Centerra Gold Inc.

Consolidated Financial Statements

For the Years Ended December 31, 2012 and 2011

(Expressed in thousands of United States Dollars)

Report of Management's Accountability

The Consolidated Financial Statements have been prepared by the management of the Company. Management is responsible for the integrity, consistency and reliability of all such information presented. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The preparation of the Consolidated Financial Statements involves the use of estimates and assumptions based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. Estimates and assumptions are based on historical experience, current conditions and various other assumptions believed to be reasonable in the circumstances, with critical analysis of the significant accounting policies followed by the Company as described in Note 3 to the Consolidated Financial Statements. The preparation of the Consolidated Financial Statements includes information regarding the estimated impact of future events and transactions. Actual results in the future may differ materially from the present assessment of this information because future events and circumstances may not occur as expected.

In meeting its responsibility for the reliability of financial information, management maintains and relies on a comprehensive system of internal controls and internal audit checks to see if the controls are operating as designed. The system of internal controls includes a written corporate conduct policy; implementation of a risk management framework; effective segregation of duties and delegation of authorities; and sound and conservative accounting policies that are regularly reviewed. This structure is designed to provide reasonable assurance that assets are safeguarded and that reliable information is available on a timely basis. In addition internal and disclosure controls have been documented, evaluated, tested and identified consistent with National Instrument 52-109. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit Committee of the Company's Board of Directors.

The Consolidated Financial Statements have been audited by KPMG LLP, independent external auditors appointed by the Company's shareholders. The external auditors' responsibility is to express their opinion on whether the Consolidated Financial Statements are fairly presented in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. KPMG LLP, whose report appears on page ii, outlines the scope of their examination and their opinion.

The Company's Directors, through its Audit Committee, are responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee met periodically with management, the internal auditors, and the external auditors to satisfy itself that each group had properly discharged its respective responsibility and to review the Consolidated Financial Statements before recommending approval by the Board of Directors. The external auditors had direct and full access to the Audit Committee, with and without the presence of management, to discuss their audit and their findings as to the integrity of the financial reporting.

The Company's President and Chief Executive Officer and the Company's Vice President and Chief Financial Officer have certified the design and effectiveness of related internal controls over financial reporting pursuant to National Instrument 52-109.

Original signed by:
Ian Atkinson
President and Chief Executive Officer

Original signed by:
Jeffrey S. Parr
Vice President and Chief Financial Officer

February 20, 2013

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Centerra Gold Inc.

We have audited the accompanying consolidated financial statements of Centerra Gold Inc., which comprise the consolidated statements of financial position as at December 31, 2012 and December 31, 2011 the consolidated statements of earnings (loss) and comprehensive income (loss), shareholders' equity and cash flows for the years ended December 31, 2012 and December 31, 2011, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Centerra Gold Inc. as at December 31, 2012 and December 31, 2011 and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2012 and December 31, 2011 in accordance with International Financial Reporting Standards.

Original signed by:

KPMG LLP

Chartered Accountants, Licensed Public Accountants
Toronto, Canada

February 20, 2013

Centerra Gold Inc.
Consolidated Statements of Financial Position

(Expressed in Thousands of United States Dollars)	Notes	**December 31, 2012**	December 31, 2011
Assets			
Current assets			
Cash and cash equivalents		**$ 334,115**	$ 195,539
Short-term investments		**47,984**	372,667
Current portion of restricted cash	**6**	**-**	179
Amounts receivable	**7**	**75,338**	56,749
Inventories	**8**	**289,012**	279,944
Prepaid expenses	**9**	**49,317**	26,836
		795,766	931,914
Property, plant and equipment	**10**	**589,209**	590,151
Goodwill	**12**	**129,705**	129,705
Restricted cash	**6**	**6,087**	-
Other assets	**13**	**23,270**	24,674
Long-term inventories	**8**	**10,094**	12,174
		758,365	756,704
Total assets		**$ 1,554,131**	$ 1,688,618
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities	**14**	**$ 63,940**	$ 76,385
Short-term debt	**15**	**74,617**	-
Revenue-based taxes payable	**16(a)**	**18,643**	15,178
Taxes payable	**16(b)**	**5,180**	1,074
Current portion of provision	**17**	**5,257**	1,848
		167,637	94,485
Dividend payable	**28**	**5,949**	-
Provision	**17**	**49,911**	53,777
Deferred income tax liability	**16(c)**	**1,808**	1,897
		57,668	55,674
Shareholders' equity	**26**		
Share capital		**660,420**	660,117
Contributed surplus		**36,243**	33,994
Retained earnings		**632,163**	844,348
		1,328,826	1,538,459
Total liabilities and shareholders' equity		**$ 1,554,131**	$ 1,688,618

