth capital<sup>NG</sup> and capitalized stripping at Centerra's operations. Cash used in financing activities in the fourth quarter of 2013 totaled \$10.1 million, including a dividend payment of \$8.7 million, compared to a total of \$6.8 million, including a dividend payment of \$6.6 million in the fourth quarter of 2012.

- Capital expenditures (spent and accrued) in the fourth quarter of 2013 were \$86.7 million as compared to \$86.4 million in the same period of 2012. Sustaining capital<sup>NG</sup> in the

fourth quarter of 2013 of \$10 million (including \$9.6 million at Kumtor and \$0.4 million at Boroo) compared to \$11.6 million in 2012 (including \$10.5 million at Kumtor and \$0.8 million at Boroo). Growth capital<sup>NG</sup> of \$5.9 million in the fourth quarter of 2013 reflects spending at Kumtor, mainly in the infrastructure relocation. Growth capital<sup>NG</sup> in the fourth quarter of 2012 was \$24.5 million, reflecting \$23 million of spending at Kumtor mainly on fleet expansion and spending at Boroo of \$0.3 million. Capitalized stripping in the fourth quarter of 2013 was \$70.8 million compared to \$50.3 million in the fourth quarter of 2012 for stripping activities on the cut-backs at Kumtor.

- Cost of sales per ounce sold<sup>NG</sup> for the fourth quarter of 2013, which includes the impact of DD&A, decreased to \$737 per ounce compared to \$780 per ounce for the same period in 2012. The decrease on a per ounce basis reflects mainly the higher production achieved from higher throughput, higher grades and higher recoveries at Kumtor, partially offset by higher operating costs and lower recoveries at Boroo.
- Adjusted operating costs per ounce sold<sup>NG</sup> were \$247 in the fourth quarter of 2013 compared to \$366 in the comparative quarter of 2012. The decrease in the 2013 period results mainly from significantly higher production at Kumtor, partially offset by higher operating costs.
- All-in costs per ounce sold<sup>NG</sup> were \$474 in the fourth quarter of 2013 compared to \$850 in the same quarter of 2012. The decrease reflects the increased ounces sold from higher production and lower capital requirements at Kumtor in the 2013 quarter, partially offset by increased costs associated with the larger truck fleet.

## Quarterly Results – Last Eight Quarters

Over the last eight quarters, Centerra's results reflect the impact of declining gold prices as well as increasing costs. Offsetting this decline, higher production was recorded in the fourth quarter of 2013, mainly at Kumtor. 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. Non-cash costs have also progressively increased since 2011 as depreciation at Kumtor increased due to its expanded mining fleet and the amortization of capitalized stripping. Other operating charges in the 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. The quarterly financial results for the last eight quarters are shown below:

### Key results by quarter

\$ millions, except per share data Quarterly Data Unaudited	2013				2012 (restated) <sup>(1)</sup>			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	469	155	128	193	368	69	90	134
Net earnings (loss)	107	(2)	2	51	(71)	(34)	(49)	10
Basic earnings (loss) per share	0.45	(0.01)	0.01	0.22	(0.30)	(0.14)	(0.21)	0.04
Diluted earnings (loss) per share	0.44	(0.01)	0.00	0.21	(0.30)	(0.14)	(0.21)	0.04

<sup>(1)</sup> 2012 comparative periods restated as a result of the adoption of IFRIC 20

## **Balance Sheet**

### **Inventory**

Total inventory at December 31, 2013 of \$378.5 million (\$302.7 million at December 31, 2012) includes gold inventory of \$204.6 million (\$127.3 million in 2012) and supplies inventory of \$173.9 million (\$175.4 million in 2012). The increase in 2013 reflects higher gold inventory due to the timing of shipments.

### **Property, Plant and Equipment**

The aggregate book value of property, plant and equipment at December 31, 2013 of \$539.1 million, compares to \$625.9 million at the end of 2012 and is allocated as follows: Kyrgyz Republic \$444.8 million (2012- \$518.9 million), Mongolia \$93.1 million (2012- \$105.8 million) and corporate entities \$1.2 million (2012- \$1.2 million). The consolidated net decrease in 2013 of \$86.8 million includes additions of \$378.8 million from the major growth projects at Kumtor (including capitalized stripping of \$278.6 million, infrastructure move of \$19.1 million and fleet expansion of \$17.7 million), maintenance capital spending at both sites, offset by the depreciation and amortization charges of \$465.6 million. The amortization charge for 2013 included \$331 million of capitalized stripping mainly for cut-back 15 at Kumtor which was essentially mined out by the end of December 2013.

### **Goodwill**

During the year ended December 31, 2013, the Company undertook its normal annual review of the \$129.7 million of goodwill recorded by the Kyrgyz reporting unit. Management concluded that current circumstances did not indicate that the carrying value of the unit exceeded its fair value.

### **Asset Retirement Obligations**

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

The Company has estimated the net present value of the total asset retirement obligations to be \$60 million as at December 31, 2013 (December 31, 2012 - \$54.6 million). These payments are expected to commence over the next 1 to 14 years. The Company used a risk-free rate of 3.0% at Kumtor and 2.2% at Boroo to calculate the present value of the asset retirement obligations.

The increase in 2013 in the present value of the obligation of \$5.4 million was mainly as a result of the regularly scheduled update to the closure costs estimates at Kumtor which was completed in late 2013. The latest update at Kumtor resulted in a provision increase of \$5.4 million, partially offset by a decrease of \$0.2 million at Boroo. The accretion expense for 2013 was \$0.9 million, and cash spending on on-going reclamation was \$0.7 million. The last closure cost update at Boroo was completed in 2011 and there have been no material changes to its asset retirement obligation since that time.

The Company's future undiscounted decommissioning and reclamation costs have been estimated to be \$79.6 million at December 31, 2013 before salvage value.

## Share capital

As of February 19, 2014, Centerra had 236,390,219 shares outstanding and options to acquire 1,674,194 common shares outstanding under its stock option plan with exercise prices ranging between Cdn\$4.81 and Cdn\$22.28 per share, with expiry dates ranging between 2016 and 2020.

## Contractual Obligations

The following table summarizes Centerra's contractual obligations, including payments due for the next five years and thereafter, as of December 31, 2013.

\$ millions	Total	Due in Less than One year	Due in 1 to 3 Years	Due in 4 to 5 Years	Due After 5 Years
Kumtor					
Reclamation trust deed <sup>(1)</sup>	\$ 47.8	\$ 4.2	\$ 13.5	\$ 9.1	\$ 21.0
Capital equipment <sup>(2)</sup>	1.8	1.8	-	-	-
Operational supplies	57.6	57.6	-	-	-
Lease of premises	0.3	0.1	0.2	-	-
Boroo					
Lease of premises	0.4	0.1	0.3		
Corporate					
Loan repayment (principal and interest)	77.0	77.0			
Lease of premises <sup>(3)</sup>	1.4	0.4	1.0		
<b>Total contractual obligations</b>	<b>\$ 186.3</b>	<b>\$ 141.2</b>	<b>\$ 15.0</b>	<b>\$ 9.1</b>	<b>\$ 21.0</b>

<sup>(1)</sup> Centerra's future decommissioning and reclamation costs for the Kumtor mine are estimated to be an inflated \$61.3 million to be incurred beyond 2026. The estimated future cost of closure, reclamation and decommissioning of the project are used as the basis for calculating the amount remaining to be deposited in the Reclamation Trust Fund (\$47.8 million). This restricted cash is funded by sales revenue, annually in arrears and on December 31, 2013 the balance in the fund was \$13.5 million (2012 - \$11.3 million), with the remaining \$47.8 million to be funded over the life of the mine.

<sup>(2)</sup> Agreements as at December 31, 2013 to purchase capital equipment.

<sup>(3)</sup> Lease of corporate office premises expiring in November 2016.

## Non-GAAP Measures

On June 27, 2013, the World Gold Council (WGC) released guidance regarding the non-GAAP measures "All-In Sustaining Costs" and "All-In Costs". The Company has reviewed the WGC's recommended measures and assessed their impact. The Company has adopted the WGC's measures and has modified its calculation of its "all-in cash cost" measure to conform to the industry's standard following its review. Going forward, the Company will restate the comparative periods and will provide reconciliation of these new non-GAAP measures to the most comparable GAAP measure.

This MD&A contains the following non-GAAP financial measures: all-in sustaining costs per ounce sold, all-in costs per ounce sold, all-in costs including taxes per ounce sold, adjusted operating costs per ounce sold, cost of sales per ounce sold, sustaining capital, growth capital and average realized gold price. These financial measures do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers, even against other issuers who may also be applying the WGC guidelines.

Management believes that the use of these non-GAAP measures will assist analysts, investors and other stakeholders of the Company in understanding the costs associated with producing gold, understanding the economics of gold mining, assessing our operating performance, our ability to generate free cash flow from current operations and to generate free cash flow on an overall Company basis, and for planning and forecasting of future periods. However, the new measures do have limitations as analytical tools as they may be influenced by the point in the life cycle of a specific mine, and the level of additional exploration or expenditure a company has to make. Accordingly, these non-GAAP measures should therefore not be considered in isolation, or as a substitute for, analysis of our results as reported under GAAP.

### ***Definitions***

The following is a description of the Non-GAAP measures used in this MD&A. The definitions are consistent with the WGC's Guidance Note on these non-GAAP measures:

- *Operating costs* include mine operating costs such as mining, processing, site support, royalties and operating taxes (except at Kumtor where revenue-based taxes are excluded), but exclude depreciation, depletion and amortization (DD&A), reclamation costs, financing costs, capital development and exploration.
- *Adjusted operating costs per ounce sold* include operating costs, regional office administration, social development costs related to current operations, refining fees and by-product credits.
- *All-in sustaining costs per ounce sold* include adjusted operating costs, the cash component of capitalized stripping costs, regional office administration costs, accretion expenses, and sustaining capital. The measure incorporates costs related to sustaining production.
- *All-in costs per ounce sold* include all-in sustaining costs and additional costs for growth capital, corporate general and administrative expenses, global exploration expenses and social development costs not related to current operations.
- *All-in cost per ounce sold* exclude the following:
  - Working capital (except for adjustments to inventory on a sales basis).
  - All financing charges (including capitalized interest).
  - Costs related to business combinations, asset acquisitions and asset disposals.
  - Other non-operating income and expenses including interest income, bank charges, and foreign exchange gains and losses.
- *All-in costs including taxes per ounce sold* measure includes revenue-based taxes at Kumtor and income taxes at Boroo.
- *Capital expenditures (Sustaining)* is a capital expenditure necessary to maintain existing levels of production. The sustaining capital expenditures maintain the existing mine fleet, mill and other facilities so that they function at levels consistent from year to year.
- *Capital expenditures (Growth)* is capital expended to expand the business or operations by increasing productive capacity beyond current levels of performance.
- *Average realized gold price* is calculated by dividing revenue derived from gold sales by the number of ounces sold.

**Adjusted Operating Cost per Ounce Sold, All-in Sustaining Costs per Ounce Sold and All-in Costs per Ounce Sold (including and excluding taxes) are non-GAAP measures and can be reconciled as follows:**

**1) By operation**

<i>(unaudited)</i> (\$ millions, unless otherwise specified)	Year ended December 31,		Fourth Quarter ended December 31,	
	2013	2012	2013	2012
<b><u>Kumtor:</u></b>				
Cost of sales, as reported	\$ 473.0	\$ 306.9	\$ 255.1	\$ 140.0
Less: Non-cash component	282.0	121.0	185.0	84.9
Cost of sales, cash component	\$ 191.0	\$ 185.9	\$ 70.1	\$ 55.1
Adjust for: Regional office administration	18.1	15.5	4.8	4.2
Mine stand-by costs	-	4.6	-	-
Refining fees	3.5	1.9	2.0	1.3
By-product credits	(3.8)	(2.9)	(2.0)	(1.9)
Social development costs related to current operations	6.2	24.0	1.9	1.3
<b>Adjusted Operating Costs</b>	<b>\$ 215.0</b>	<b>\$ 229.0</b>	<b>\$ 76.8</b>	<b>\$ 59.9</b>
Accretion expense	0.6	0.6	0.2	0.2
Capitalized stripping and ice unload	201.3	196.7	50.6	44.2
Capital expenditures (sustaining)	49.7	40.8	9.6	10.5
<b>All-in Sustaining Costs</b>	<b>\$ 466.6</b>	<b>\$ 467.1</b>	<b>\$ 137.2</b>	<b>\$ 114.9</b>
Capital expenditures (growth)	39.2	165.2	5.8	25.4
Exploration expense	6.1	11.3	0.8	2.9
Other project costs not related to current operations	1.5	6.6	0.1	2.4
<b>All-in Costs</b>	<b>\$ 513.4</b>	<b>\$ 650.2</b>	<b>\$ 143.9</b>	<b>\$ 145.6</b>
Revenue-based taxes	113.5	74.7	62.9	44.5
<b>All-in Costs (including taxes)</b>	<b>\$ 627.0</b>	<b>\$ 724.9</b>	<b>\$ 206.8</b>	<b>\$ 190.1</b>
Ounces sold (000)	601.9	315.0	353.3	185.9
<b>Adjusted Operating Costs per ounce sold</b>	<b>\$ 357</b>	<b>\$ 727</b>	<b>\$ 217</b>	<b>\$ 322</b>
<b>All-in Sustaining Costs per ounce sold</b>	<b>\$ 775</b>	<b>\$ 1,483</b>	<b>\$ 388</b>	<b>\$ 618</b>
<b>All-in Costs per ounce sold</b>	<b>\$ 853</b>	<b>\$ 2,064</b>	<b>\$ 407</b>	<b>\$ 783</b>
<b>All-in Costs (including taxes) per ounce sold</b>	<b>\$ 1,042</b>	<b>\$ 2,301</b>	<b>\$ 585</b>	<b>\$ 1,023</b>
<b><u>Boroo:</u></b>				
Cost of sales, as reported	\$ 86.2	\$ 76.4	\$ 16.7	\$ 27.9
Less: Non-cash component	27.1	21.1	3.7	11.0
Cost of sales, cash component	\$ 59.2	\$ 55.3	\$ 13.0	\$ 16.9
Adjust for: Regional office administration	5.7	5.5	1.4	1.5
Mine stand-by costs	-	-	-	-
Refining fees	0.3	0.3	0.1	0.1
By-product credits	(0.5)	(0.4)	(0.0)	(0.2)
Social development costs related to current operations	0.1	2.2	(0.2)	0.6
<b>Adjusted Operating Costs</b>	<b>\$ 64.8</b>	<b>\$ 62.9</b>	<b>\$ 14.1</b>	<b>\$ 18.9</b>
Accretion expense	0.3	0.2	0.1	0.0
Capitalized stripping	-	6.3	-	-
Capital expenditures (sustaining)	7.4	2.1	0.4	0.4
<b>All-in Sustaining Costs</b>	<b>\$ 72.6</b>	<b>\$ 71.5</b>	<b>\$ 14.6</b>	<b>\$ 19.3</b>
Capital expenditures (growth)	-	0.3	-	0.3
Exploration expense	-	0.2	-	0.2
Other project costs not related to current operations	-	-	-	-
<b>All-in Costs</b>	<b>\$ 72.6</b>	<b>\$ 71.9</b>	<b>\$ 14.6</b>	<b>\$ 19.8</b>
Income taxes	12.7	11.7	0.1	6.5
<b>All-in Costs (including taxes)</b>	<b>\$ 85.3</b>	<b>\$ 83.7</b>	<b>\$ 14.7</b>	<b>\$ 26.3</b>
Ounces sold (000)	94.9	75.5	15.7	29.4
<b>Adjusted Operating Costs per ounce sold</b>	<b>\$ 683</b>	<b>\$ 832</b>	<b>\$ 901</b>	<b>\$ 641</b>
<b>All-in Sustaining Costs per ounce sold</b>	<b>\$ 765</b>	<b>\$ 946</b>	<b>\$ 931</b>	<b>\$ 655</b>
<b>All-in Costs per ounce sold</b>	<b>\$ 765</b>	<b>\$ 952</b>	<b>\$ 931</b>	<b>\$ 672</b>
<b>All-in Costs (including taxes) per ounce sold</b>	<b>\$ 899</b>	<b>\$ 1,108</b>	<b>\$ 934</b>	<b>\$ 892</b>

## 2) Consolidated

<i>(unaudited)</i> (\$ millions, unless otherwise specified)	Year ended December 31,		Fourth Quarter ended December 31,	
	2013	2012	2013	2012
<b>Centerra:</b>				
Cost of sales, as reported	\$ 559.2	\$ 383.3	\$ 271.8	\$ 167.9
Less: Non-cash component	309.0	142.1	188.7	95.9
Cost of sales, cash component	\$ 250.2	\$ 241.2	\$ 83.1	\$ 72.0
Adjust for:				
Regional office administration	23.7	21.0	6.1	5.6
Mine stand-by costs	-	4.6	-	-
Refining fees	3.8	2.1	2.1	1.4
By-product credits	(4.3)	(3.3)	(2.1)	(2.1)
Social development costs related to current operations	6.4	26.2	1.7	1.9
<b>Adjusted Operating Costs</b>	\$ 279.9	\$ 291.9	\$ 91.0	\$ 78.8
Corporate general and administrative costs	30.0	26.8	7.7	8.7
Accretion expense	0.9	0.8	0.2	0.2
Capitalized stripping and ice unload	201.3	203.0	50.6	44.2
Capital expenditures (sustaining)	57.7	43.5	10.0	11.1
<b>All-in Sustaining Costs</b>	\$ 569.8	\$ 565.9	\$ 159.6	\$ 143.0
Capital expenditures (growth)	39.9	166.1	5.9	26.0
Exploration and business development	29.5	38.5	8.8	11.6
Other project costs not related to current operations	1.9	6.9	0.2	2.4
<b>All-in Costs</b>	\$ 641.1	\$ 777.4	\$ 174.4	\$ 183.0
Revenue-based taxes and income taxes	126.3	86.4	62.9	51.0
<b>All-in Costs (including taxes)</b>	\$ 767.4	\$ 863.9	\$ 237.4	\$ 234.0
Ounces sold (000)	696.8	390.5	369.0	215.4
<b>Adjusted Operating Costs per ounce sold</b>	\$ 402	\$ 747	\$ 247	\$ 366
<b>All-in Sustaining Costs per ounce sold</b>	\$ 818	\$ 1,449	\$ 433	\$ 664
<b>All-in Costs per ounce sold</b>	\$ 920	\$ 1,991	\$ 474	\$ 850
<b>All-in Costs (including taxes) per ounce sold</b>	\$ 1,102	\$ 2,212	\$ 644	\$ 1,087

**Sustaining capital, growth capital and capitalized stripping presented in the All-in measures can be reconciled as follows:**

<b>Year - 2013</b>	<b>Kumtor</b>	<b>Boroo</b>	<b>All other</b>	<b>Consolidated</b>
<i>(\$ millions, unaudited)</i>				
Capitalized stripping –cash	201.3	-	-	201.3
Sustaining capital - cash	49.7	7.4	0.6	57.7
Growth capital - cash	39.2	-	0.7	39.9
Net increase in accruals included in additions to PP&E	9.8	-	-	9.8
<b>Total - Additions to PP&amp;E</b>	<b>300.0</b>	<b>7.4</b>	<b>1.3</b>	<b>308.7 <sup>(1)</sup></b>
<b>Year - 2012</b>	<b>Kumtor</b>	<b>Boroo</b>	<b>All other</b>	<b>Consolidated</b>
In \$ millions				
Capitalized stripping – cash	168.0	6.3	-	174.3
Sustaining capital – cash	40.8	2.1	0.6	43.5
Growth capital - cash	176.4	0.3	0.5	177.2
Net increase in accruals included in additions to PP&E	10.1	-	-	10.1)
<b>Total - Additions to PP&amp;E</b>	<b>395.3</b>	<b>8.7</b>	<b>1.1</b>	<b>405.1 <sup>(1)</sup></b>

<b>Fourth Quarter - 2013</b>	<b>Kumtor</b>	<b>Boroo</b>	<b>All other</b>	<b>Consolidated</b>
<i>(\$ millions, unaudited)</i>				
Capitalized stripping –cash	50.6	-	-	50.6
Sustaining capital - cash	9.6	0.4	0.1	10.1
Growth capital - cash	5.8	-	0.1	5.9
Net increase in accruals included in additions to PP&E	19.4	-	-	19.4
<b>Total - Additions to PP&amp;E</b>	<b>85.4</b>	<b>0.4</b>	<b>0.2</b>	<b>86.0</b>
<b>Fourth Quarter - 2012</b>	<b>Kumtor</b>	<b>Boroo</b>	<b>All other</b>	<b>Consolidated</b>
In \$ millions				
Capitalized stripping – cash	27.0	-	-	27.0
Sustaining capital – cash	10.5	0.4	0.2	11.1
Growth capital - cash	36.6	0.3	0.2	37.1
Net increase in accruals included in additions to PP&E	9.1	-	-	9.1
<b>Total - Additions to PP&amp;E</b>	<b>83.2</b>	<b>0.7</b>	<b>0.4</b>	<b>84.3</b>

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

## 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.

(\$ thousands)	Year ended December 31	
	2013	2012
<b>Paid by KGC to Kyrgyzaltyn:</b>		
Management fees	\$ 602	\$ 315
Contracting services	1,762	1,871
Total Paid by KGC to Kyrgyzaltyn:	\$ 2,364	\$ 2,186
Gross gold and silver sales from KGC to Kyrgyzaltyn	\$ 814,416	\$ 535,437
Deduct: refinery and financing charges	(3,472)	(1,883)
Net sales revenue received by KGC from Kyrgyzaltyn	\$ 810,944	\$ 533,554

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. 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 over the course of 2013, the maximum exposure (reflecting the shortfall in the value of the security as compared to the value of any unsettled shipments during the year) was approximately \$70.1 million, compared to \$56.7 million in 2012.

As at December 31, 2013, \$69.4 million was outstanding under the Sales Agreement (December 31, 2012 - \$48.3 million). Subsequent to December 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>December 31 2013</b>	<b>December 31 2012</b>
Amounts receivable	\$ 69,335	\$ 48,325
Total related party assets	\$ 69,335	\$ 48,325
Dividend payable (net of withholding taxes)	\$ 11,233	\$ 5,949
Net unrealized foreign exchange gain	(597)	-
	<b>10,636</b>	<b>5,949</b>
Amount payable	<b>157</b>	-
Total related party liabilities	\$ 10,793	\$ 5,949

### ***Dividend***

(Thousands of US\$)	<b>2013</b>	<b>2012</b>
Dividends declared to Kyrgyzaltyn	\$ 11,915	\$ 9,548
Withholding taxes	(599)	(463)
Net dividends declared to Kyrgyzaltyn	<b>11,316</b>	<b>9,085</b>
Net dividends transferred to restricted cash	(5,283)	(5,949)
Net dividends paid to Kyrgyzaltyn	\$ 6,033	\$ 3,136

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

Pursuant to an Ontario court order last updated on June 5, 2013, \$5.3 million of Centerra dividends otherwise payable to Kyrgyzaltyn during 2013 were transferred to a trust for the benefit of the court proceedings commenced by a Turkish company, Sistem Muhendislik Insaat Sanayi Tiicaret SA. The court order sets a maximum of approximately Cdn\$11.3 million to be held in trust, which maximum was met in July 2013. As at December 31, 2013, the full amount required under the court order was held in trust. See “Other Corporate Developments – Corporate”.

### **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 and Mongolia. A summary discussion of certain regulatory matters affecting the Kumtor Project follows the discussion of events that occurred in the fourth quarter of 2013. For a more complete discussion of these matters impacting Kumtor, and for outstanding matters in Mongolia and at the corporate level, see the Company’s 2012 Annual Information Form.

## **Kyrgyz Republic**

### Negotiations between Kyrgyz Republic and Centerra

As previously disclosed, the Kyrgyz Republic Parliament passed resolution #2805 on February 21, 2013, which, among other things, recommended that the Kyrgyz Government conduct consultations and negotiations with Centerra to find mutually acceptable solutions with respect to the Kumtor Project and the issues raised in the Parliamentary and State Commission reports. The resolution set a deadline of June 1, 2013 for the Government to return to the Parliament with information on how to implement the Parliament's recommendations in the resolution. The original deadline of June 1, 2013 was extended by resolution #3169-V for three months, and Parliament set a deadline of September 10, 2013 for the Government to present final agreements incorporating the mutually acceptable solution. Resolution #3169-V also provides that if a mutually acceptable solution has not been agreed to, the Government is instructed to develop and submit a draft law "On Denunciation of the Agreement for the Kumtor Project" for review by the Kyrgyz Republic Parliament.

Following discussions with representatives of the Kyrgyz Government in the third quarter, Centerra announced on September 9, 2013 that it had entered into a non-binding memorandum of understanding ("MOU") with the Government of the Kyrgyz Republic in connection with a potential restructuring transaction under which Kyrgyzaltyn would exchange its 32.7% equity interest in Centerra for an interest in a joint venture company that would own the Kumtor Project. The MOU recorded the status of negotiations that had been ongoing between management of Centerra and the Kyrgyz Republic advisory working group up until that time and set out certain principles that would guide the potential restructuring transaction.

The Kyrgyz Parliament considered the MOU on October 23, 2013 and passed a decree (the "Decree") with respect to the MOU. In the Decree, Parliament rejects the MOU and orders the Government to (among other things) continue negotiations with Centerra with a view to improving the Kyrgyz Republic's position and increasing its interest in the joint venture project to no less than 67%, to provide for the project to develop the Kumtor mine using underground mining methods, and to provide for the establishment and financing of a centre to monitor the preservation of glaciers. In the Decree, Parliament also recommends that the Kyrgyz Republic General Prosecutor's Office consider pursuing allegations that management of the former parent company of Centerra, Centerra, Kumtor Operating Company, and Kumtor Gold Company violated environmental regulations and committed "other offenses", and that precious metal reserves (silver, tellurium, and other associated components) at the Kumtor deposit were deliberately understated.

In the Decree, Parliament requested that the Government and the General Prosecutor's Office report to Parliament on these matters by December 23, 2013. The Decree provides that if a mutually acceptable solution on the outstanding matters cannot be reached, the Government is ordered to initiate a process to cancel the Kumtor Project Agreements. The Company disputes the allegations contained in the Decree.

Following further discussions with representatives of the Kyrgyz government in the fourth quarter of 2013, Centerra announced on December 24, 2013 that it had entered into a non-binding Heads of Agreement ("HOA") with the Kyrgyz Government which superseded the terms of the previously negotiated MOU. The HOA retains most of the material terms of the MOU, including the following:

- Kyrgyzaltyn would receive a 50% interest in the joint venture company that would own the Kumtor Project in exchange for its 32.7% equity ownership in Centerra.
- The agreements entered into between, among others, Centerra, Kyrgyzaltyn and Government of the Kyrgyz Republic in 2009 would remain in full force and effect, including the tax regime set out in such agreements.
- The Board of the joint venture company would be comprised of an equal number of Centerra and Kyrgyzaltyn representatives. Consistent with Centerra's ability to consolidate the financial results of the Kumtor project, major decisions of the joint-venture company would be subject to discussion and approval by the Board of the joint venture company.
- Centerra would remain the operator/manager of the Kumtor Project pursuant to an operating agreement which would contain typical terms and provisions.
- The operating agreement would also include provisions for compensation for services provided by Centerra and Kyrgyzaltyn.

The HOA also includes certain additional provisions not contained in the MOU, including the following:

- The existing mobile mine equipment at Kumtor, having a value of approximately \$200 million, would be held by Centerra and capital leased to the joint venture for 10 years on commercial terms, following which the joint venture would be entitled to purchase such equipment for \$1.00.
- Further to the equipment lease arrangement, the dividend distribution adjustment of \$100 million (from Kyrgyzaltyn in favour of Centerra) which was in the MOU has been removed.
- Centerra would be entitled to compensation in a fixed amount per year for acting as the manager, which amount will be agreed by the parties and reflected in definitive documents.
- The HOA would resolve, in accordance with the requirements of the laws and agreements of the Kyrgyz Republic, comprehensively and finally, all claims and concerns relating to the Kumtor Project, including but not limited to environmental, technical and land use matters, in accordance with the findings and recommendation of Kyrgyzaltyn's external legal, financial, environmental and technical experts, including AMEC, which has examined the Kumtor Project's environmental and technical practices.
- The joint venture would commit to investments in community development projects in an amount equal to two percent of the prior year's free cash flow (subject to a minimum of \$2 million per year)
- The joint venture would commit to increasing local procurement in the Kyrgyz Republic by an aggregate of \$100 million over the remaining life of the mine and to increase the number of Kyrgyz nationals in management positions at the joint venture.
- At the end of the current life of mine plan in 2026, Kyrgyzaltyn would have the rights to: (a) increase its ownership interest in the Kumtor Project from 50% to 67% for a price equal to fair market value; and (b) recover the gold contained in the tailings facility for \$1.00.
- Kyrgyzaltyn would receive: (a) warrants to acquire six million Centerra shares, with an exercise price of CAD\$10.00 per Centerra share, exercisable for two years after the restructuring; and (b) warrants to acquire four million Centerra shares, with an exercise

price of CAD\$12.00 per Centerra share, exercisable for three years after the restructuring.

On February 6, 2014, after their review of the HOA, the Kyrgyz Parliament adopted a resolution which appears to support the concept of the restructuring described in the HOA but also contains a number of recommendations that are materially inconsistent with the terms of the HOA. Among other things, the resolution calls for further audits of the Kumtor operation and for the Government and the General Prosecutor's Office to continue pursuing claims for environmental and economic damages, which the Company disputes. The Company has not yet received an official copy of the parliamentary resolution.

The Company believes that the 2009 Kumtor Project Agreements and all previous 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 by the Kyrgyz Republic Constitutional Court and a legal opinion by the Kyrgyz Republic Ministry of Justice. Such agreements provide for all disputes relating to the Kumtor project to be resolved by international arbitration, if necessary.

Centerra expects to continue its discussions with the Government regarding a potential restructuring transaction to resolve all outstanding concerns relating to the Kumtor Project. However, it maintains that any agreement to resolve matters must be fair to all of Centerra's shareholders. Any definitive agreement for a potential restructuring remains subject to required approvals in the Kyrgyz Republic, including Government and Parliament of the Kyrgyz Republic, Centerra Special Committee and Board approval, as well as compliance with all applicable legal and regulatory requirements and approvals, including an independent formal valuation and shareholder approval.

While Centerra expects to continue discussions with the Government, there can be no assurance that any transaction will be consummated or that Centerra will be able to successfully resolve any of the matters currently affecting the Kumtor Project. The inability to successfully resolve matters, including obtaining all necessary approvals, and/or further actions of the Kyrgyz Republic Government and/or Parliament, could have a material adverse impact on Centerra's future cash flows, earnings, results of operations and financial conditions.

#### Environmental Claims

As previously disclosed, on June 7, 2013 Kumtor Operating Company ("KOC") received four court claims filed by the State Inspectorate Office for Environmental and Technical Safety ("SIETS") with the Bishkek Inter-district court. The SIETS environmental claims sought to enforce the previously disclosed environmental claims issued by SIETS in December 2012, seeking compensation in the aggregate amount of \$150 million in relation to (i) placement of waste rock on glaciers; (ii) unpaid use of water from Petrov Lake; (iii) unaccounted industrial and household waste; and (iv) damages caused to land resources (top soil). Each of these claims was dismissed by the Bishkek Inter-District Court and, on appeal, by the Bishkek City Court, on the basis that the arbitration clause in the Restated Investment Agreement requires that all such disputes be resolved through international arbitration. Each of these claims has been appealed to the Kyrgyz Republic Supreme Court.

In addition to the original four claims of SIETS discussed above, SIETS has filed the following additional claims against KOC: (i) on October 12, 2013, a claim in the amount of

approximately \$485,000 for damages caused to land resources due to disturbance of land at the Kumtor project (similar to the claim in (iv) above but involving a different area of the Kumtor concession); and (ii) on January 21, 2014, a claim for approximately \$8.5 million for lost agricultural production and lost profits from 1994 to 2042. Kumtor has responded in writing to SIETS disputing both of these additional claims.

With respect to the previously disclosed claim commenced by the State Agency for Environmental Protection and Forestry under the Government of the Kyrgyz Republic (“SAEPF”) for the aggregate amount of approximately \$315 million, SAEPF has commenced court proceedings in the Bishkek Inter-District Court, which dismissed the Company’s motion to dismiss the claim based on the arbitration provision in the Restated Investment Agreement although the court is still considering other procedural motions argued by the Company.

On October 11, 2013, Centerra received a statement of claim from the Green Party of Kyrgyzstan in the Bishkek Inter-District Court which seeks damages of approximately \$9 billion for alleged environmental damages arising from the Kumtor operations since 1996. The claimant, Green Party, requests that the damage be paid by Kumtor to the Issyk-Kul Nature Protection and Forestry Development Fund, a Kyrgyz state fund. The claim by the Green Party relates to allegations substantially similar to the claims raised by SIETS and SAEPF.

As previously disclosed, KOC believes the claims are exaggerated and without merit. The Kumtor Project has been the subject of systematic audits and investigations over the years by Kyrgyz and international experts, including by an independent internationally recognized expert who carried out a due diligence review of Kumtor’s performance on environmental matters at the request of Centerra’s Safety, Health and Environmental Committee of the Board of Directors. The report of this expert released in October 2012 can be found on the Kumtor website at <http://www.kumtor.kg/en/> under the “Environment” section.

There can be no assurance that the Company will be able to successfully resolve any of these matters discussed above. The inability to successfully resolve matters could have a material adverse impact on the Company’s future cash flows, earnings, results of operations and financial conditions.

#### Land Use Claim

On November 11, 2013, the Company received a claim from the Kyrgyz Republic General Prosecutor’s Office requesting the Inter-District Court of the Issyk-Kul Province to invalidate the Company’s land use certificate and seize certain lands within Kumtor’s concession area.

As previously noted, the Company believes that the invalidation of the land use certificate and purported seizure of land is in violation of the Kyrgyz Republic Land Code as well as the Restated Investment Agreement, which provides that the Kumtor project is guaranteed all necessary access to the Kumtor concession area, including all surface lands as are necessary or desirable for the operation of the Kumtor project.

#### Kumtor Waste Dump Movement

As previously disclosed in May 2013, the abnormal waste dump movement experienced at Kumtor has required Kumtor to develop and implement alternative waste rock dumps at the Kumtor mine and to revise its mine development plan. During the third quarter of 2013,

Kumtor received final regulatory approval for a revised 2013 annual mining plan that, among other things, allows for the placement of waste rock in the Sarytor Valley, the Davidov Valley and the Lysii Valley. Kumtor is currently working in accordance with the revised plan. Movement of the Central Valley Waste Dump was forecasted in the 2012 Kumtor Technical Report and has now returned to its pre-March 2013 movement rate. The Company continues to make progress in relocating and reconstructing certain infrastructure at Kumtor which was, or is currently, in the path of the Central Valley Waste Dump.