Commitments and contingencies (note 27)
The accompanying notes form an integral part of these consolidated financial statements.

Approved by the Board of Directors

Original signed by:

Stephen Lang
Director

Richard Connor
Director

Centerra Gold Inc.
Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss)

For the years ended December 31,		**2012**	2011
(Expressed in Thousands of United States Dollars)			
(except per share amounts)			
	Notes		
Revenue from Gold Sales		**$ 660,737**	$ 1,020,344
Cost of sales	**18**	**387,470**	382,295
Abnormal mining costs	**19**	**60,881**	-
Mine standby costs	**20**	**4,585**	213
Regional office administration		**21,042**	21,321
Earnings from mine operations		**186,759**	616,515
Revenue based taxes	**16 (a)**	**74,697**	131,750
Other operating expenses	**21**	**34,280**	15,471
Loss on de-recognition of underground assets	**10**	**180,673**	-
Exploration and business development	**22**	**38,531**	42,894
Corporate administration	**23**	**27,046**	44,902
Earnings (loss) from operations		**(168,468)**	381,498
Other (income) and expenses	**24**	**(132)**	(1,055)
Finance costs	**25**	**3,978**	3,545
Earnings (loss) before income tax		**(172,314)**	379,008
Income tax expense	**16 (b)**	**11,684**	8,130
Net Earnings (loss) and comprehensive income (loss)		**$ (183,998)**	$ 370,878
Basic and diluted earnings (loss) per common share	**26**	**$ (0.78)**	$ 1.57

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

Centerra Gold Inc.
Consolidated Statements of Cash Flows

For the years ended December 31,		2012	2011
(Expressed in Thousands of United States Dollars)	**Notes**		
Operating activities			
Net (loss) earnings		**$ (183,998)**	$ 370,878
Items not requiring (providing) cash:			
Depreciation, depletion and amortization	**10**	**152,869**	98,840
Finance costs		**3,978**	3,545
Loss on disposal of equipment		**1,403**	1,305
Compensation expense on stock options	**26(d)**	**2,335**	1,759
De-recognition of underground assets	**10**	**180,673**	-
Change in provision	**17**	**614**	-
Income tax expense		**11,684**	8,130
Other operating items		**(673)**	(2,430)
		168,885	482,027
Change in operating working capital	**32(a)**	**1,593**	(44,150)
Change in long-term inventory		**2,080**	703
Revenue-based taxes advanced	**16(a)**	**(30,000)**	-
Income taxes paid		**(7,838)**	(3,657)
Cash provided by operations		**134,720**	434,923
Investing activities			
Additions to property, plant and equipment	**32(b)**	**(366,423)**	(175,155)
Net redemption (purchase) of short-term investments		**324,683**	(290,389)
Increase in restricted cash		**(5,908)**	(616)
Increase in other assets		**(1,070)**	(7,375)
Proceeds from disposition of fixed assets		**79**	19
Cash used in investing		**(48,639)**	(473,516)
Financing activities			
Dividends paid		**(22,238)**	(99,322)
Payment of borrowing costs		**(1,416)**	(630)
Proceeds from short-term debt		**76,000**	-
Proceeds from common shares issued for cash		**149**	3,347
Cash provided by (used in) financing		**52,495**	(96,605)
(Decrease) increase in cash during the year		**138,576**	(135,198)
Cash and cash equivalents at beginning of the year		**195,539**	330,737
Cash and cash equivalents at end of the year		**$ 334,115**	$ 195,539
Cash and cash equivalents consist of:			
Cash		**$ 51,675**	$ 75,193
Cash equivalents		**282,440**	120,346
		$ 334,115	$ 195,539