### Management Assessment

There are several outstanding issues affecting the Kumtor Project, which require consultation and co-operation between the Company and Kyrgyz regulatory authorities. The Company has benefited from a close and constructive dialogue with Kyrgyz authorities during project operations and remains committed to working with them to resolve these issues in accordance with the Kumtor Project Agreements, which provide for all disputes to be resolved by international arbitration, if necessary. However, there are no assurances that the Company will be able to successfully resolve any or all of the outstanding matters affecting the Kumtor Project. There are also no assurances that continued discussions between the Kyrgyz Government and Centerra will result in a mutually acceptable solution regarding the Kumtor project that any agreed upon proposal for restructuring would receive the necessary legal and regulatory approvals under Kyrgyz law and/or Canadian law and that the Kyrgyz Republic Government and/or Parliament will not take actions that are inconsistent with the Government's obligations under the Kumtor Project Agreements, including adopting a law "denouncing" or purporting to cancel or invalidate the Kumtor Project Agreements or laws enacted in relation thereto. The inability to successfully resolve the current outstanding matters, including the outstanding environmental claims against Kumtor, could have a material adverse impact on the Company's future cash flows, earnings, results of operations and financial condition. See "Caution Regarding Forward-looking Information".

## **Mongolia**

### Gatsuurt

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 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.

Centerra understands that, in May 2013, the Mongolian Government added seven deposits, including Gatsuurt, to the list of "mineral deposits of strategic importance". Such a designation, which is subject to the approval of the Mongolian Parliament, would have the effect of excluding the Gatsuurt deposit from the application of the Water and Forest Law. Centerra expects that Parliament and/or any relevant committees of Parliament will consider this matter further in the first half of 2014. If the Mongolian Parliament ultimately approves this designation, it would allow the Government of Mongolia to acquire up to a 34%

interest in Gatsuurt. The terms of any such participation would be subject to negotiations with the Mongolian Government.

There can be no assurance, however, that the Water and Forest Law will not have a material 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 by the Parliament of Mongolia 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 approximately \$37 million related to the investment in Gatsuurt and approximately \$39 million remaining capitalized for the Boroo mill facility and other surface structures. These amounts represent the capitalized costs at December 31, 2013 associated with its investment in Gatsuurt and Boroo (where Gatsuurt ore is planned to be milled).

## **Corporate**

### Enforcement Notice by Sistem

The claim commenced in March 2011 by a Turkish company, Sistem Muhenkislik 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 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.

Pursuant to a Court Order issued by the Ontario Superior Court of Justice (as amended from time to time, and most recently amended on June 5, 2013) (the "Court Order"), Centerra is holding in trust (for the credit of the Sistem court proceedings) dividends otherwise payable to Kyrgyzaltyn. Effective as of June 6, 2013, when a dividend was paid by Centerra, the maximum amount to be held in trust, as set out in the Court Order (Cdn\$11.3 million), has been reached. As of December 31, 2013, Centerra holds in trust, for the benefit of the Sistem court proceeding, approximately Cdn\$11.4 million, including interest earned.

## **Background Description of Outstanding Kumtor Matters**

The disclosure below is a summary description of the outstanding matters affecting the Kumtor Project. For a more detailed description, see the Company's prior disclosure, in particular, its news release on 2013 first quarter results dated May 8, 2013 and its 2012 Annual Information Form. Both of these documents can be found on [www.sedar.com](http://www.sedar.com).

### Parliamentary Commission and Report

On February 15, 2012, the Kyrgyz Parliament established an interim Parliamentary Commission to inspect and review: (i) Kumtor's compliance with Kyrgyz operational and environmental laws, as well as community standards, and (ii) state regulation over the Kumtor project's activities. The Parliamentary Commission issued its report (the "Parliamentary Report") on June 18, 2012 and made a number of assertions regarding the operation of the Kumtor project, including alleging non-compliance by the Kumtor project with Kyrgyz environmental laws, particularly at Kumtor's tailings facility, the Davidov glacier and the Sarychat-Ertash State Reserve which is in the vicinity of the Kumtor project. The

Parliamentary Commission alleges that the violations have resulted in substantial monetary damages.

The Kyrgyz Parliament met in late June 2012 to consider the Parliamentary Report and adopted Resolution 2117-V that took note of the Parliamentary Report and declared the Kumtor Project Agreements to be contrary to the interests of the Kyrgyz Republic. Resolution 2117-V also called for the formation of a State Commission to “assess the environmental, industrial and social damage” caused by the Kumtor project and to initiate the renegotiation of the current Kumtor project agreements “in order to protect economic and environmental interests”.

As contemplated in Resolution 2117-V, on July 5, 2012, the Kyrgyz Government cancelled Government Decree #168, which provided Kumtor with land use rights over the surface of the Kumtor concession area for the duration of the restated concession agreement effective June 6, 2009 (the Restated Concession Agreement). Based on advice from Kyrgyz legal counsel, the Company believes that the purported cancellation of land rights is in violation of the Kyrgyz Republic Land Code, because the Land Code provides that land rights can only be terminated by court decision and on the listed grounds set out in the Land Code. Kumtor has communicated this to the Kyrgyz Republic and requested the issuance of a new land use certificate in light of the rights and obligations under the restated investment agreement dated June 6, 2009 between Centerra and the Kyrgyz Republic (the Restated Investment Agreement). No response has been received from the Kyrgyz Government. Pursuant to the Restated Investment Agreement, the Kumtor project is guaranteed all necessary access to the Kumtor concession area, including all surface lands as are necessary or desirable for the operation of the Kumtor project. The Restated Investment Agreement also provides for the payment of quarterly land use and access fees.

In response to the Parliamentary Report’s allegations of non-compliance with environmental laws, in August 2012, the Board of Directors of Centerra retained 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”. The report of this expert can be found on the Kumtor website at <http://www.kumtor.kg/en/> under the “Environment” section.

#### State Commission and Report

In response to Resolution 2117-V passed by the Parliament, the Kyrgyz Government established a state commission (the “State Commission”) for the purpose of reviewing the Parliamentary Report as well as inspecting and reviewing Kumtor’s compliance with Kyrgyz operational and environmental laws and community standards. The State Commission was comprised of three working groups, responsible for (i) legal matters; (ii) social and economic matters; and (iii) environmental and technical matters. The State Commission released its report (the “State Commission Report”) in late December 2012 following five months of study. The State Commission Report included a large number of allegations, including allegations that the Kumtor project was violating Kyrgyz legislation relating to environmental and subsoil legislation and caused environmental damage to water and land resources.

## Environmental Claims

In December 2012, KOC received four claims from the SIETS and a claim from SAEPF (which was subsequently withdrawn) relating to alleged environmental damages at the Kumtor project. The SIETS claims are for an aggregate amount of approximately \$150 million and include:

- a claim for approximately \$142 million for alleged damages in relation to the placement on waste dumps of waste rock from mining operations (2000 to 2011)
- a claim for approximately \$4 million for use of water resources for the period of 2000 to 2011
- a claim for approximately \$0.3 million for unaccounted industrial and household waste
- a claim for approximately \$2.3 million for alleged damages caused to land resources at the time of initial construction of Kumtor

In addition, KOC has also received a directive from SIETS requiring that actions be taken to correct various alleged environmental and technical violations discovered in its review.

On February 21, 2013, KOC announced the receipt of a claim from SAEPF for the amount of 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.

The Company notes that the Kumtor Project Agreements provide a complete listing of all taxes and payments to be made to the Kyrgyz Republic, 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.

In addition, Centerra, the Kyrgyz Republic and others entered into a release agreement (the Release Agreement) dated June 6, 2009, whereby, subject to certain exceptions which we believe are not applicable in the circumstances, the Kyrgyz Republic released Centerra from any and all claims, and damages with respect of any matter (including any tax or fiscal matters) arising or existing prior to the date of the Release Agreement, whether such matters were known or unknown at such time, and the Kyrgyz Republic agreed not to commence any actions or assert any demands for such actions or demands so released.

## Kyrgyz Republic Advisory Committee and Requests to Negotiate

On February 21, 2013, the Kyrgyz Parliament adopted Resolution #2805 which among other things, recommended 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 project agreements. The resolution provided a deadline of June 1, 2013 for the Government to return to Parliament, which subsequently was extended to September 10, 2013 and then to December 23, 2013 (as discussed above).

## The Draft Law on Denunciation

On April 9, 2013 an initiative group chaired by Mr. Beknazarov A.A. submitted a draft 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 (namely, the Kumtor Project Agreements), and calls for the Government to bring all of its decisions in accordance with the Law on Denunciation. To date, 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. The Law on Denunciation was referenced in Resolution #3169-V (discussed above).

The Company believes that the adoption of a law that denounces or purports to invalidate the Kumtor Project Agreements would be a breach of the Government’s obligations under the Kumtor Project Agreements. The Company believes that the Kumtor Project Agreements are legal, valid and enforceable obligations. The agreements were reviewed and approved by the Government and the Parliament, and were the subject of a positive decision by the Kyrgyz Republic Constitutional Court and a legal opinion by the Kyrgyz Republic Ministry of Justice. Furthermore, under the Kumtor Project Agreements, the Government agreed to use its best efforts to reverse or annul any actions of public officials (including state agencies) which conflict with the rights and benefits granted to Kumtor under the Kumtor Projects Agreements.

There can be no assurance that the Company will be able to successfully resolve any of these matters discussed above. The inability to successfully resolve matters could have a material adverse impact on the Company’s future cash flows, earnings, results of operations and financial conditions.

## **Critical Accounting Estimates**

Centerra prepares its consolidated financial statements in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board. In doing so, management is required to make various estimates and judgments in determining the reported amounts of assets and liabilities, revenues and expenses for each year presented and in the disclosure of commitments and contingencies. Management bases its estimates and judgments on its own experience, guidelines established by the Canadian Institute of Mining, Metallurgy and Petroleum and various other factors believed to be reasonable under the circumstances. In reference to the Company’s significant accounting policies as described in note 3 to the Consolidated Financial Statements management believes the following critical accounting policies reflect its more significant estimates and judgments used in the preparation of the consolidated financial statements. Actual results could differ from these estimates.

### **i. *Impairment of long-term assets and goodwill***

The Company reviews and tests the carrying amounts of long-term assets and intangible assets with definite lives when an indicator of impairment is considered to exist. The Company considers both external and internal sources of information in assessing whether there are any indications that long-term assets and goodwill are impaired. When an indicator of impairment is identified or for goodwill annually at the anniversary date, an impairment test is performed by comparing the carrying amount of the asset or cash- generating unit to their recoverable amount, which is calculated as the higher of an asset’s or cash-generating unit’s value-in-use or fair value less costs to dispose. The estimated recoverable amount is calculated normally based upon a discounted cash flow analysis, which requires management to make a number of

significant assumptions including assumptions relating to future operating plans, gold prices, discount rates, exchange rates and future growth rates. While management believes that estimates of future cash flows are reasonable, different assumptions regarding such cash flows could materially affect the recoverable value of the long-term asset or cash generating unit (“CGU”). Changes in these estimates which decrease the estimated recoverable value of the asset or CGU could affect the carrying amounts of assets and result in an impairment charge.

**ii. *Inventories of stockpiles ore, in-circuit and gold doré***

Management makes estimates of recoverable quantities of gold in stockpiled ore, ore stacked on heap leach pads and in process to determine the average costs of finished goods sold during the period and the value of the inventoried costs in the Company’s Statements of Financial Position. Costs that are incurred in or benefit the mine and mill production process are accumulated as stockpiles of ore, ore on leach pads, heap leach in circuit and gold-in circuit. Net realizable value tests are performed at least annually based on the estimated future sales price of the gold doré, based on prevailing and long-term gold prices, less estimated costs to complete production and bring the gold to selling condition.

The recoverable quantity of ore on stockpiles is estimated based on tonnage added and removed from the stockpiles, the amount of contained gold ounces based on assay data, and the estimated recovery percentage based on the historical recoveries obtained in the expected processing method. Stockpiled ore tonnage is verified by periodic surveys. Changes in these estimates can result in a change in mine operating costs of future periods and carrying amounts of inventories.

**iii. *Asset retirement obligation***

Amounts recorded for asset retirement obligations and the related accretion expense require the use of estimates of the future costs the Company will incur to complete the reclamation and remediation work required to comply with existing laws and regulations at each mine site. The Company assesses and revises its asset retirement obligations on an annual basis or when new material information becomes available. Actual costs incurred may differ from those amounts estimated. Also, future changes to environmental laws and regulations could increase the extent of reclamation and remediation work required to be performed by the Company. Increases in future costs could materially impact the amounts charged to operations for reclamation and remediation. The provision represents management’s best estimate of the present value of the future reclamation and remediation obligation. The actual future expenditures may differ from the amounts currently provided.

**iv. *Deferred income taxes***

The Company operates in a number of tax jurisdictions and is, therefore, required to estimate its income taxes in each of these tax jurisdictions in preparing its financial statements. In calculating the income taxes, consideration is given to factors such as tax rates in the different jurisdictions, non-deductible expenses, valuation allowances, changes in tax law and management’s expectations of future results. The Company estimates deferred income taxes based on temporary differences between the income and losses reported in its financial statements and its taxable income and losses as determined under the applicable tax laws. The tax effect of these temporary differences

is recorded as deferred tax assets or liabilities in the financial statements. If it is not more likely than not that the deferred tax assets will be utilized, a valuation allowance is provided for. The calculation of income taxes requires the use of judgment and estimates. If these judgments and estimates prove to be inaccurate, future earnings may be materially impacted.

**v. *Share-based Compensation***

Share based compensation costs recognized for the share-based compensation plans are based on estimates of what the ultimate payout will be, using the Black-Scholes option pricing model or Monte Carlo simulation model, which are based on significant assumptions such as volatility, expected life, expected dividends, risk-free interest rate and expected forfeiture rates.

**vi. *Depreciation, depletion and amortization period for property plant and equipment***

The Company makes estimates about the expected useful lives of property plant and equipment and the expected residual values of the assets based on the estimated current fair value of the assets, the Company's mine plan and the cash flows they generate. Changes to these estimates, which can be significant, could be caused by a variety of factors, including future production differing from current forecasts of future production, expansion of mineral reserves through exploration activities, differences between estimated and actual costs of mining and differences in gold price used in the estimation of mineral reserves.

Significant judgment is involved in the determination of useful lives and residual values for the computation of depreciation, depletion and amortization and no assurance can be given that actual useful lives and residual values will not differ significantly from current assumptions.

**vii. *Mineral reserve and resources estimation***

The Company estimates its ore reserves and mineral resources based on information compiled by qualified persons as defined in accordance with the Canadian Securities Administrators' National Instrument 43-101 Standards of Disclosure for Mineral Projects requirements. In order to estimate reserves, assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transportation costs, commodity demand, commodity prices and exchange rates. Estimating the quantity and/or grade of reserves requires the size, shape and depth of ore bodies to be determined by analyzing geological data such as drilling samples. This process may require complex and difficult geological judgments to interpret the data. Economic assumptions used to estimate reserves could change from period to period and as additional geological data is generated during the course of operations, estimates of reserves may change from period to period. Changes in reported reserves may affect the Company's financial results and financial position.

### **viii. Litigation and contingency**

On an ongoing basis the Company is subject to various claims and other legal disputes, the outcomes of which cannot be assessed with a high degree of certainty. A liability is recognized where, based on the Company's legal views and advice, it is considered probable that an outflow of resources will be required to settle a present obligation that can be measured reliably.

By their nature, these contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgment of the potential outcome of future events.

## **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 one of the new standards. The impact of this change is described more fully in note 5 of the Company's Consolidated Financial Statements of December 31, 2013.

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

On January 1, 2013, the Company adopted the new recommendations contained in, 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 a material 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”) and applied the requirements to production stripping costs incurred on or after January 1, 2012, in accordance with the transitional provisions of IFRIC 20. This standard 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 International Accounting Standards Board (“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. 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.

On May 21, 2013, the IASB issued IFRIC 21 *Levies* ("IFRIC 21"), an interpretation on the accounting for levies imposed by governments. IFRIC 21 is an interpretation of IAS 37 *Provisions, contingent liabilities and contingent assets* ("IAS 37"). IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The Company is assessing the impact on its consolidated financial statements from the adoption of IFRIC 21 effective January 1, 2014.

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

As of December 31, 2013, Centerra evaluated its disclosure controls and procedures and internal control over financial reporting, as defined in the rules of the Canadian Securities Administrators. These evaluations were carried out under the supervision of and with the participation of management, including Centerra's Chief Executive Officer and the Chief Financial Officer. Based on these evaluations, the Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures and internal control over financial reporting were effective.

## 2014 Outlook

Kumtor's forecasted 2014 production and costs discussed in this MD&A are provided on a 100% basis and the forecast does not make any assumptions regarding possible changes in the structure and management of the Kumtor Project, including without limitation the level of ownership resulting from ongoing discussions with the Government of the Kyrgyz Republic and Kyrgyzaltyn JSC, Centerra's largest shareholder. See "Material Assumption and Risks" for other material assumptions or factors used to forecast production and costs for 2014.

Centerra's 2014 gold production and unit costs are forecast as follows:

	<b>2014 Production Forecast</b> (ounces of gold)	<b>2014 Adjusted Operating Costs<sup>(1)</sup></b> (\$ per ounce sold)	<b>2014 All-in Costs<sup>(2)</sup></b> (\$ per ounce sold)
Kumtor	550,000 – 600,000	\$373 – \$407	\$833 – \$909
Boroo	Approx. 45,000	\$1,533	\$1,557
<b>Consolidated</b>	<b>595,000 – 645,000</b>	<b>\$454 – \$493</b>	<b>\$989 – \$1,074</b>

<sup>(1)</sup> Adjusted operating costs per ounce sold is a non-GAAP measure and includes operating costs, regional office administration, community costs related to current operations, refining fees and by-product credits. Operating costs include mine operating costs such as mining, processing, site support, royalties and operating taxes (except at Kumtor where revenue-based taxes are excluded), but exclude depreciation, depletion and amortization (DD&A), reclamation costs, financing costs, capital expenditures and exploration.