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

Centerra Gold Inc.
Consolidated Statements of Shareholders' Equity

(Expressed in Thousands of United States Dollars, except share information)

	Number of Common Shares		Share Capital Amount		Contributed Surplus		Retained Earnings		Total
Balance at January 1, 2011	235,869,397	$	655,178	$	33,827	$	572,792	$	1,261,797
Share-based compensation expense	-		-		1,759		-		1,759
Shares issued on exercise of stock options	469,644		4,939		(1,592)		-		3,347
Dividend declared	-		-		-		(99,322)		(99,322)
Net earnings for the period	-		-		-		370,878		370,878
Balance at December 31, 2011	236,339,041	$	660,117	$	33,994	$	844,348	$	1,538,459
Share-based compensation expense	-		-		2,335		-		2,335
Shares issued on exercise of stock options	30,752		235		(86)		-		149
Shares issued on redemption of restricted share units	6,218		68		-		-		68
Dividend declared	-		-		-		(28,187)		(28,187)
Net loss for the period	-		-		-		(183,998)		(183,998)
Balance at December 31, 2012	**236,376,011**	$	**660,420**	$	**36,243**	$	**632,163**	$	**1,328,826**

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

1. General business description

Centerra Gold Inc. ("Centerra" or the "Company") was incorporated under the Canada Business Corporations Act on November 7, 2002. Centerra's common shares are listed on the Toronto Stock Exchange ("TSX"). The Company is domiciled in Canada and the registered office is located at 1 University Avenue, Suite 1500, Toronto, Ontario, M5J 2P1. The Company is engaged in the production of gold and related activities including exploration, development, mining and processing in the Kyrgyz Republic, Mongolia, Turkey, China and the Russian Federation.

2. Basis of Preparation and Statement of Compliance

a. Statement of Compliance

These consolidated financial statements of the Company and its subsidiaries are prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

These financial statements were authorized for issuance by the Board of Directors of the Company on February 20, 2013.

b. Basis of measurement

These financial statements were prepared under the historical cost basis, except for available for sale financial assets and derivative financial instruments, which are measured at fair value, liabilities for cash settled share-based compensation, which are measured at fair value and inventories which are measured at the lower of cost or net realizable value.

These financial statements are presented in U.S. dollars with all amounts rounded to the nearest thousands, except for share and per share data, or as otherwise noted.

3. Summary of Significant Accounting Policies

The significant accounting policies summarized below have been applied consistently to all periods presented in these consolidated financial statements.

a. Consolidation principles

These consolidated financial statements include the accounts of Centerra, its subsidiaries, and its proportionate ownership of joint ventures. Subsidiaries are entities over which the Company has control, where control is defined as the power to govern financial and operating policies. Subsidiaries are fully consolidated from the date control is transferred to the Company, and are de-consolidated from the date control ceases.

Inter-company transactions between subsidiaries are eliminated on consolidation.

Joint ventures are entities over whose activities the Company has joint control under a contractual agreement. These consolidated financial statements include the Company's proportionate share of the entity's assets, liabilities, revenues and expenses with items of a similar nature on a line-by-line basis, from the date that joint control commences until the date that joint control ceases.

The Company's significant subsidiaries and joint ventures include its wholly-owned Kumtor Gold Company ("KGC" operating as "Kumtor"), Boroo Gold LLC ("BGC" operating as "Boroo"), Centerra Gold Mongolia LLC ("CGM") (owner of the Gatsuurt property and ATO property), seventy percent interest in the Kara Beldyr Russian joint venture and seventy percent interest in the Öksüt Turkish joint venture.

b. Foreign currency

The functional currency of the Company and each of its subsidiaries is the U.S. dollar, which is also the presentation currency of the consolidated financial statements.

Foreign currency transactions are translated into the entity's functional currency using the exchange rate prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. Non-monetary assets and liabilities, arising from transactions denominated in foreign currencies, are translated at the historical exchange rates prevailing at each transaction date. Translation differences on financial assets and liabilities carried at fair value are recognized in foreign exchange gain (loss) in the Statements of Earnings (Loss) and Comprehensive Income (Loss).

c. Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term investments with original maturities of 90 days or less. Bank overdrafts that are repayable on demand and form an integral part of Centerra's cash management are included as a component of cash and cash equivalents for the purpose of the Statements of Cash Flows. Cash and cash equivalents are classified as financial instruments carried at fair value through profit or loss.

d. Restricted Cash

Cash which is subject to legal or contractual restrictions on its use is classified separately as restricted cash.

e. Short-term investments

Short-term investments consist of marketable securities with original maturities of more than 90 days, but no longer than 12 months, from the date of purchase. Short-term investments consist mostly of U.S. federal and Canadian federal and provincial government treasury bills and notes, agency notes, foreign sovereign issues, term deposits, bankers' acceptances, bearer deposit notes, and highly-rated, highly-liquid corporate direct credit. Short-term investments are classified as financial instruments carried at fair value through profit or loss.

f. Inventories

Inventories of stockpiled ore, heap leach ore, in-circuit gold, heap leach gold in-circuit and gold doré are valued at the lower of average production cost and net realizable value, based on contained ounces of gold. The production cost of inventories is determined on a weighted-average basis and includes direct materials, direct labour, mine-site overhead expenses and depreciation, depletion and amortization of mining assets.

Stockpiled ore and heap leach ore are ore that has been extracted from the mine and is available for further processing. Costs are added to the cost of stockpiles based on the current mining cost per ounce mined and removed at the average cost per ounce of the stockpiled ore. Costs are added to the costs of ore on the heap leach pads based on average cost per ounce of stockpiled ore plus additional costs incurred to place ore on the heap leach pad. Costs of ore on the heap leach pads are transferred to in-circuit inventories as ounces are recovered based on the average cost per recoverable ounce of gold on the leach pad. Ore in stockpiles not expected to be processed in the next twelve months is classified as long-term.

In-circuit inventories represent materials that are in the process of being converted to a gold doré. Variances between actual and estimated quantities resulting from changes in assumptions and estimates that do not result in write downs to net realizable value ("NRV") are accounted for on a prospective basis.

When inventories are sold, the carrying amount is recognized as an expense in the period in which the related revenue is recognized. Any write-down of inventories to NRV or reversals of previous write-downs are recognized in income in the period the write-down or reversal occurs. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs to sell.

Consumable supplies and spare parts are valued at the lower of weighted-average cost and NRV, which is the approximate replacement cost. Replacement cost includes expenditures incurred to acquire the inventories and bring them to their existing location and condition. Any provision for obsolescence is determined by reference to specific stock items identified as obsolete. A regular and ongoing review is undertaken to establish the extent of surplus items and a provision is made for any potential loss on their disposal.

g. Property, plant and equipment

i. General

Property, plant and equipment are recorded at cost less accumulated depreciation, depletion and impairment charges. Where an item of plant and equipment comprises major components with different useful lives, the components are depreciated separately but are grouped for disclosure purposes as plant and equipment.

Major overhaul expenditures and the cost of replacement of a component of plant and mobile equipment are capitalized and amortized over the average expected life between major overhauls. All other replacement spares and other costs relating to maintenance of mobile equipment are charged to the cost of production if it is not probable that significant future economic benefits generated by the item overhauled will flow to the Company.

Directly attributable costs incurred for major capital projects and site preparation are capitalized until the asset is in a location and condition necessary for operation as intended by management. These costs include dismantling and site restoration costs to the extent these are recognized as a provision.

Management annually reviews the estimated useful lives, residual values and depreciation methods of the Company's property, plant and equipment and also when events and circumstances indicate that such a review should be made. Changes to estimated useful lives, residual values or depreciation methods resulting from such review are accounted for prospectively.