<sup>(2)</sup> All-in costs per ounce sold is a non-GAAP measure and includes adjusted operating costs, the cash component of capitalized stripping costs, accretion expenses, sustaining capital<sup>NG</sup>, growth capital<sup>NG</sup>, and additional costs at the consolidated level for corporate general and administrative expenses, global exploration expenses and social development costs.

### Gold Production

Centerra's 2014 consolidated gold production is expected to be 595,000 to 645,000 ounces.

Centerra estimates that the Kumtor mine will produce between 550,000 and 600,000 ounces in 2014 and, similar to 2013, over 50% of this gold production is expected during the fourth quarter when mining will reach the high-grade section of the SB Zone.

The 2014 production guidance range is lower than that outlined in the life of mine plan set out in the Kumtor technical report filed on December 20, 2012 as a result of a lower 2014 starting ore stockpile inventory and a reduction in the rate of vertical advancement of cut-back 16, which provides access to the high grade SB zone ore in 2014.

At the Boroo mine, gold production is forecast to be approximately 45,000 ounces. The forecasted annual production at Boroo includes about 20,000 ounces from heap leaching and 25,000 ounces from the mill. The Boroo mill is expected to process ore stockpiles during the year with an average grade of 0.70 g/t gold. The 2014 forecast assumes no mining activities at Boroo or Gatsuurt, and no gold production from Gatsuurt.

### All-in Unit Costs:

Centerra's 2014 all-in sustaining costs per ounce sold<sup>NG</sup> and all-in costs per ounce sold<sup>NG</sup> are forecast as follows:

	<b>Kumtor</b>	<b>Boroo</b>	<b>Consolidated</b>
<b>Ounces sold forecast</b>	550,000-600,000	Approximately 45,000	595,000-645,000
<b>US \$ / gold ounces sold</b>			
Operating costs	\$358 – 390	\$956	\$400 – 434
Changes in inventories	(29) – (30)	438 <sup>(4)</sup>	4 – 4
<b>Operating Costs (on a sales basis)</b>	<b>\$329 – 360</b>	<b>\$1,394</b>	<b>\$404 – 438</b>
Regional office administration	32 – 35	128	39 – 42
Community costs related to current operations	13 – 13	13	12 – 14
Refining costs and by-product credits	(1) – (1)	(2)	(1) – (1)
<b>Sub-Total (Adjusted Operating Costs)<sup>(1)</sup></b>	<b>\$373 – 407</b>	<b>\$1,533</b>	<b>\$454 – 493</b>
Corporate general & administrative costs	–	–	57– 62
Accretion expense	1 – 1	7	1 – 2
Capitalized stripping costs – cash	319 – 348	–	296 – 321
Capital expenditures (sustaining) <sup>(1)</sup>	69 – 76	17	67 – 72
<b>All-in Sustaining Costs<sup>(1)</sup></b>	<b>\$762 – 832</b>	<b>\$1,557</b>	<b>\$875 – 950</b>
Capital expenditures (growth) <sup>(1)</sup>	71 – 77	–	66 – 72
Other costs <sup>(2)</sup>	–	–	48 – 52
<b>All-in Costs<sup>(1)</sup></b>	<b>\$833 – 909</b>	<b>\$1,557</b>	<b>\$989 –1,074</b>
Income and Revenue-based taxes <sup>(3)</sup>	\$175 – 191	–	\$163 – 176
<b>All-in Costs (including taxes)<sup>(1),(3)</sup></b>	<b>\$1,008 –1,100</b>	<b>\$1,557</b>	<b>\$1,152 –1,250</b>

<sup>(1)</sup> All-in sustaining costs per ounce sold, all-in costs per ounce sold, all-in costs (\$ and including taxes) per ounce sold, as well as capital expenditures (sustaining and growth), are non-GAAP measures and are discussed under “Non-GAAP Measures”.

<sup>(2)</sup> Other costs per ounce sold include global exploration expenses, business development expenses, and project development costs not related to current operations.

<sup>(3)</sup> Includes revenue-based tax that reflects a forecasted gold price assumption from \$1,250 per ounce sold.

<sup>(4)</sup> The Boroo operation is nearing the end of its mine life. All forecast production and sales are a result of drawing down the existing stockpiles and assume no mining activities.

### 2014 Exploration Expenditures

Planned exploration expenditures for 2014 total approximately \$20 million, which is \$9.5 million lower than the 2013 expense of \$29.5 million. No expenditures are planned for exploration at Kumtor which accounts for most of the reduction in the planned exploration costs.

In Mongolia, approximately \$6 million is planned for exploration programs in the greater ATO district. In Turkey, approximately \$3.5 million is allocated for further exploration work on the Öksüt property and \$2.5 million to test exploration targets elsewhere in the region. Exploration spending for Russia is planned at approximately \$3 million and includes funds to complete the assessment of targets on the Dvoinoy and Umlekan earn-in projects.

The 2014 exploration plan also includes \$3 million to fund programs of generative exploration and advanced-project evaluations in Turkey, the Caucasus, Russia, Asia and western Canada. These programs will fund efforts to identify, evaluate and acquire drill-ready through resource-development gold projects in high-ranking geologic terrains.

## 2014 Capital Expenditures

Centerra's projected capital expenditures for 2014, excluding capitalized stripping, are estimated to be \$86 million, including \$43 million of sustaining capital<sup>NG</sup> and \$43 million of growth capital<sup>NG</sup>.

Projected capital expenditures (excluding capitalized stripping) include:

<b>Projects</b>	<b>2014 Growth Capital<sup>NG</sup></b> (millions of dollars)	<b>2014 Sustaining Capital<sup>NG</sup></b> (millions of dollars)
Kumtor mine	\$43	\$42
Mongolia (Boroo and Gatsuurt)	-	1
<b>Consolidated Total</b>	<b>\$43</b>	<b>\$43</b>

### *Kumtor*

At Kumtor, 2014 total capital expenditures, excluding capitalized stripping, are forecast to be \$85 million. Spending on sustaining capital<sup>NG</sup> relates primarily to the major overhaul maintenance of the heavy duty mine equipment (\$32 million), purchase of replacement mining equipment and ball mill girth gear (\$5 million), tailings dam construction raise (\$3 million) and other items (\$2 million).

Growth capital<sup>NG</sup> investment at Kumtor for 2014 is forecast at \$43 million and includes the relocation of certain infrastructure at Kumtor related to the KS-13 life-of-mine expansion plan amounting to \$32 million, dewatering projects (\$4 million) and purchase of new mining equipment (\$7 million).

The cash component of capitalized stripping costs related to the development of the open pit is expected to be \$191 million in 2014.

### *Mongolia (Boroo and Gatsuurt)*

At Boroo, 2014 sustaining capital<sup>NG</sup> expenditures are expected to be \$1 million primarily for maintenance rebuilds and overhauls.

No growth capital<sup>NG</sup> is forecast for Boroo or Gatsuurt.

## 2014 Corporate Administration and Social Development

Corporate and administration expense for 2014 is forecast to be \$41 million, which includes \$37 million for corporate and administration costs, and \$4 million for business development activities.

Total planned social development expenditures for 2014 are forecast at \$8 million, which includes \$5 million for donations, and sustainable development projects in the various communities in which Centerra operates and \$3 million for strategic social development projects.

## Öksüt Project

The Company expects to complete a preliminary economic assessment in the first quarter of 2014 and if such assessment is positive, expects to commence a feasibility study for its Öksüt property in 2014. The total planned spending in 2014 of approximately \$10 million includes work for technical studies, environmental and social impact assessment and project support (collectively, \$6.4 million) and \$3.5 million for exploration (discussed earlier).

## 2014 Depreciation, Depletion and Amortization

Consolidated depreciation, depletion and amortization expense included in costs of sales expense for 2014 is forecasted to be approximately \$290 million before the impact of the 2013 year end reserves and resource calculations. This includes approximately \$275 million at Kumtor and \$15 million at Boroo. Refer to the Company's 2013 Audited Financial Statements note 11 for further details on the Company's capital assets and the related changes to DD&A.

<i>(In millions)</i>	<b>2014 DD&amp;A Forecast (Unaudited)</b>	<b>2013 DD&amp;A Actual</b>
<b>Kumtor</b>		
Mine equipment	\$ 95	\$ 98
Less DD&A capitalized to stripping costs <sup>(1)</sup>	(71)	(77)
Capital stripping costs amortized	170	331
Other mining assets	5	3
Mill assets	7	6
Administration assets and other	10	14
Inventory movement (non-cash depreciation)	59	(93)
<b>Subtotal for Kumtor</b>	<b>\$ 275</b>	<b>\$ 282</b>
<b>Boroo</b>		
Mine equipment	\$ 1	\$ 1
Less DD&A capitalized to stripping costs	-	-
Stripping costs amortized	-	2
Mine development and other mining assets	-	1
Mill assets	4	6
Administration assets and other	5	10
Inventory movement (non-cash depreciation)	5	7
<b>Subtotal for Boroo</b>	<b>\$ 15</b>	<b>\$ 27</b>
<b>Consolidated Total</b>	<b>\$ 290</b>	<b>\$ 309</b>

<sup>(1)</sup> Use of the Company's mining fleet for stripping activities results in a portion of the depreciation related to the mine fleet to be allocated to capitalized stripping costs. In 2013, \$77 million of depreciation costs was allocated to capitalized stripping costs.

### ***Kumtor***

At Kumtor, depreciation, depletion and amortization expense included in costs of sales expense for 2013 was \$282 million which is \$81 million higher than the guidance for 2013 provided in the Company's MD&A of February 20, 2013. The increase in the DD&A expense is mainly due to higher amortization expense of capitalized stripping costs (\$40 million), a lower credit for inventory movement (\$34 million) and higher mining and other assets depreciation (\$7 million). The higher amortization of capitalized stripping costs was mainly a result of the adoption of IFRIC 20 which re-stated the 2012 results. Operating costs previously expensed in 2012 in the amount of \$37 million were capitalized as stripping costs as a result of IFRIC 20's adoption. These newly capitalized costs were amortized during 2013 as the ore in the related cut-back was mined, increasing 2013 DD&A expense by \$37 million. The non-cash inventory movement recorded in 2013 of \$93 million was \$34 million lower than the guidance for 2013, reflecting lower than forecasted levels of gold stockpile inventory at the end of 2013 due in part to higher than forecasted ore processing and a negative production reconciliation. The depreciation of mining and other assets was higher than the guidance due to higher production and a \$4.8 million write down of exploration related spare parts inventory following the close of the exploration program.

The forecast for 2014 DD&A expensed as part of costs of sales is approximately \$275 million, before the impact of the 2013 year end reserves and resource calculations. The amortization of capitalized stripping costs is the largest component of depreciation expense in 2014 totaling \$170 million. Capitalized stripping costs include mining operating costs such as labour, diesel and maintenance costs, as well as the depreciation expense for the mine equipment used in the stripping campaign. The capitalized stripping costs are amortized over the ounces contained in the ore body exposed by the stripping campaign.

The mine equipment assets are depreciated on a straight-line basis over their estimated useful lives. The total mine equipment depreciation for 2014 is forecasted at \$95 million. The depreciation related to mine equipment engaged in a stripping campaign and capitalized as stripping costs is forecasted to be \$71 million in 2014.

### ***Boroo***

At Boroo, depreciation, depletion and amortization expense included in costs of sales expense for 2013 was \$27 million which is \$10 million higher than the guidance for 2013 provided in the Company's MD&A of February 20, 2013. The increase in the DD&A expense is mainly due to significantly higher production than forecasted in 2013.

The forecast for 2014 DD&A expensed as part of costs of sales is approximately \$15 million before the impact of the 2013 year end reserves and resource calculations, compared to \$27 million in 2013. The decrease in 2014 reflects a lower forecasted production at Boroo in 2014 compared to 2013. The largest components of depreciation expense are related to depreciation of the mill, the administration buildings and other assets forecasted at \$5 million.

### **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 LLC, is 25% for taxable income over 3 billion Mongolian tugriks (approximately \$1.8 million at the December 31, 2013 foreign exchange rate) with a tax rate of 10% for taxable income up to that amount. Following the expiration of the Boroo Stability Agreement in July 2013, Boroo Gold LLC’s corporate income tax rate was unchanged, however the royalty paid to the government increased from 5% to a rate varying between 5% and 10% based on the price of gold, to a maximum of 10% for gold prices at or above \$1,300 an ounce. In January 2014, the royalty rate was reduced to 2.5% for gold sold to the Bank of Mongolia and Boroo Gold LLC is currently exploring sales to the Bank of Mongolia as a result. Boroo is not forecast to pay any income tax in 2014.

Production, cost and capital forecasts for 2014 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 “Cautionary Note Regarding Forward-Looking Information” and under the heading “Risk Factors” in the Company’s Annual Information Form for the year ended December 31, 2012.

### Sensitivities:

Centerra’s revenues, earnings and cash flows for 2014 are sensitive to changes in certain variables and the Company has estimated the impact of any such changes on revenues, net earnings and cash from operations.

	Change	Impact on (\$ millions)			
		Costs	Revenues	Cash flow	Earnings before income tax
Gold Price	\$50/oz	4.9	32.1	27.2	27.2
Diesel Fuel <sup>(1)</sup>	10%	10.5	-	10.5	10.5
Kyrgyz som <sup>(2)</sup>	1 som	3.0	-	3.0	3.0
Mongolian tugrik <sup>(2)</sup>	25 tugrik	0.5	-	0.5	0.5
Canadian dollar <sup>(2)</sup>	10 cents	2.8	-	2.8	2.8

<sup>(1)</sup> a 10% change in diesel fuel price equals \$16/oz produced

<sup>(2)</sup> appreciation of currency against the US dollar will result in higher costs and lower cash flow and earnings, depreciation of currency against the US dollar results in decreased costs and increased cash flow and earnings

### Material Assumptions and Risks:

Material assumptions or factors used to forecast production and costs for 2014 include the following:

- a gold price of \$1,250 per ounce,
- exchange rates:
  - \$1USD:\$1.05 CAD
  - \$1USD:48.5 Kyrgyz som
  - \$1USD:1,600 Mongolian tugriks
  - \$1USD:0.81 Euro
- diesel fuel price assumption:
  - \$0.75/litre at Kumtor

- \$1.22/litre at Boroo

The Company cannot give any assurances in this regard.

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 \$108 per barrel.

Other material assumptions were used in forecasting production and costs for 2014. The Company cannot give any assurances in this regard. These material assumptions include the following:

- That current discussions between the Government of the Kyrgyz Republic and Centerra regarding a potential restructuring of the Kumtor Project will result in a mutually satisfactory solution to the outstanding matters affecting the Kumtor project, which is fair to all of Centerra's shareholders, and that such proposal will receive all necessary legal and regulatory approvals under Kyrgyz law and/or Canadian law.
- 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 and/or power to the mine site.
- The activities of the Kyrgyz Republic Parliament and Government, referred to under the heading "Other Corporate Developments – Kyrgyz Republic" do not have a material impact on operations or financial results. This includes any action being taken by the Parliament or Government to cancel the current project agreements governing the Kumtor Project, or taking any actions which would be inconsistent with the rights of Centerra, Kumtor Gold Company and Kumtor Operating Company under the project agreements governing the Kumtor project.
- The previously disclosed environmental claims received from the Kyrgyz regulatory authorities in the aggregate amount of approximately \$476 million, the claim received from the Kyrgyz Green Party for \$9 billion and the claim of the Kyrgyz Republic's General Prosecutor's Office purporting to invalidate land use rights and/or seize land at Kumtor, and any further claims, whether alleging environmental allegations or otherwise, are resolved without material impact on Centerra's operations or financial results.
- The movement in the Central Valley Waste Dump at Kumtor, referred to under the heading "Other Corporate Developments – Kyrgyz Republic – Kumtor Waste Dump Movement", does not accelerate and will be managed to ensure continued safe operations, without impact to gold production, including the successful demolition of buildings and relocation of certain other infrastructure as planned.
- Grades and recoveries at Kumtor will remain consistent with the 2014 production plan 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 timing of the infrastructure move at Kumtor 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.
- The Kumtor ball mill and the rotated ring gear or replacement ring gear continue to operate as expected.
- The successful negotiation of new collective agreements at both Kumtor which expires on December 31, 2014, and Boroo, which expires on June 30, 2014, without any labour actions/strikes and without significantly increasing labour costs.
- There are no changes to the Mongolian tax regime which would impact Boroo operations because of the expiry of the Boroo Stability Agreement in July 2013.
- Prices of key consumables, costs of power and water usage fees are not significantly higher than prices assumed in planning.
- Precious metal prices and costs remain stable and do not result in an impairment to the Company's asset valuations.
- 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.
- 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 and 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 "Cautionary Note Regarding Forward-Looking Information" in this news release and also the Risk Factors listed in the Company's Annual Information Form for the year ended December 31, 2012, available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **Qualified Person & QA/QC**

All reserve and resource estimates, production information and other related scientific and technical information in this MD&A were prepared in accordance with the standards of the Canadian Institute of Mining, Metallurgy and Petroleum and National Instrument 43-101 – *Standards of Disclosure for Mineral Projects* and were prepared, reviewed, verified and compiled by Centerra's geological and mining staff under the supervision of Dan Redmond, Ontario Professional Geoscientist, Centerra's Director, Technical Services – Mining, who is the qualified person for the purpose of NI 43-101. Sample preparation, analytical techniques, laboratories used and quality assurance-quality control protocols used during the exploration drilling programs are done consistent with industry standards and independent certified assay labs are used with the exception of the Kumtor project as described in its Technical Report.