All direct costs related to the acquisition of mineral property interests are capitalized at their cost at the date of acquisition.

An item of property, plant and equipment is de-recognized upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between any proceeds received and the carrying amount of the asset) is included in profit or loss in the year the asset is de-recognized.

ii. Exploration, evaluation and pre-development expenditure

All exploration and evaluation expenditures of the Company within an area of interest are expensed until management concludes that the technical feasibility and commercial viability of extracting a mineral resource are demonstrable and that future economic benefits are probable. In making this determination, the extent of exploration, as well as the degree of confidence in the mineral resource is considered. Once a project has been established as commercially viable and technically feasible, further expenditures are capitalized as pre-development costs.

Exploration and evaluation assets acquired in a business combination are initially recognized at fair value as exploration rights within tangible assets.

Pre-development assets are tested for impairment when there is an indicator of impairment.

iii. Development properties (underground and open pit)

A property, either open pit or underground, is classified as a development property when a mine plan has been prepared and a decision is made to commercially develop the property. Development expenditure is accumulated separately for each area of interest for which economically recoverable mineral reserves and resources have been identified.

All expenditure incurred prior to the commencement of commercial levels of production from each development property is capitalized. In addition, capitalized costs are assessed for impairment when there is an indicator of impairment.

Development properties are not amortized until they are reclassified as mine property assets following the achievement of commercial levels of production.

iv. Mine properties

After a mine property has been brought into commercial production, costs of any additional mining, in-pit drilling and related work on that property are expensed as incurred. Mine development costs incurred to expand operating capacity, develop new ore bodies or develop mine areas in advance of current production, including the stripping of waste material, are deferred and then amortized on a unit-of-production basis.

v. Deferred Stripping costs

Stripping costs incurred in the production phase of a mining operation are accounted for as production costs and are included in the costs of inventory produced, unless the stripping activity can be shown to be a betterment of the mineral property, in which case the stripping costs are capitalized. Betterment occurs when the stripping activity increases future output of the mine by providing access to additional reserves. Capitalized stripping costs are amortized on a unit-of-production basis over the economically recoverable proven and probable reserve ounces of gold to which they relate.

h. Goodwill

Goodwill represents the difference between the sum of the cost of a business acquisition and the fair value of the identifiable net assets acquired and is not amortized. Subsequently, goodwill is measured at cost less accumulated impairment losses. For non-wholly-owned subsidiaries, the Company has a choice for each business acquisition to record non-controlling interests at either fair value or at the non-controlling interest's proportionate share of the recognized amounts of the identifiable net assets recognized at acquisition.

Goodwill, upon acquisition, is allocated to the cash-generating units ("CGU") expected to benefit from the related business combination. A CGU, in accordance with IAS 36, *Impairment of Assets*, is identified as the smallest identifiable group of assets that generates cash inflows, which are largely independent of the cash inflows from other assets.

The Company evaluates, on at least an annual basis, the carrying amount of a CGU to which goodwill is allocated, for potential impairment. To accomplish this, the Company compares the recoverable amount (which is the greater of value-in-use and fair value less costs to sell ("FVLCS")) of the CGU to its carrying amount. If the carrying amount of a CGU was to exceed its recoverable amount, the Company would first apply the difference to reduce goodwill and then any further excess is applied to the CGU's other long-lived assets. Assumptions, such as gold price, discount rate, and expenditures underlying the fair value estimates are subject to risks and uncertainties.

The best evidence of fair value is the value obtained from an active market or binding sale agreement. Where neither exists, fair value is based on the best information available to reflect the amount the Company could receive for the CGU in an arm's length transaction which the Company typically estimates using discounted cash flow techniques.

Where the recoverable amount is assessed using discounted cash flow techniques, the resulting estimates are based on detailed mine and/or production plans.

For value-in-use, recent cost levels are considered together with expected changes in costs that are compatible with the current condition of the business. The cash flow forecasts are based on best estimates of expected future revenues and costs, including the future cash costs of production, sustaining capital expenditure, closure, restoration and environmental clean-up.

Expected future cash flows reflect long term mine plans, which are based on detailed research, analysis and iterative modeling to optimize the level of return from investment, output and sequence of extraction.

The mine plan takes account of all relevant characteristics of the ore body, including waste to ore ratios, ore grades, haul distances, chemical and metallurgical properties of the ore impacting on process recoveries and capacities of processing equipment that can be used. The mine plan is therefore the basis for forecasting production output in each future year and for forecasting production costs.

The Company's cash flow forecasts are based on estimates of future commodity prices which are derived from the general consensus gathered from third-party financial analysts' expectations. These assessments can differ from current price levels and are updated periodically.

The discount rates applied to the future cash flow forecasts represent an estimate of the rate the market would apply having regard to the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted. The Company's weighted-average cost of capital is used as a starting point for determining the discount rates, with appropriate adjustments for the risk profile of the countries in which the individual CGUs operate.

i. Impairment

Long term assets are reviewed for impairment if there is any indication that the carrying amount may be impaired. Impairment is assessed for an individual asset unless the asset does not generate cash inflows that are independent of those generated from other assets or groups of assets, in which case, the individual assets are grouped together into CGUs for impairment testing purposes. An impairment loss is recognized for any excess of carrying amount over the recoverable amount.

j. Income taxes

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends, withholding taxes payable and sales tax payable.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and jointly controlled entities to the extent that the group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

k. Provisions

Provisions are recorded when a legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation estimated at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. A provision is measured using the present value of cash flows estimated to settle the present obligation.

l. Environmental protection and reclamation costs

Closure and restoration costs include the dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas. Estimated closure and restoration costs are provided in the accounting period when the obligation arising from the related disturbance occurs based on the net present value of estimated future costs.

The amount of any provision recognized is estimated based on the risk-adjusted costs required to settle present obligations, discounted using a pre-tax risk-free discount rate consistent with the time period of expected cash flows.

When the liability is initially recorded, a corresponding asset is recognized. At each reporting date the restoration and rehabilitation provisions are re-measured in line with changes in discount rates and timing or amounts of the costs to be incurred.

Changes in the liability relating to mine rehabilitation and restoration obligations, which are not the result of current production of inventory, are added to or deducted from the related asset. The accretion of the discount is recognized as a finance cost in the Statements of Earnings (Loss) and Comprehensive Income (Loss).

m. Depreciation and depletion

Mine buildings, plant and equipment used in production and mineral properties are depreciated or depleted using the unit-of-production method over proven and probable ore reserves, or if their estimated useful lives are shorter, on a straight-line basis over the useful lives of the particular assets. Under this process, depreciation commences when the ore is extracted from the ground. The depreciation charge is allocated to inventory throughout the production process from the point at which ore is extracted from the pit until the ore is processed into its final form, gold doré. Where a change in estimated recoverable gold ounces contained in proven and probable ore reserves is made, adjustments to depreciation are accounted for prospectively.

Mobile equipment and other assets, such as offsite roads, buildings, office furniture and equipment are depreciated using the straight-line method based on estimated useful lives which range from two years to seven years, but do not exceed the related estimated mine life based on proven and probable ore reserves.

n. Earnings per share

Basic net earnings (loss) per share is computed by dividing the net earnings (loss) applicable to common shares by the weighted average number of common shares outstanding during the year.

Diluted net earnings (loss) per share is computed by dividing the net earnings (loss) applicable to common shares by the weighted average number of common shares outstanding during the year, plus the effects of dilutive common share equivalents such as stock options, performance share units and restricted share units. Diluted net earnings (loss) per share is calculated using the treasury method, where the exercise of stock options, performance share units and restricted share units are assumed to be at the beginning of the period, and the proceeds from the exercise of stock options, performance share units and restricted share units and the amount of compensation expense measured but not yet recognized in income are assumed to be used to purchase common shares of the Company at the average market price during the period. The incremental number of common shares (the difference between the number of shares assumed issued and the number of shares assumed purchased) is included in the denominator of the diluted earnings (loss) per share computation.