Exploration information and related scientific and technical information in this MD&A regarding the Öksüt project were prepared in accordance with the standards of the Canadian Institute of Mining, Metallurgy and Petroleum and National Instrument 43-101 – *Standards of Disclosure for Mineral Projects* ("NI 43-101") and were prepared, reviewed, verified and compiled by Centerra's geological and mining staff under the supervision of Malcolm

Stallman, Member of the Australian Institute of Geoscientists (AIG), Centerra's Regional Exploration Manager – Western Asia and Eastern Europe, who is the qualified person for the purpose of NI 43-101. Sample preparation, analytical techniques, laboratories used and quality assurance-quality control protocols used during the exploration drilling programs are done consistent with industry standards and independent certified assay labs are used.

Exploration information and related scientific and technical information in this MD&A regarding the ATO project were prepared in accordance with the standards of the Canadian Institute of Mining, Metallurgy and Petroleum and National Instrument 43-101 – *Standards of Disclosure for Mineral Projects* ("NI 43-101") and were prepared, reviewed, verified and compiled by Centerra's geological and mining staff under the supervision of Boris Kotlyar, Certified Professional Geologist with The American Institute of Professional Geologists (AIPG), Centerra's Director, Asia Exploration, who is the qualified person for the purpose of NI 43-101. Sample preparation, analytical techniques, laboratories used and quality assurance-quality control protocols used during the exploration drilling programs are done consistent with industry standards and independent certified assay labs are used.

The Kumtor deposit is described in Centerra's 2012 Annual Information Form and a technical report dated December 20, 2012, which is filed on SEDAR at [www.sedar.com](http://www.sedar.com). The technical report is prepared in accordance with NI 43-101 and describes the exploration history, geology and style of gold mineralization at the Kumtor deposit. Sample preparation, analytical techniques, laboratories used and quality assurance-quality control protocols used during the drilling programs at the Kumtor site are described in the technical report.

The Boroo deposit is described in Centerra's 2012 Annual Information Form and a technical report dated December 17, 2009 prepared in accordance with NI 43-101, which is available on SEDAR at [www.sedar.com](http://www.sedar.com). The technical report describes the exploration history, geology and style of gold mineralization at the Boroo deposit. Sample preparation, analytical techniques, laboratories used and quality assurance-quality control protocols used during the drilling programs at the Boroo site are the same as, or similar to, those described in the technical report.

The Gatsuurt deposit is described in Centerra's 2012 Annual Information Form and a technical report dated May 9, 2006 prepared in accordance with NI 43-101. The technical report has been filed on SEDAR at [www.sedar.com](http://www.sedar.com). The technical report describes the exploration history, geology and style of gold mineralization at the Gatsuurt deposit. Sample preparation, analytical techniques, laboratories used and quality assurance-quality control protocols used during the drilling programs at the Gatsuurt project are the same as, or similar to, those described in the technical report.

## **Risk Factors**

Below are the risk factors that Centerra believes can have a material effect on the profitability, future cash flow, earnings, results of operations, stated reserves and financial condition of the Company. If any event arising from these risks occurs, the Company's business, prospects, financial condition, results of operations or cash flows could be adversely affected, the trading price of Centerra's common shares could decline and all or part of any investment may be lost. 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.

## **STRATEGIC**

### ***Country, Political & Regulatory***

#### **Centerra's principal operations and mineral resources are located in the Kyrgyz Republic, Mongolia and Turkey and are subject to country risk**

Our mining operations and gold exploration activities are affected in varying degrees by political stability and government regulations relating to foreign investment, social unrest, corporate activity and the mining business in the countries in which we operate, explore and develop properties. Operations may also be affected in varying degrees by terrorism, military conflict or repression, crime, extreme fluctuations in currency rates and high inflation in Central Asia. The relevant governments have entered into contracts with us or granted permits, licenses or concessions that enable us to conduct operations or exploration and development activities. Notwithstanding these arrangements, our ability to conduct operations or exploration and development activities is subject to obtaining and/or renewing permits or concessions (including a certificate of temporary land use in relation to its concession area around the Kumtor project, which was issued in 2010 and then purported to have been cancelled in 2012 and is subject to a further claim of invalidation in 2013, as well as permits and concessions to begin mining activities at Gatsuurt), changes in laws or government regulations or shifts in political attitudes beyond our control.

All of our current gold production and our principal mineral reserves and resources are derived from assets located in the Kyrgyz Republic, Mongolia, and Turkey, countries that have experienced political difficulties in recent years including, in the case of the Kyrgyz Republic, civil unrest in April 2010 that resulted in the ouster of the incumbent President and, in the case of Turkey anti-government protests as well as unrest following investigations initiated in December 2013 into alleged government corruption. Accordingly, there continues to be a risk of future political instability.

We do not currently carry political risk insurance covering our investments in the Kyrgyz Republic, Mongolia or Turkey. The political risk insurance policy that covered our investments in the Kyrgyz Republic expired in November, 2012. From time to time, we assess the costs and benefits of maintaining such insurance. Recent increases in political risk in the Kyrgyz Republic combined with adverse insurance market conditions for political risk insurance for this region resulted in conditions whereby continuing political risk insurance coverage was not feasible. There can be no assurance that, if we chose to obtain it, political risk insurance would be available to us, or that particular losses we may suffer with respect to our foreign investments will be covered by any insurance that we may obtain in the future. Any such losses could have an adverse impact on our future cash flows, earnings, results of operations and financial condition.

#### **Resource nationalism could adversely impact Centerra's business**

The strength in commodity prices in recent years has resulted in companies in the mining and metals sector being targeted to raise government revenue, particularly as governments struggled with deficits and concerns over the effects of depressed economies. Governments are continually assessing the fiscal terms of the economic rent for mining companies to exploit

resources in their countries. Numerous countries, including the Kyrgyz Republic and Mongolia, have in the past introduced changes to their respective mining regimes that reflect increased government control or participation in the mining sector, including, but not limited to, changes of laws or governmental regulations affecting foreign ownership, mandatory government participation, taxation and royalties, labour mine safety, exchange rates, exchange controls, permitting and licensing of exploration development and production, land use restrictions, annual fees to maintain mineral properties in good standing, price controls, export controls, export and import duties, restrictions on repatriation of income or return of capital, environmental protection, as well as requirements for employment of local staff or contractors, and contributions to infrastructure and social support systems. Our operations may be affected in varying degrees by such laws and government regulations.

There can be no assurance that industries deemed of national or strategic importance like mineral production will not be nationalized. Government policy may change to discourage foreign investment; renationalization of mining industries may occur; or other government limitations, restrictions or requirements not currently foreseen may be implemented. There can be no assurance that our assets will not be subject to nationalization, expropriation or confiscation, whether legitimate or not, by any authority or body. While there are often provisions for compensation and reimbursement of losses to investors under such circumstances, there is no assurance that such provisions would effectively restore the value of our original investment or that such restoration would occur within a reasonable timeframe. There also can be no assurance that the laws in these countries protecting foreign investments will not be amended or abolished or that these existing laws will be enforced or interpreted to provide adequate protection against any or all of the risks described above. Furthermore, there can be no assurance that the agreements we have with the governments of these countries will prove to be enforceable or provide adequate protection against any or all of the risks described above.

The Kumtor project has, in recent years, been threatened with nationalization. During 2012, a Parliamentary Commission proposed to the Kyrgyz Parliament a Draft Decree which called for the cancellation of the current Kumtor Project Agreements and the creation of a new state-owned Kyrgyz Republic entity to assume control over Kumtor which if approved and given full effect by the Kyrgyz Government, would have, in substance, resulted in the nationalization of Kumtor. In late June 2012, the Kyrgyz Parliament voted against the Draft Decree and instead adopted an alternative resolution (2117-V). In addition, in February 2013, the Kyrgyz Parliament adopted Decree 2805-V (described in greater detail below) which recommends that the Kyrgyz Government conduct negotiations with Centerra with a view to revising the Kumtor Project Agreements and, if the parties cannot agree on mutually acceptable terms within three months' time, instructs the Kyrgyz Government to take certain actions with respect to the Kumtor project, including among other things, to unilaterally terminate the Kumtor Project Agreements, invalidate the legislation which provides for the tax regime set out in the Kumtor Project Agreements, confiscate land plots granting surface rights in relation to the Kumtor Project and authorizing measures to have Kumtor Operating Company pay fines and other charges for violations of environmental, mining and geological and subsoil legislation. Such actions, in substance, also would result in the nationalization of Kumtor. Furthermore, in April 2013, an initiative group led by Mr. Beknazarov A.A. submitted a draft law "On Denunciation of the Agreement for the Kumtor Project" ("Law on Denunciation") for consideration by the Kyrgyz Parliament. The draft Law on Denunciation "denounces" the Agreement on New Terms for the Kumtor Project ("ANT") entered into on April 29, 2009 and recognizes as invalid all other agreements associated with the ANT (namely, the agreements governing the

Kumtor project) and calls for the Government to bring all of its decisions in accordance with the Law on Denunciation. Although, to date, the Draft Decree and the Law on Denunciation have not been approved by Parliament and the Kyrgyz Government has not acted upon the actions threatened in Decree 2805-V, there can be no assurance that subsequent resolutions will be brought before, or adopted by, the Kyrgyz Parliament to nationalize Kumtor.

### **Changes in, or more aggressive enforcement of, laws, regulations and government practices could adversely impact Centerra's business**

Mining operations and exploration activities are subject to extensive laws and regulations, both in the countries where mining operations and exploration and development activities are conducted and in the mining company's home jurisdiction. These relate to production, development, exploration, exports, imports, taxes and royalties, labour standards, occupational health, waste disposal, protection and remediation of the environment, mine decommissioning and reclamation, mine safety, toxic substances, transportation safety and emergency response, social responsibilities and sustainability, and other matters.

Compliance with these laws and regulations increases the costs of exploring, drilling, developing, constructing, operating and closing mines and other facilities. It is possible that the costs, delays and other effects associated with these laws and regulations may impact our decision as to whether to continue to operate existing mines, ore refining and other facilities or whether to proceed with exploration or development of properties. Since legal requirements change frequently, are subject to interpretation and may be enforced to varying degrees in practice, we are unable to predict the ultimate cost of compliance with these requirements or their effect on operations.

If the laws and regulations relating to our operations were to change, or the enforcement of such laws and regulations were to become more rigorous, we could be required to incur significant capital and operating expenditures to comply, which could have a material adverse effect on our financial position and our ability to achieve operating and development targets.

### **Community activism may influence laws and regulations, result in increased contributory demands, or in business interruption**

Slow economic development in the countries in which the Company operates has resulted in an increase in community activism and expectations by local governments for resource companies to increase their contributions to local communities. Such activism and expectations have been intensified as a result of the commodity price boom during the 2008 to 2012 period which also increased the perception that resource companies have been taking an unfairly rich benefit from the countries' natural resources, while causing significant environmental damage. For example, Kumtor has experienced a number of roadblocks in the past resulting from the discontent of various community groups. Similarly, in Mongolia, community groups and NGOs have vigorously campaigned against foreign mining companies. The Forest and Water Law, for example, was a response to heightened civil concern about the environmental impact of mining enterprises. There can be no assurance that the company's operations will not be disrupted by civil action or be subject to restrictions or imposed demands that will impact future cash flows, earnings, results of operation, financial condition, and reputation.

## **The Kyrgyz Government and Parliament may take actions in connection with the State Commission Report and the Parliament Decree adopted on February 21, 2013**

A State Commission was formed by the Kyrgyz Government in July 2012 for the purpose of reviewing the report of a Parliamentary Commission on Kumtor which was issued in June 2012 and which made a number of assertions regarding the operation of the Kumtor project, including non-compliance with Kyrgyz environmental and other laws. The State Commission was also given the responsibility of inspecting and reviewing Kumtor's compliance with Kyrgyz operational and environmental laws and community standards.

The State Commission issued its own report in late December 2012 (the State Commission Report). The State Commission Report included a large number of allegations in regard to prior transactions relating to the Kumtor project and its management, including the following:

- (i) that the Kumtor project violated Kyrgyz Republic legislation relating to corporate, environment, and subsoil legislation at various times since project activities began in 1993, including allegations relating to the tender process for the deposit in 1993, the approval process for the initial development of the Kumtor project, the placing of waste rock on glaciers, and causing environmental damage to water and land resources in the area of the Kumtor Project;
- (ii) that the Kumtor management is ineffective;
- (iii) that incorrect valuation of assets occurred during the 2003/2004 restructuring process, which purportedly led to significant losses sustained by the Kyrgyz Republic; and
- (iv) that the Kumtor Project Agreements adopted in 2009 were improperly approved and violate the Kyrgyz Republic constitution.

The State Commission Report recommended that the Kyrgyz Government open negotiations of the arrangements under which the Kumtor project is governed, including requiring Kumtor to accept the current tax regime and pay higher environmental charges; changes in the management of Kumtor and Centerra including greater representation by Kyrgyzaltyn on the Centerra board of directors and greater representation of Kyrgyz citizens in management of the Kumtor project; and recommendations for additional charges and fees to be paid by the Kumtor Project including for land use, and for those items raised by SIETS (as discussed below). The State Commission Report also recommended various actions to be taken by Kyrgyzaltyn, by the Kyrgyz Government, including revisions to Kyrgyz law, and the Kyrgyz Republic General Prosecutor's Office with respect to investigating the personal liability of parties who were involved in negotiating previous agreements governing the Kumtor project for violations of Kyrgyz legislation and for inflicting losses to the Kyrgyz Republic's interests. The State Commission recommended the establishment of a working group to give effect to the recommendations, in particular the opening of negotiations with Centerra and Kumtor.

The Kyrgyz Government received the State Commission Report and adopted a decree dated January 24, 2013, #34 (Decree #34), accepting the State Commission Report and sending it to the Kyrgyz Parliament. Pursuant to Decree #34, the Kyrgyz Government also established a working group to hold discussions on the revisions of terms governing the Kumtor Project, particularly on revisions to the tax regime and other matters identified in the State Commission Report.

Kyrgyz Republic Parliament received the State Commission Report on February 21, 2013 and adopted decree 2805-V (Decree 2805-V) regarding the Kumtor project. Decree 2805-V recommends that the Kyrgyz Republic Government ensure the continuous operation of the Kumtor mine, and within three months of the date of the decree, 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.

If the parties cannot agree on mutually acceptable terms within such three month time period, the Parliament in Decree 2805-V instructs the Government to 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 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 our news release dated July 6, 2012.); and
- (iv) authorize the SIETS to take measures to have Kumtor Operating Company pay fines and other charges for violations of environmental, mining and geological and subsoil legislation.

In Decree 2805-V, 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.

Decree 2805-V also instructed the General Prosecutor’s Office and the National Security Committee to investigate allegations that Kumtor deliberately understated reserves, including silver and tellurium.

Decree 2805-V called on the Kyrgyz Republic Government, General Prosecutor’s Office and the National Security Committee to report on the implementation of the instructions set out in the Decree by June 1, 2013. This deadline was extended by Resolution #3169-V until September 1, 2013 for the Government to present final agreements incorporating a mutually acceptable solution. Resolution #3169-V also provides that if a mutually acceptable solution has been agreed to, the Government is instructed to develop and submit a draft Law on Denunciation (discussed above) for review by the Kyrgyz Parliament.

Following discussions with the Government, in September 2013, Centerra entered into a non-binding memorandum of understanding (“MOU”) with the Government in connection with a potential restructuring transaction under which Kyrgyzaltyn would exchange its 32.7% equity interest in Centerra for an interest in a joint venture company that would own the Kumtor

project. On October 23, 2013, the MOU was considered by the Kyrgyz Parliament and rejected by a decree (“Decree”) which ordered the Government to (among other things) continue negotiations with Centerra with a view to improving the Kyrgyz Republic’s position and increasing its interest in the joint venture project to no less than 67%, to provide for the project to develop the Kumtor mine using underground mining methods, and to provide for the establishment and financing of a centre to monitor the preservation of glaciers. In the Decree, Parliament also recommends that the Kyrgyz Republic General Prosecutor’s Office consider pursuing allegations that management of the former parent company of Centerra, Centerra, Kumtor Operating Company, and Kumtor Gold Company violated environmental regulations and committed “other offenses”, and that precious metal reserves (silver, tellurium, and other associated components) at the Kumtor deposit were deliberately understated.

In the Decree, Parliament requested that the Government and the General Prosecutor’s Office report to Parliament on these matters by December 23, 2013. The Decree provides that if a mutually acceptable solution on the outstanding matters cannot be reached, the Government is ordered to initiate a process to cancel the Kumtor Project Agreements.

Subsequently, on December 24, 2013, Centerra and the Government entered into a non-binding heads of agreement (the “HOA”) which retained most of the material terms of the MOU and which was submitted to the Kyrgyz Parliament for consideration. On February 6, 2014, the Kyrgyz Parliament adopted a resolution that appears to support the concept of the restructuring described in the HOA. However, the resolution also contains a number of recommendations that are materially inconsistent with the terms of the HOA. Among other things, the resolution calls for further audits of the Kumtor operation and for the Government and the General Prosecutor’s Office to continue pursuing claims for environmental and economic damages, which the Company disputes. Centerra expects to engage in further discussions with the Kyrgyz Government relating to the potential restructuring transaction reflected in the HOA, but notes that there can be no certainty that any definitive agreements for a potential restructuring will obtain required approvals in the Kyrgyz Republic.