In periods where the Company incurs a loss, diluted loss per share equals basic loss per share, as the inclusion of any potentially dilutive instruments would be anti-dilutive.

o. Revenue recognition

Revenue associated with the sale of gold is recognized when all significant risks and rewards of ownership are transferred to the customer. Usually the transfer of risks and rewards associated with ownership occurs when the customer has taken delivery and the consideration received, or to be received, in respect of the sale can be reliably measured.

p. Share-based compensation

The Company has five share-based compensation plans: the Share Option Plan, Performance Share Units Plan, Annual Performance Share Units Plan, Deferred Share Units Plan, and Restricted Share Unit Plan, which are all described in note 25.

Stock Option Plan

Stock options are equity-settled share-based compensation awards. The fair value of stock options at the grant date is estimated using the Black-Scholes option pricing model. Compensation expense is recognized over the stock option vesting period based on the number of units estimated to vest. This expense is recognized as share-based compensation expense with a corresponding increase in equity. When options are exercised, the proceeds received by the Company, together with the amount in contributed surplus, are credited to common shares.

Performance Share Units Plan and *Annual Performance Share Units Plan*

Under these two plans, performance share units granted by Centerra to eligible employees that are intended to be settled in cash are accounted for under the liability method using the Monte Carlo simulated option pricing model. Under this method, a portion of the fair value of the performance share units is recognized at each reporting period based on the pro-rated number of days the eligible employees are employed by the Company compared to the vesting period of each series granted. The consideration paid to employees on exercise of these performance share units is recorded as a reduction of the accrued obligation.

Deferred Share Units Plan

Deferred share units granted to eligible members of the Board of Directors are settled in cash and are therefore accounted for under the liability method. The deferred share units vest immediately upon granting. A liability is recorded at grant date equal to the fair value of the deferred share units. The liability is adjusted to fair value at each reporting period and any resulting adjustment to the accrued obligation is recognized as an expense or, if negative, a recovery. The cash paid to eligible members of the Board of Directors on exercise of these deferred share units is recorded as a reduction of the accrued obligation.

Restricted Share Units Plan

Restricted share units ("RSU") granted to eligible members of the Board of Directors and designated officers and employees of Centerra can be settled in cash or equity at the option of the holder. The restricted share units vest immediately upon grant and are redeemed on a date chosen by the participant (subject to certain restrictions as set out in the plan). The units granted are accounted for under the liability method whereby a liability is recorded at grant date equal to the fair value of the RSU. The liability is adjusted to fair value at each reporting period and any resulting adjustment to the accrued obligation is recognized as an expense or, if negative, a recovery. The cash paid on exercise of these restricted share units is recorded as a reduction of the accrued obligation.

q. Financial Instruments

Financial assets are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. The Company determines the classification of its financial assets at initial recognition. Where, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held-to-maturity, the investment is reclassified into the available-for-sale category. All financial liabilities are initially recognized at their fair value and designated upon inception as either financial liabilities measured at fair value through profit or loss or other financial liabilities.

Transaction costs associated with financial assets and financial liabilities carried at fair value through profit or loss are expensed as incurred, while transaction costs associated with all other financial assets and other financial liabilities are included in the initial carrying amount of the asset or the liability.

i. Financial assets

Financial assets recorded at fair value through profit or loss

Financial assets classified as fair value if they are acquired for the purpose of selling in the near term. Gains or losses on these items are recognized in profit or loss.

The Company's cash and cash equivalents, restricted cash, reclamation trust fund and short-term investments are classified as financial assets measured at fair value through profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit or loss or available-for-sale. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the loans and receivables are de-recognized or impaired.