While we believe that the findings of the Parliamentary Commission Report and the State Commission Report are without merit and that the Kumtor Project Agreements between us and the Kyrgyz Republic are legal, valid and enforceable obligations, there can be no assurance that we will be able to successfully resolve any or all of these matters currently affecting the Kumtor project. There can also be no assurances that the Kyrgyz Republic 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 our future cash flows, earnings, results of operations and financial condition.

### **The purported cancellation of Kumtor’s land use rights could adversely impact the Kumtor operations**

On July 5, 2012 the Kyrgyz Government purported to cancel Government Decree #168, which provided Kumtor with land use rights over the surface of the Kumtor concession area for the duration of the Restated Concession Agreement. A related land use certificate issued by the local land office was also cancelled. This action was contemplated in Government Resolution 2117-V, which was adopted in late June 2012 after the Kyrgyz Republic Parliament received the Parliamentary Commission report.

In the third quarter of 2012, we requested the issuance of a new land use certificate pursuant to the Restated Investment Agreement dated June 6, 2009 between us and the Kyrgyz Republic. Under the Restated Investment Agreement, the Kumtor project is guaranteed all necessary access to the Kumtor concession area, including all surface lands as is necessary or desirable for the operation of the Kumtor project. The Restated Investment Agreement also provides that the Kyrgyz Government shall use its best efforts to reserve or cancel any action that conflicts with our rights under that agreement.

Further, in November 2013, the Company received a claim from the Kyrgyz Republic General Prosecutor's Office requesting the Inter-District Court of the Issyk-Kul Province to invalidate the Company's land use certificate and seize certain lands within the Kumtor concession area.

Although we believe, based on advice from Kyrgyz legal counsel, that the purported cancellation of Kumtor's land rights, invalidation of its land use certificate and seizure of lands are in violation of the Kyrgyz Republic Land Code and the Restated Investment Agreement, there can be no assurance that cancellation of Kumtor's land rights will not be upheld and enforced by the Kyrgyz Government. If Kumtor's land rights are cancelled, it could have an adverse impact on our future cash flows, earnings, results of operations and financial condition.

### **The Water and Forest Law could result in the revocation of the Company's mineral licenses in Mongolia**

In July 2009, the Mongolian Parliament passed the Water and Forest Law, which would have the effect of revoking any issued mining or exploration licenses in water basins and forest areas. The legislation provides a specific exemption for "mineral deposits of strategic importance", and accordingly, we expect that the main Boroo mining licenses will not be subject to the Water and Forest Law. Our Gatsuurt licenses and our other exploration license holdings in Mongolia including the ATO licenses, however, are currently not so exempt. Although on May 30, 2013 the Mongolian Cabinet approved a submission to the Mongolian Parliament that Gatsuurt be designated as a "strategic" deposit along with certain other deposits, there can be no assurance that Gatsuurt licenses will be so designated. The revocation of our mining or exploration licenses in Mongolia as a result of the Water and Forest Law could have a significant material adverse effect on our future cash flows, earnings, results of operations, stated mineral reserves and financial conditions.

### **The government of Mongolia has the right to take up to a 51% interest in certain mineral deposits**

In 2006, the Mongolian Parliament passed the Minerals Law that, among other things, empowers Parliament to designate mineral deposits that have a potential impact on national security, economic and social development or deposits that have a potential of producing above 5% of the country's GDP as deposits of strategic importance. The state may take up to a 51% interest in the exploitation of a minerals deposit of strategic importance where state funded exploration was used to determine proven mineral reserves and up to a 34% interest in an investment to be made by a license holder in a mineral deposit of strategic importance where proven reserves were determined through funding sources other than the state budget.

Although on May 30, 2013 the Mongolian Cabinet approved a submission to the Mongolian Parliament that Gatsuurt be designated as a "strategic" deposit along with certain other deposits, there has been no agreement between Centerra and the Mongolian government as to the interest in the Gatsuurt deposit that would be acquired by the Mongolian government upon such a designation.

The designation of any of the Company's mineral deposits in Mongolia as deposits of strategic importance under the Minerals Law and a decision by the Mongolian Government to take an interest in any of our deposits could have a significant material adverse effect on our future cash flows, earnings, results of operations, stated reserves and financial conditions.

### **The royalty payment for Centerra's Mongolian operations may increase significantly**

The royalty structure on mineral projects in Mongolia has fluctuated in recent years. In November 2010, the Mongolian Parliament passed amendments to the Minerals Law of Mongolia that modified the existing royalty structure on mineral projects. Pursuant to the amended royalty structure, the royalty rate is no longer a fixed percentage but is graduated and dependent upon the commodity price in US dollars. In the case of gold, there is a basic 5% royalty fee that applies while gold is less than \$900 per ounce. For any increase of \$100 to the price of gold, there is a corresponding 1% increase to the royalty fee. Accordingly, at \$900 per ounce, the royalty fee increases to 6%, at \$1,000 per ounce, the royalty increases to 7%, at \$1,100 per ounce, the royalty increases to 8%, and at \$1,200, the royalty increases to 9%. The highest royalty fee rate is 10% when the price of gold is \$1,300 per ounce and above. The graduated royalty became effective as of January 1, 2011 for all mining projects in Mongolia.

In January 2014 the Mongolian Parliament amended the royalty regime to provide for a two-tiered royalty structure. For producers selling gold to the Bank of Mongolia, Mongolia's central bank ("BoM"), or other commercial banks authorized by the BoM the basic royalty fee is reduced to 2.5% and the incremental royalty rate is annulled. While the Company is exploring sales of gold to the BoM, the BoM has not entered into any agreements with any of the Company's subsidiaries relating to the sale of gold and there can be no assurance that the BoM will continue to purchase any gold from the Company's subsidiaries or that the proceeds of such sales can be converted to foreign currencies at favourable rates. For producers selling gold to other parties, the graduated 5% to 10% royalty rate remains in place.

Our Gatsuurt project and our ATO deposit and our other exploration projects in Mongolia are now subject to the graduated royalty structure. We were previously in discussions with the Government of Mongolia to obtain an investment agreement for the development and mining of the Gatsuurt project which would stabilize the tax regime applicable to Gatsuurt, and including whether such new mineral laws will apply to Gatsuurt. However, in April 2010, the MMRE indicated to us that further discussions and negotiations with respect to any investment agreement would be postponed until the MMRE received clarification on the application of the Water and Forest Law on the Gatsuurt project. Even if the Water and Forest Law matters were resolved, there can be no assurance that any negotiations will be successful.

Increases in the royalty rates on any of our operations in Mongolia could have a significant material adverse effect on Centerra's future cash flows, earnings, results of operations, stated mineral reserves and financial conditions.

## **The Company's operations at the Boroo project have been subject to scrutiny from Mongolian regulatory authorities**

On June 12, 2009, the main operating licenses at our Boroo project were suspended by the MRAM following extensive inspections of the Boroo mine operation conducted by the SSIA. In its report, the SSIA expressed its view that a number of deficiencies existed at the Boroo project. After discussions with both the MRAM and the SSIA, the suspension of the operating licenses was lifted on July 27, 2009. Despite the lifting of the suspension, several issues arising from the inspections continued to be discussed until they were resolved in January 2012. As part of this resolution, we paid a settlement of approximately \$2.6 million in response to claims for compensation received by the SSIA.

The SSIA inspections in 2009 also raised a concern about the production and sale of gold from the Boroo heap leach facility. The heap leach facility was operated under a temporary permit from June 2008 until the expiry of the temporary permit in April, 2009 and paid all relevant royalties and taxes with respect to gold produced from the heap leach facility during that period. Final Mongolian regulatory approval for the mine plan for Boroo's heap leach facility was not granted until September 19, 2012, at which time heap leach operations resumed at Boroo.

Although issues arising from the SSIA inspections in 2009 have been resolved and Mongolian regulatory approvals have been received for Boroo's heap leach facility, there can be no assurance that future scrutiny from Mongolian regulatory authorities, or delay in permitting or licensing aspects of the Boroo project and/or the Company's other potential projects in Mongolia (including Gatsuurt), will not occur. Such developments could have an adverse impact on our future cash flows, earnings, results of operations, stated mineral reserves and financial condition.

## **If the environmental laws and regulations relating to the Company's operations were to change, or the enforcement of such laws and regulations were to become more rigorous, the Company could be required to incur significant capital and operating expenditures**

We are subject to environmental regulation in connection with our exploration, development and operation activities in each of the jurisdictions in which we operate. The financial and operational effects of our environmental protection requirements relate primarily to our operations in the Kyrgyz Republic, where we operate the Kumtor project; in Mongolia, where we operate the Boroo project, and have a 100% interest in the Gatsuurt, ATO and Ulaan Bulag exploration and development properties; and in Turkey, where we have 100% interest in the Öksüt exploration and development property. Local regulatory regimes in the Kyrgyz Republic, Mongolia, and Turkey may be influenced by increased local community concern in respect of the environmental footprint of mining operations as well as concerns over the management of water resources.

If the environmental laws and regulations relating to our operations, including our operations and projects in the Kyrgyz Republic, Mongolia and Turkey, were to change, or the enforcement of such laws and regulations were to become more rigorous, we could be required to incur significant capital and operating expenditures to comply, which could have a material adverse effect on our future cash flows, earnings, results of operations and financial condition, our ability to develop projects further, and increase our reserves and resources.

### **Centerra may not be able to successfully negotiate an investment agreement for Gatsuurt**

There can be no assurance that we will be able to successfully negotiate with the Government of Mongolia a mutually acceptable investment agreement for the development and operation of the Gatsuurt project. While there is no legal requirement for an investment agreement to be executed before we commence development and mining operations at Gatsuurt, we believe that it is important for the viability of the project.

Negotiations in 2010 regarding the Gatsuurt investment agreement were stopped in April 2010 when we received a letter from the MMRE indicated that the Gatsuurt licenses were within the area designated, on a preliminary basis, as land where mineral mining is prohibited under the Water and Forest Law, and that the MMRE would communicate with us further on negotiations with respect to an investment agreement for the Gatsuurt project once the MMRE received additional clarity on the impact of the Water and Forest Law on the Gatsuurt project.

### **Centerra may not be able to obtain all necessary permits and commissions for Gatsuurt**

Mining activities at Gatsuurt are subject to Centerra obtaining from the Government of Mongolia the necessary permits and commissions. There are no assurances that the Mongolian Government will grant such permits and commissions to us in a timely manner or at all, and on terms acceptable to us. While we did receive several permits during the course of 2010 in relation to the Gatsuurt project, in November 2010, we received a letter from Mongolia's Ministry of Finance indicating that operations at the Gatsuurt project cannot be commenced while the implementation of the Water and Forest Law is being resolved. Accordingly, further approvals and commissioning of Gatsuurt will be delayed as a result of the Water and Forest Law. Although the designation of Gatsuurt as a strategic deposit by Mongolian Parliament would exclude it from the application of the Water Forest Law, there can be no assurance that Parliament would make such a designation.

Our inability to develop and operate the Gatsuurt project could have an adverse effect on its future cash flows, earnings, results of operations and financial condition.

### ***Legal and Other***

#### **Current and future litigation may impact the revenue and profits of the Company**

We may be subject to claims based on allegations of negligence, breach of statutory duty, public nuisance or private nuisance or otherwise in connection with our operations or investigations relating thereto. While we are presently unable to quantify our potential liability under any of the above categories of damage, such liability may be material to us and may materially adversely affect our ability to continue operations.

#### **Centerra's properties, including Kumtor and the Gatsuurt project, may be subject to defects in title**

We have investigated our rights to explore and exploit all of our material properties, and, except as described below, to the best of its knowledge, those rights are in good standing. However, no assurance can be given that such rights will not be revoked or significantly altered to our detriment. There can also be no assurance that our rights will not be challenged or impugned by third parties, including local governments.

On July 5, 2012, the Kyrgyz Government cancelled Government Decree #168, which provided Kumtor with land use (surface) rights over the Kumtor Concession Area for the duration of the

Restated Concession Agreement. At the same time, the related land use certificate issued by the local land office was also cancelled. In addition, in November 2013, the Company received a claim from the Kyrgyz Republic General Prosecutor's Office requesting the Inter-District Court of the Issyk-Kul Province to invalidate the Company's land use certificate and seize certain lands within the Kumtor concession area. Based on advice from Kyrgyz legal counsel, we believe that the purported cancellation of our land use rights, invalidation of the land use certificate and seizure of lands are in violation of the Kyrgyz Republic Land Code, because the Land Code provides that land rights can only be terminated by court decision and on the listed grounds set out in the Land Code. To the extent that the land use rights are considered invalid (which we do not accept), we would seek to enforce our rights under the Restated Investment Agreement to obtain the reissuance of its land use rights, which are guaranteed pursuant to the Restated Investment Agreement.

On December 6, 2006, Gatsuurt LLC commenced arbitration before the Mongolian National Arbitration Court (MNAC) alleging non-compliance by our subsidiary, CGM, with its obligation to complete a feasibility study on the Gatsuurt property by December 31, 2005 and seeking the return of the license. We believed that Gatsuurt LLC's position was without merit. CGM challenged the MNAC's jurisdiction and the independence and impartiality of the Gatsuurt LLC nominee to the arbitration panel. We later reached an agreement with Gatsuurt LLC to terminate arbitration proceedings. Further to that agreement CGM paid \$1.5 million to Gatsuurt LLC. On signing of a definitive agreement, but subject to CGM having entered into an investment agreement with the Government of Mongolia in respect of the development of the Gatsuurt project, CGM will make a further non-refundable payment to Gatsuurt LLC in the amount of \$1.5 million. Final settlement with Gatsuurt LLC is subject to the negotiation and signing of a definitive settlement agreement.

In addition, under the Water and Forest Law passed in July 2009, any issued mining or exploration licenses in water basins and forest areas are to be revoked. The legislation provides a specific exemption for "mineral deposits of strategic importance", and accordingly, we expect that the main Boroo mining licenses will not be subject to the Water and Forest Law. Our Gatsuurt licenses and our other exploration license holdings in Mongolia including the ATO licenses, however, are currently not so exempt. Although on May 30, 2013 the Mongolian Cabinet approved a submission to the Mongolian Parliament that Gatsuurt be designated as a "strategic" deposit along with certain other deposits, there can be no assurance that Gatsuurt licenses will be so designated.

Although we are not currently aware of any existing title uncertainties with respect to any of our properties except as discussed in the preceding paragraphs, there is no assurance that such uncertainties will not result in future losses or additional expenditures, which could have an adverse impact on our future cash flows, earnings, results of operations and financial condition.

### **Centerra may be unable to enforce its legal rights in certain circumstances**

In the event of a dispute arising at our foreign operations, we may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdiction of courts in Canada. We may also be hindered or prevented from enforcing our rights with respect to a governmental entity or instrumentality because of the doctrine of sovereign immunity.

The dispute resolution provisions of: (i) the Restated Investment Agreement and (ii) the Boroo Stability Agreement stipulate that any dispute between the parties thereto is to be submitted to

international arbitration. However, there can be no assurance that a particular governmental entity or instrumentality will either comply with the provisions of these or any other agreements or voluntarily submit to arbitration. Our inability to enforce our rights could have an adverse effect on its future cash flows, earnings, results of operations and financial condition.

### **Centerra's largest shareholder is a state-owned entity of the Kyrgyz Government**

Our largest shareholder is Kyrgyzaltyn, which is a state-owned entity. Kyrgyzaltyn owns approximately 33% of the common shares of Centerra. Pursuant to the terms of the Restated Investment Agreement, Kyrgyzaltyn has two nominees on our board of directors. There can be no assurance that the Kyrgyz Government, through its ownership and control of Kyrgyzaltyn, will not use its influence to materially change the direction of the Company. This concentration of ownership may have the effect of delaying or preventing a change in control of Centerra, which may deprive our shareholders of a control premium that might otherwise be offered in connection with such a change of control. We are aware that Kyrgyzaltyn has in the past received inquiries regarding the potential acquisition of some or all of its common shares in the Company and the sale by Kyrgyzaltyn of its shareholdings to a third party could result in a new purchasing shareholder obtaining a considerable interest in the Company. Should Kyrgyzaltyn sell some or all of its interest in Centerra, there can be no assurance that an offer would be made to the other shareholders of Centerra or that the interests of such a shareholder would be consistent with the plans of the Company or that such a sale would not decrease the value of the common shares.

### **Centerra's directors may have conflicts of interest**

Certain of our directors also serve as directors and/or officers of other companies involved in natural resource exploration, development and production and consequently there exists the possibility for such directors to be in a position of conflict.

### **Centerra is subject to Anti-Corruption Legislation**

Centerra is subject to Canada's *Corruption of Foreign Public Officials Act* (the "Anti-Corruption Legislation"), which prohibits Centerra or any officer, director, employee or agent of Centerra or any shareholder of Centerra acting on its behalf from paying, offering to pay, or authorizing the payment of anything of value to any foreign government official, government staff member, political party, or political candidate in an attempt to obtain or retain business or to otherwise influence a person working in an official capacity. The Anti-Corruption Legislation also requires public companies to make and keep books and records that accurately and fairly reflect their transactions and to devise and maintain an adequate system of internal accounting controls. Centerra's international activities create the risk of unauthorized payments or offers of payments by Centerra's employees, consultants or agents, even though they may not always be subject to Centerra's control. Centerra discourages these practices by its employees and agents. However, Centerra's existing safeguards and any future improvements may prove to be less than effective, and Centerra's employees, consultants and agents may engage in conduct for which Centerra might be held responsible. Any failure by us to adopt appropriate compliance procedures and ensure that Centerra's employees and agents comply with the Anti-Corruption Legislation and applicable laws and regulations in foreign jurisdictions could result in substantial penalties or restrictions on Centerra's ability to conduct business in certain foreign jurisdictions, which may have a material adverse impact on Centerra and its share price.

## ***Concentration of Assets***

The company's operations and projects are all located in emerging countries of Central Asia, with the exception of Turkey, a country that has seen significant development in the last decade. This represents a concentration risk for the company limiting its ability to diversify country and political risk to any material degree. Further, certain countries in the region that neighbour the company's countries of interest have experienced rising geopolitical risk, and there can be no assurance that such geopolitical risk will not ultimately impact the countries in which we operate, explore and develop projects.

## ***Strategy and Planning***

### **Centerra's future exploration and development activities may not be successful**

Exploration for and development of gold properties involve significant financial risks and may be subject to political risks that even a combination of careful evaluation, experience and knowledge may not eliminate. While the discovery of an orebody may result in substantial rewards, few properties that are explored are ultimately developed into producing mines. Major expenses may be required to establish mineral reserves by drilling, constructing mining and processing facilities at a site, connecting to a reliable infrastructure, developing metallurgical processes and extracting gold from ore. We cannot ensure that our current exploration and development programs will result in profitable commercial mining operations or replacement of current production at existing mining operations with new mineral reserves. Also, substantial expenses may be incurred on exploration projects that are subsequently abandoned due to poor exploration results or the inability to define mineral reserves that can be mined economically.

Our ability to sustain or increase present levels of gold production is dependent on the successful acquisition or discovery and development of new orebodies and/or expansion of existing mining operations. The economic feasibility of development projects is based upon many factors, including the accuracy of mineral reserve estimates; metallurgical recoveries; capital and operating costs; government regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting and environmental protection; and gold prices, which are highly volatile. Development projects are also subject to the successful completion of feasibility studies, issuance of necessary governmental permits and availability of adequate financing.

Development projects have no operating history upon which to base estimates of future cash flow. Estimates of proven and probable mineral reserves and cash operating costs are, to a large extent, based upon detailed geological and engineering analysis. We also conduct feasibility studies that derive estimates of capital and operating costs based upon many factors, including anticipated tonnage and grades of ore to be mined and processed; the configuration of the orebody; ground and mining conditions; expected recovery rates of the gold from the ore; and anticipated environmental and regulatory compliance costs.

It is possible that actual costs and economic returns of current and new mining operations may differ materially from our best estimates. It is not unusual for new mining operations to experience unexpected problems during the start-up phase and to require more capital than anticipated. These uncertainties could have an adverse impact on our future cash flows, earnings, results of operations and financial condition.

### **Centerra's mineral reserves may not be replaced**

The Kumtor and Boroo projects are currently our only sources of gold production. Based on the current life-of-mine plan, Kumtor will be depleted by 2023, with milling operations concluding in 2026. At Boroo, mining operations have ceased as of September 2012, and at the current reserve gold price assumption, the Boroo operation is expected to feed the mill from stockpiles until November 2014 and operate and recover gold from the heap leach into 2015.

If our existing mineral reserves (including mineral reserves at the Gatsuurt deposit in Mongolia) are not replaced either by the development or discovery of additional reserves and/or extension of the life-of-mine at Kumtor or through the acquisition or development of an additional producing mine, this could have an adverse impact on our future cash flows, earnings, results of operations and financial condition, including as a result of requirements to expend funds for reclamation and decommissioning. Although we are actively engaged in programs to increase mineral reserves, there can be no assurance that these programs will be successful.

### **Centerra may experience difficulties with its exploration partners**

We have a number of exploration partners and we may in the future enter into additional exploration agreements with third party partners. We are subject to the risks normally associated with the conduct of exploration arrangements with partners. These risks include disagreement with a partner on how to develop, operate and finance a project and possible litigation between us and a partner regarding matters in the agreement. This may be particularly the case when we are not the operator on the property. These matters may have an adverse effect on our ability to pursue the projects subject to the partner, which could affect its future cash flows, earnings, results of operations and financial condition.

### **Centerra's mineral reserve and resource estimates may be imprecise**

Mineral reserve and resource figures are estimates and no assurances can be given that the indicated levels of gold will be produced or that we will receive the price assumed in determining our mineral reserves. These estimates are expressions of judgment based on knowledge, mining experience, analysis of drilling results and industry practices. Valid estimates and the assumptions such estimates rely on made at a given time may significantly change when new information becomes available. While we believe that the mineral reserve and resource estimates included are well established and reflect management's best estimates, by their nature mineral reserve and resource estimates are imprecise and depend, to a certain extent, upon analysis of drilling results and statistical inferences that may ultimately prove unreliable.

Furthermore, fluctuations in the market price of gold, as well as increased capital or production costs or reduced recovery rates may render mineral reserves uneconomic and may ultimately result in a reduction of reserves. The extent to which mineral resources may ultimately be reclassified as proven or probable mineral reserves is dependent upon the demonstration of their profitable recovery. The evaluation of mineral reserves or resources is always influenced by economic and technological factors, which may change over time.

No assurances can be given that any mineral resource estimate will ultimately be reclassified as proven or probable mineral reserves.

If our mineral reserve or resource figures are inaccurate or are reduced in the future, this could have an adverse impact on our future cash flows, earnings, results of operations and financial condition.

### **Centerra's production and cost estimates may be inaccurate**

We prepare estimates of future production and future production costs for particular operations. No assurance can be given that production and cost estimates will be achieved. These production and cost estimates are based on, among other things, the following factors: the accuracy of mineral reserve estimates; the accuracy of assumptions regarding ground conditions and physical characteristics of ores, such as hardness and presence or absence of particular metallurgical characteristics; metallurgical recoveries of metals from ore; equipment and mechanical availability; labour availability; access to the mine; facilities and infrastructure; sufficient materials and supplies on hand; and the accuracy of estimated rates and costs of mining and processing, including the cost of human and physical resources required to carry out our activities. Failure to achieve production or cost estimates, or increases in costs, could have an adverse impact on our future cash flows, earnings, results of operations and financial condition.

Our estimates on production and costs are, where applicable, based on historical costs and productivity experience. Despite this, actual production and costs may vary from estimates for a variety of reasons, including actual ore mined varying from estimates of grade, tonnage, dilution and metallurgical and other characteristics; short-term operating factors relating to the ore reserves, such as the need for sequential development of orebodies and the processing of new or different ore grades; risks and hazards associated with mining; natural phenomena, such as inclement weather conditions, floods, earthquakes, pit wall failures and cave-ins; unexpected labour shortages or strikes, and civil action; and insufficient modelling robustness. Costs of production may also be affected by a variety of factors, including: changing waste-to-ore ratios, ore grade metallurgy, labour costs, costs of supplies and services (such as, for example, fuel and power), general inflationary pressures and currency exchange rates. Failure to achieve production estimates or production cost estimates could have an adverse impact on our future cash flows, earnings, results of operations and financial condition.

### ***Natural Phenomena***

#### **Centerra may experience further ground movements at the Kumtor project**

On July 8, 2002, a highwall ground movement at the Kumtor project resulted in the death of one of our employees and the temporary suspension of mining operations. The movement led to a considerable shortfall in 2002 gold production because the high-grade Stockwork Zone was rendered temporarily inaccessible. Consequently, we milled lower grade ore and achieved lower recovery rates. In February 2004, movement was also detected in the southeast wall of the open pit and a crack was discovered at the crest of the wall. In February 2006, there was further movement detected in the southeast wall of the open pit. In July 2006, there was ground movement in the northeast wall of the open pit that required the adoption of a new mining sequence at Kumtor and resulted in lower than anticipated gold production in 2006. In the first quarter of 2007, minor slope movement was detected in the waste rock dump above the SB Zone highwall in the Central pit. Deformation cracks in the waste rock above the till focused attention on wall instability seated in the glacial till between the waste rock dumps and the

underlying bedrock. Drilling has indicated that further push backs of the Central pit will encounter unfrozen, water saturated till. The outer face of the till is frozen and hence the water behind the slope face is pressurized. Depressurization and dewatering programs which were established at the mine in 2008 and continuously operated since, have reduced the hydrological content of the waste rock dump and the till. In 2013, sudden acceleration of ground movement within the central valley waste rock dump impacted site facilities and requires the design and construction of new infrastructure in a different area of the site requiring allocation of additional significant capital.

Although extensive efforts are employed by Centerra to prevent and anticipate further ground movement, there is no guarantee that sudden unexpected ground movements will not recur. A future ground movement could result in a significant interruption of operations. We may also experience a loss of mineral reserves or a material increase in costs, if it is necessary to redesign the open pit or waste rock dumps as a result of a ground movement. The consequences of a ground movement will depend upon the magnitude, location and timing of any such movement. If mining operations are interrupted to a significant magnitude or the mine experiences a significant loss of mineral reserves or materially higher costs of operation, this would have an adverse impact on our future cash flows, earnings, results of operations and financial condition.

### **Centerra will experience further ice movement at the Kumtor project**

Continued movement of ice from the South East Ice Wall into the Kumtor Central pit above the high grade SB Zone section requires the mining of ice and waste to maintain our planned production of ore. While management has implemented a plan to manage this movement (which plan has seen positive results from 2011 to 2013), there is no guarantee that these efforts will avert further negative impact on our expected production, costs and earnings.

During 2012, a substantial acceleration of ice movement, which was exacerbated by a 10-day illegal strike which occurred in early February 2012, required us to revise our mine plan to maintain safe access to the Kumtor Central pit. Under the new mine plan, mining of cut-back 12B, where ore for the second quarter of 2012 was to be released, was stopped to permit pre-stripping of ice and waste in the southwest portion of the pit (cut-back 14B) and unloading of ice and waste material from the High Movement Area to provide access to the southeast section of the Kumtor Central pit. The changes to the mine plan and the delayed release of ore from cut-back 12B resulted in a seven week shutdown of the Kumtor mill and required us to revise our 2012 production and cost guidance.

Although we are employing extensive efforts to manage further waste and ice movements, there is no guarantee that such efforts will be successful or that further waste and ice movements will not adversely affect operations at the Kumtor project. Future movements could result in a significant interruption of operations or impede access to ore deposits. We may also experience a loss of mineral reserves or a material increase in costs if it is necessary to redesign the open pit and surrounding infrastructure as a result of waste and ice movements. The consequences of further ice movement into the Kumtor Central pit will depend upon the extent, location and timing of any such movement. If mining operations are interrupted to a significant magnitude or the mine experiences a significant loss of mineral reserves or materially higher costs of operation, this would have an adverse impact on our future cash flows, earnings, results of operations and financial condition.

## **Centerra's operations and projects in the Kyrgyz Republic, Mongolia and Turkey are located in areas of seismic activity**

The areas surrounding our Kumtor, Boroo and Öksüt project are seismically active. While the risks of seismic activity were taken into account when determining the design criteria for our Kumtor and Boroo operations, there can be no assurance that our operations will not be adversely affected by this kind of activity, all of which could have an adverse impact on our future cash flows, earnings, results of operations and financial condition. Similarly, there can be no assurance that the development of the Öksüt project will not be materially impacted by a significant seismic event.

### ***Competition***

## **Centerra's future prospects may suffer due to enhanced competition for mineral acquisition opportunities**

Significant and increasing competition exists for mineral acquisition opportunities throughout the world. As a result of this competition, some of which is with large, better established mining companies with substantial capabilities and greater financial and technical resources, we may be unable to acquire rights to exploit additional attractive mining properties on terms we consider acceptable. Accordingly, there can be no assurance that we will acquire any interest in additional operations that would yield mineral reserves or result in commercial mining operations. Our inability to acquire such interests could have an adverse impact on our future cash flows, earnings, results of operations and financial condition. Even if we do acquire such interests, the resulting business arrangements may not ultimately prove beneficial to our business.

## **FINANCIAL**

### ***Commodity Market***

## **Centerra's business is sensitive to the volatility of gold prices**

Our revenue is largely dependent on the world market price of gold. Gold prices are subject to volatile movements over time and are affected by numerous factors beyond our control. These factors include: global supply and demand; central bank lending, sales and purchases; expectations for the future rate of inflation; the level of interest rates; the strength of, and confidence in, the U.S. dollar; market speculative activities; and global or regional political and economic events, including the performance of Asia's economies.

The market price of gold decreased significantly in 2013. If the market price of gold falls and remains below production costs of any of our mining operations for a sustained period, losses would be sustained, and, under certain circumstances, there may be a curtailment or suspension of some or all of our mining and exploration activities. We would also have to assess the economic impact of any sustained lower gold prices on recoverability and, therefore, the cutoff grade and level of our gold mineral reserves and resources. These factors could have an adverse impact on our future cash flows, earnings, results of operations, stated mineral reserves and financial condition.

## **Centerra's operations are sensitive to fuel price volatility**

The company is also exposed to price volatility in respect of key inputs, the most significant of which is fuel. Increases in global fuel prices can materially increase operating costs, erode operating margins and project investment returns, and potentially reduce viable reserves.

### ***Currency Volatility***

#### **Currency fluctuations**

Our earnings and cash flow may also be affected by fluctuations in the exchange rate between the U.S. dollar and other currencies, such as the Kyrgyz som, the Mongolian tugrik, the Canadian dollar, the Euro, and the Turkish Lira. Our consolidated financial statements are expressed in U.S. dollars. Our sales of gold are denominated in U.S. dollars, while production costs and corporate administration costs are, in part, denominated in Kyrgyz soms, Mongolian tugriks, Turkish Lira, Canadian dollars, Euros and other currencies. Fluctuations in exchange rates between the U.S. dollar and other currencies may give rise to foreign exchange currency exposures, both favourable and unfavourable, which may materially impact Centerra's future financial results. Although from time to time we enter into short-term forward contracts to purchase Canadian dollars and Euros, we do not utilize a hedging program to limit the adverse effects of foreign exchange rate fluctuations in other currencies. In the case of the Kyrgyz som and the Mongolian tugrik, we cannot hedge currency exchange risk because such currencies are not freely traded.

### ***Economy, Credit and Liquidity***

#### **Global financial conditions**

The financial crisis which began in the latter part of 2007 has resulted in global financial conditions which are characterized by continued high volatility, and financial institutions are still recovering from significant losses. Access to public financing and bank credit has been negatively impacted by both the rapid decline in value of sub-prime mortgages and the resulting liquidity crisis as financial institutions saw their balance sheet impaired. Notwithstanding some improvement in the financial health of major financial institutions, continued concern over the pace of sustainable economic recovery in both developed and key developing nations has kept liquidity conditions constrained. Further, the significant decrease in the price of metals during 2013 has affected investor interest in the sector. Global financial conditions may affect our ability to obtain equity or debt financing in the future on favourable terms. Additionally, these factors, as well as other related factors, may cause decreases in our asset values that may be other than temporary, which may result in impairment losses. These factors may also increase our exposure to financial counterparty risk. If such increased levels of volatility and market turmoil continue, or if more extensive disruptions of the global financial markets occur, our operations could be adversely impacted and the trading price of our common shares may be adversely affected.

#### **Centerra may experience reduced liquidity and difficulty in obtaining future financing**

The further development and exploration of mineral properties in which we hold or acquire interests may depend upon our ability to obtain financing through earn-in arrangements, debt financing, equity financing or other means. While we successfully negotiated a three-year

\$150 million revolving credit facility in 2010, the term of which was extended to 2015, in 2013, there is no assurance that Centerra will be successful in obtaining required financing as and when needed in the future.

Volatile gold markets and/or capital markets, reduced global financial liquidity, and increased restrictions on capital reserves of financial institutions, may make it difficult or impossible for us to obtain further debt financing or equity financing on favourable terms or at all. Our principal operations are located in, and our strategic focus is on, Asia and the former Soviet Union, developing areas that have experienced past economic and political difficulties and may be perceived as unstable. This may make it more difficult for us to obtain debt financing. Failure to obtain additional financing on a timely basis may cause us to postpone development plans, forfeit rights in our properties or partners or reduce or terminate our operations. Reduced liquidity or difficulty in obtaining future financing could have an adverse impact on our future cash flows, earnings, results of operations and financial condition.

### **Restrictive covenants in Centerra's revolving credit facility may prevent the Company from pursuing business activities**

Pursuant to our Credit Facility with EBRD, we must maintain certain financial ratios and satisfy other non-financial maintenance covenants. Centerra and our material subsidiaries are also subject to other restrictive and affirmative covenants in respect of our respective operations. Compliance with these covenants and financial ratios may impair our ability to finance our future operations or capital needs or to take advantage of other favourable business opportunities. Our ability to comply with these covenants and financial ratios will depend on our future performance, which may be affected by events beyond our control. Our failure to comply with any of these covenants or financial ratios will result in a default under the Credit Agreement and may result in the acceleration of any indebtedness under the Credit Agreement. In the event of a default and we are unable to repay any amounts then outstanding, the lender, EBRD may be entitled to take possession of the collateral securing the Credit Facility, including certain mobile equipment used in the operations at Kumtor, to the extent required to repay those borrowings.

### ***Counterparty***

### **Short-term investment risks**

We may, from time to time, invest excess cash balances in short-term instruments. Recent market conditions affecting certain types of short-term investments of some North American and European issuers and certain financial institutions have resulted in heightened risk in holding some of these investments. There can be no guarantee that further market disruptions affecting various short-term investments or the potential failure of financial institutions will not have a negative effect on the liquidity of our investments.

### ***Concentration Risk***

### **As a holding company, Centerra's ability to make payments depends on the cash flows of its subsidiaries**

We are a holding company that conducts substantially all of its operations through subsidiaries, many of which are incorporated outside North America. We have no direct operations and no significant assets other than the shares of our subsidiaries. Therefore, we are dependent on the cash flows of our subsidiaries to meet our obligations, including payment of principal and

interest on any debt we incur. The ability of our subsidiaries to provide it with payments may be constrained by the following factors: (i) the cash flows generated by operations, investment activities and financing activities; (ii) the level of taxation, particularly corporate profits and withholding taxes, in the jurisdiction in which they operate and in Canada; and (iii) the introduction of exchange controls and repatriation restrictions or the availability of hard currency to be repatriated. As at December 31, 2013, a significant majority of the company's cash flows were generated by its operations in the Kyrgyz Republic. Further, should the Gatsuurt deposit in Mongolia not receive the necessary governmental approvals to allow development and operation, cash flows from the company's Mongolian operations will cease in 2014, at which time 100% of all cash flows will depend on successful and ongoing operations in the Kyrgyz Republic.

If we are unable to receive sufficient cash from our subsidiaries, we may be required to refinance our indebtedness, raise funds in a public or private equity or debt offering or sell some or all of our assets. We can provide no assurances that an offering of our debt or equity or a refinancing of our debt can or will be completed on satisfactory terms or that it would be sufficient to enable us to make payment with respect to our debt. The foregoing events could have an adverse impact on our future cash flows, earnings, results of operations and financial condition.

## **OPERATIONAL**

### ***Health, Safety and Environment***

#### **Centerra is subject to environmental, health and safety risks**

We expend significant financial and managerial resources to comply with a complex set of environmental, health and safety laws, regulations, guidelines and permitting requirements (for the purpose of this paragraph, "laws") drawn from a number of different jurisdictions. We believe we are in material compliance with these laws. The historical trend that we observe is toward stricter laws, and we expect this trend to continue. The possibility of more stringent laws or more rigorous enforcement of existing laws exists in the areas of worker health and safety, the disposition of wastes, the decommissioning and reclamation of mining sites, restriction of areas where exploration, development and mining activities may take place and other environmental matters, each of which could have a material adverse effect on our exploration activities, operations and the cost or the viability of a particular project.

Our facilities operate under various operating and environmental permits, licenses and approvals that contain conditions that must be met and our right to continue operating our facilities is, in a number of instances, dependent upon compliance with these conditions. Failure to meet certain of these conditions could result in interruption or closure of exploration, development or mining operations or material fines or penalties, all of which could have an adverse impact on our future cash flows, earnings, results of operations, financial condition, and reputation. We are unable to quantify the costs of such a failure.

#### **The Kumtor project is subject to significant claims of environmental damage**

In December 2012, we received five claims from SIETS and a claim from SAEPF (which was subsequently withdrawn) relating to alleged environmental damages at the Kumtor project. The SIETS claims are for an aggregate amount of approximately \$150 million and include:

- a claim for approximately \$142 million for alleged damages in relation to the placement on waste dumps of waste rock from mining operations (2000 to date)
- a claim for approximately \$4 million for use of water resources for the period of 2000 to date
- a claim for approximately \$0.3 million for unaccounted industrial and household waste; and
- a claim for approximately \$2.3 million for alleged damages caused to land resources at the time of initial construction of Kumtor.

In addition, Centerra also received a directive from SIETS requiring that actions be taken to correct various alleged environmental and technical violations discovered in its review.

Each of these claims were dismissed by the Bishkek inter-district court and, on appeal, by the Bishkek City Court on the basis that the arbitration clause in the Restated Investment Agreement require that all such disputes be resolved through international arbitration. Each of these claims has been appealed to the Kyrgyz Supreme Court.

In addition to the original four claims of SIETS discussed above, SIETS has filed the following additional claims against KOC: (i) on October 12, 2013, a claim in the amount of approximately \$485,000 for damages caused to land resources due to disturbance of land at the Kumtor project (similar to the claim in the fourth bullet above but involving a different area of the Kumtor concession); and (ii) on January 21, 2014, a claim for approximately \$8.5 million for lost agricultural production and lost profits from 1994 to 2012. Kumtor has responded in writing to SIETS disputing both of these additional claims.

On February 21, 2013, we received a claim from the State Agency for Environmental Protection and Forestry under the Government of the Kyrgyz Republic (SAEPF) relating to alleged environmental damages at the Kumtor Project. The claim issued by SAEPF 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. Proceedings have been commenced by SAEPF in the Bishkek inter-district court.

On October 11, 2013, Centerra received a statement of claim from the Green Party of Kyrgyzstan in the Bishkek Inter-District Court which seeks damages of approximately \$9 billion for alleged environmental damages arising from the Kumtor operations since 1996. The claimant, Green Party, requests that the damages be paid by Kumtor to the Issyk-Kul Nature Protection and Forestry Development Fund, a Kyrgyz state fund. The claim by the Green Party relates to allegations substantially similar to the claims raised by SIETS and SAEPF.

While we believe that the allegations contained in these claims are exaggerated or without foundation and are subject to the Release Agreement between Centerra and the Kyrgyz Republic dated June 6, 2009, there can be no assurance that the claims of environmental damage from SIETS, SAEPF or the Green Party of Kyrgyzstan will not be upheld and enforced. If such claims should be upheld and enforced against us, it could have an adverse impact on our future cash flows, earnings, results of operations and financial condition. In addition, additional claims for alleged environmental violations may be forthcoming.

## **Centerra's heap leach operations could unintentionally discharge hazardous materials, such as sodium cyanide, into the environment**

The Kumtor and Boroo operations employ sodium cyanide, which is a hazardous material, to extract gold from ore. In addition, the Boroo operation uses heap leaching as a means of applying sodium cyanide to gold-bearing ore and collecting the resulting gold-bearing solution. The Öksüt project, if it proceeds to production, may also employ a heap leach operation. There is inherent risk of unintended discharge of hazardous materials in the operation of leach pads.

In June 2013, Boroo experienced an excursion of solution from its heap leach pad. Should further incidents of sodium cyanide escaping from the leach pad and collection infrastructure at Boroo occur, otherwise be detected in the downstream surface and ground water points, or be accidentally released during transport, we could become subject to liability for remediation costs, which could be significant and may not be insured against. In addition, production could be delayed or halted to allow for remediation, resulting in a reduction or loss of cash flow. Finally, increased sensitivity in respect to the use of cyanide and the potential and perceived environmental impacts of cyanide use in mining operations could exacerbate potential reputational damage to the company in the event of a cyanide release. While we take appropriate steps to prevent discharges and accidental releases of sodium cyanide and other hazardous materials into the ground water, surface water and the downstream environment, there is inherent risk in the operation of leach pads and there can be no assurance that a release of hazardous materials will not occur.

## **There is currently a capacity shortfall of the tailings management facility at Kumtor**

The Kumtor tailings dam design is currently approved by the Kyrgyz authorities to elevation 3,670.5 metres. The dam crest is presently at elevation 3,667 metres. Kumtor is required to apply and obtain permits from the Kyrgyz Government from time to time to address interim raising and construction activities. The next tailings dam raising is scheduled for 2016.

In addition, the currently permitted tailings management facility does not have sufficient capacity to store the entire approximate 93 million tonnes of ore to be processed in the current life-of-mine plan. The capacity shortfall of approximately 50 million tonnes of ore or 33 million cubic metres of tailings will require further raising of the existing tailings dam beyond the 3,670.5 elevation, or the construction of an additional tailings facility to be completed prior to 2020.

While we have obtained the necessary permits and authorizations in the past in connection with tailings dam raises, there are no assurances that such permits and authorizations can be obtained in the future or obtained in the timeframe required by us. If all necessary permits and authorizations are not obtained, delays in, or interruptions or cessation of our production from the Kumtor project may occur, which may have an adverse impact on our future cash flows, earnings, results of operations or financial condition.

We may also be subject to liability or sustain losses in relation to certain risks and hazards against which we cannot insure or for which we may elect not to insure. The occurrence of operational risks and/or a shortfall or lack of insurance coverage could have an adverse impact on our future cash flows, earnings, results of operations and financial condition.

## **Centerra faces substantial decommissioning and reclamation costs**

We are required to establish at each of our mine sites and development projects a decommissioning and reclamation plan. Provision must be made for the cost of decommissioning and reclamation for operating sites. These costs can be significant and are subject to change. We cannot predict what level of decommissioning and reclamation may be required in the future by regulators. If we are required to comply with significant additional regulations or if the actual cost of future decommissioning and reclamation is significantly higher than current estimates, this could have an adverse impact on our future cash flows, earnings, results of operations and financial condition.

### ***Asset Management***

#### **Centerra may experience mechanical breakdowns**

Our gold production operations at Kumtor and Boroo use expensive, large mining and processing equipment that requires a long time to procure, build and install. Although we conduct extensive preventive maintenance programs at Kumtor and Boroo, there can be no assurance that we will not experience mechanical breakdowns of mining and processing equipment.

In the past, we have experienced such mechanical breakdowns. In February 2008, an unplanned shutdown of the ball mill at Kumtor was required to temporarily repair the ring gear which had failed. The *in situ* repair was completed in late March 2008 and the ball mill returned to full operation. A new gear was ordered from the original supplier of the mill. In order to limit the impact which a shut-down would have had on production, the installation of the new gear was carried out in April 2010 when only low-grade mill feed was being processed. In June 2013, an increased number of cracks were observed in the ring gear of the Kumtor ball mill as compared to the previous inspection in April 2013. As a result the ring gear was rotated during a scheduled shutdown in August 2013. The Company continues to closely monitor the performance of the rotated ring gear. In the event that the ball mill cannot continue to operate with the existing rotated ring gear, a spare ring gear is available on site, although it would be expected to operate at 95-97% of the capacity of the existing rotated ring gear. A replacement ring gear has been ordered and is expected to arrive in the third quarter of 2014. In February 2009, the SAG mill at the Kumtor mill experienced a similar mechanical breakdown of the girth gear with the failure of two teeth. A spare girth gear was installed immediately. A replacement for the damaged quadrant of the girth gear was manufactured and returned to Kumtor stock in October 2010.

In May 2011, Boroo experienced a failure of the SAG mill exciter that resulted in interruption to production for a period of nine days and reduced production for a further three weeks. Equipment specialists were brought in to assist in repairs, and spare components were purchased. In December 2012, Boroo experienced a failure of the SAG mill motor resulting in a two-day interruption to production before a plan to bypass the SAG mill was implemented. Boroo is continuing to work on risk prevention and mitigation actions in this regard.

Any extended breakdown in mining or processing equipment could have an adverse impact on our future cash flows, earnings, results of operations and financial conditions.

## *Human Resources*

### **Both the Kumtor Project and the Boroo Projects are unionized and may be subject to labour disturbances**

Non-management employees at Kumtor and Boroo (including those in head office) are unionized and subject to collective agreements. At Kumtor, the current collective bargaining agreement will continue in effect until December 31, 2014. At Boroo, the collective bargaining agreement expires on June 30, 2014. There can be no assurance that, when such agreements expire, there will not be any delays in the renewal process, that negotiations will not prove difficult or that Centerra will be able to renegotiate the collective agreement on satisfactory terms, or at all. The renewal of the collective agreement could result in higher on-going labor costs, which could have a material adverse impact on Centerra's future cash flows, earnings, results of operations and financial condition.

Centerra could be subject to labour unrest or other labour disturbances including strikes as a result of any failure of negotiations which could, while ongoing, have a material adverse impact on Centerra, including the achievement of any annual production guidelines and costs estimates. On February 6, 2012, unionized employees at the Kumtor project began a 10-day illegal strike, during which operations at the mine were suspended. The illegal work stoppage related to a dispute regarding social fund deductions, which resulted in higher labour costs, of approximately \$2 million (for 2012). Existing collective agreements may not prevent a strike or work stoppage, and any such work stoppage could have a material adverse impact on us.

### **Centerra's success depends on its ability to attract and retain qualified personnel**

Recruiting and retaining qualified personnel is critical to our success. The number of persons skilled in the acquisition, exploration and development of mining properties is limited and competition for such persons is intense. As our business activity grows, it will require additional key financial, administrative and mining personnel as well as additional operations staff. The Restated Concession Agreement relating to the Kumtor operations also requires two thirds of all administrative or technical personnel to be citizens of the Kyrgyz Republic. However, it has been necessary to engage expatriate workers for our operations in Mongolia and, to a lesser extent, the Kyrgyz Republic because of the shortage of locally trained personnel. Although we believe that it will be successful in attracting, training and retaining qualified personnel, there can be no assurance of such success. If we are not successful in attracting and training qualified personnel, the efficiency of our operations could be affected, which could have an adverse impact on our future cash flows, earnings, results of operations and financial condition. Further, the uncertainty surrounding our ability to develop the Gatsurt deposit and prolong operations in Mongolia has increased the risk of personnel departures. This risk is heightened by the increased presence of new companies in the country seeking qualified personnel. Further, the increased risk associated with potential reduced company control over its Kyrgyz operation with increased control therein by the Kyrgyz Government may have an adverse effect on employee morale potentially leading to the departure of some employees.

## *Supply Chain*

### **Centerra's properties are located in remote locations and require a long lead time for equipment and supplies**

We operate in remote locations and depend on an uninterrupted flow of materials, supplies and services to those locations. In addition, each of Kumtor and Boroo use expensive, large equipment that requires a long time to procure, build and install. Access to the Kumtor project has been restricted on several occasions by illegal roadblocks. Any interruptions to the procurement of equipment, or the flow of materials, supplies and services to our properties could have an adverse impact on our future cash flows, earnings, results of operations and financial condition.

### **Centerra's operations may be impacted by supply chain disruptions**

Our operations depend on uninterrupted supply of key consumables, equipment and components. Both the Kyrgyz and Mongolian operations are limited with respect to alternative suppliers of fuel, and any disruption at supplier facilities could result in curtailment or suspension of operations. In addition, major equipment and components and certain key consumables are imported, and any disruption in the transportation of these goods or the imposition of customs clearance requirements may result in production delays.

## *Security*

### **Illegal trespass and illegal mining has occurred and may continue to occur, on Centerra's properties**

Illegal mining is widespread in Mongolia. Illegal miners have and may continue to trespass on our properties and engage in very dangerous practices, including climbing inside caves and old exploration shafts without any safety devices. We are unable to continuously monitor the full extent of our exploration and operating properties. The presence of illegal miners could also lead to project delays and disputes regarding the development or operation of commercial gold deposits, including disputes with Mongolian governmental authorities regarding reporting of reserves and mine production. The illegal activities of these miners could cause environmental damage (including environmental damage from the use of mercury by these miners) or other damage to our properties or personal injury or death, for which we could potentially be held responsible, all of which could have an adverse impact on our future cash flows, earnings, results of operations and financial condition.

While our Kyrgyz operations are located in a remote area, attempts have been made by protesters and other groups, in the past, to access the site. These rare events have not resulted in harm to personnel, business interruption or damage to property, however there can be no assurance that future attempts to access the site will not cause harm to employees or property, or result in business interruption.

## *Insurance*

### **Centerra may not be adequately insured for certain risks**

Although we maintain insurance to cover some of the operational risks and hazards in amounts we believe to be reasonable, insurance may not provide adequate coverage in all circumstances. No assurance can be given that insurance will continue to be available at

economically feasible premiums or that it will provide sufficient coverage for losses related to these or other risks and hazards.

We may also be subject to liability or sustain losses in relation to certain risks and hazards against which the company cannot insure or for which it may elect not to insure. The occurrence of operational risks and/or a shortfall or lack of insurance coverage could have an adverse impact on our future cash flows, earnings, results of operations and financial condition.

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

Information contained in this Annual 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, general economic indicators affecting the price of gold and gold production, interest rates, and exchange rates, the Company’s plans for future borrowing under its revolving credit facility, the successful resolution of outstanding matters in the Kyrgyz Republic (discussed under the heading “Other Corporate Development – Kyrgyz Republic”) to the benefit of all shareholders including matters relating to the State Commission report, government resolutions and decrees, discussions with the Kyrgyz Government on the Kumtor Project Agreements and a possible restructuring of the Kumtor project into a joint venture, the resolution of environmental claims received from SIETS and SAEPF by Kumtor in 2012 and 2013, the environmental claim received from the Green Party of Kyrgyzstan in the amount of \$9 billion, the claim of the General Prosecutor’s Office of the Kyrgyz Republic purporting to invalidate Kumtor’s land use certificate and to seize certain lands within the Kumtor concession area and the draft Kyrgyz law on denunciation having no material impact on Kumtor operations, 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, the Company’s ability to manage the movement of the Central Valley Waste Dump, the Company’s ability to access and mine high grade ore in the SB Zone at Kumtor, the Company’s future production for 2014, including estimates of adjusted operating costs and all-in unit 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 2014, processing activities at Boroo, the outcome of discussions with the Mongolian government on the potential development of the Company’s Gatsuurt deposit and the strategic designation status of the Gatsuurt deposit, plans for mining, processing and construction at Gatsuurt, asset retirement obligations, future planned exploration expenditures; the Company’s business and political environment and business prospects; hedging activities; the timing and development of new deposits; and Centerra’s plans to complete a preliminary economic assessment and commence a feasibility study for its Öksüt property in 2014.

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 and any proposals to restructure the Kumtor project into a joint venture, the impact of any actions taken by the Kyrgyz authorities or political groups relating to allegations of environmental violations and other offences and the deliberate understatement of the reserves by management, 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 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 ability of the Company to access and mine high-grade ore in the SB Zone, 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, risks associated with the conduct of earn-in arrangements, and the possibility of failure of the ring gear and spare ring gear at the Kumtor ball mill; (C) risks relating to financial matters including the sensitivity of the Company's business to the volatility of gold prices, the impact of declining gold prices and rising costs on the Company's asset valuation leading to potential impairment, 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 2012 and 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".

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 February 19, 2014. 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.