The Company's amounts receivable and long-term receivables are classified as loans and receivables. A provision is recorded when the estimated recoverable amount of the loan or receivable is lower than the carrying amount. The Company believes the carrying values of amounts receivable and long-term receivables approximate their fair values.

ii. Financial liabilities

Financial liabilities at fair value through profit or loss

Financial liabilities classified as fair value through profit or loss include financial liabilities designated as held-for-trading and financial liabilities designated upon initial recognition as a fair value through profit or loss financial liability. Derivatives, including separable embedded derivatives are classified as held for trading unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as fair value through profit or loss are recognized in profit or loss.

The Company utilizes forward foreign exchange contracts to economically hedge certain anticipated cash flows. Furthermore, the Company enters into "good until cancelled" contract to sell gold at a specific price; these are short-term contracts that are normally closed before the end of the reporting date. These contracts are classified and accounted for as instruments "held for trading" because they do not qualify as hedges, or are not designated as hedges and are classified as fair value through profit and loss. The contracts are recorded at fair value at the reporting date with the resulting gain or loss recognized in the Statements of Earnings and Comprehensive Income.

The Company's contracts are classified as financial liabilities at fair value through profit and loss.

Other financial liabilities

Borrowings and other financial liabilities, excluding derivative liabilities, are recognized initially at fair value, net of transaction costs incurred and are subsequently stated at amortized cost. Any difference between the amounts originally received net of transaction costs and the redemption value is recognized in profit or loss immediately, or capitalized if directly attributable to a qualifying asset, over the period to maturity using the effective interest method.

Borrowings and other financial liabilities are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least twelve months after the date of the consolidated statement of financial position date.

The Company's trade and other payables and short-term debt are classified as other financial liabilities.

4. Critical Accounting Estimates And Judgments

The preparation of consolidated financial statements in accordance with the requirements of IFRS requires management to make judgments, estimates and assumptions that affect the application of the Company's accounting policies, which are described in note 3, the reported amounts of assets and liabilities and disclosure of commitments and contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The determination of estimates requires the exercise of judgment based on various assumptions and other factors such as historical experience, current and expected economic conditions, and in some cases actuarial techniques. Actual results could differ from those estimates.

Management's estimates and underlying assumptions are reviewed on an ongoing basis. Any changes or revisions to estimates and underlying assumptions are recognized in the period in which the estimates are revised and in any future periods affected.

The key sources of estimation uncertainty and judgments used in the preparation of these consolidation financial statements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities and earnings within the next financial year, are discussed below:

i. Share-based Compensation

Cash and equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined using the Black-Scholes option pricing model or Monte Carlo simulation model, is based on significant assumptions such as volatility, expected life, expected dividends, risk-free interest rate and expected forfeiture rates. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability of the instruments and employees' behavioral considerations.

A change in any or a combination of the key assumptions used to determine the fair value of the issued share-based compensation at grant date and at the reporting date, could have a material impact on the share-based compensation cost expensed and the carrying value of the share-based compensation liabilities.

Total share-based compensation cost (recovery) recorded in the Statement of Earnings (Loss) and Comprehensive Income (Loss) for the year ended December 31, 2012 was $3.0 million (2011- charge of $19.1 million) and carrying amount of the associated liabilities was $5.2 million as at December 31, 2012 (2011- $42.0 million).

ii. 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, as well as the timing of the reclamation activities and estimated discount rate. 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 costs.

A change in any or a combination of the key assumptions used to determine the provisions could have a material impact on the carrying value of the provisions (see note 17). Changes to the estimated future reclamation costs for operating sites are recognized in the Statement of Financial Position by adjusting both the retirement asset and provision, and will impact earnings as these amounts are respectively amortized and accreted over the life of the mine.

The carrying amount of the asset retirement obligations as at December 31, 2012, was $55.2 million (2011- $55.6 million).

iii. Depreciation , depletion and amortization period for property plant and equipment

All mining assets (except for mobile equipment and buildings) are amortized using the units-of-production method where the mine operating plan calls for production from well-defined ore reserves over proved and probable reserves.

For mobile and other equipment, the straight-line method is applied over the estimated useful life of the asset which does not exceed the estimated mine life based on proved and probable ore reserve as the useful lives of these assets are considered to be limited to the life of the relevant mine. The calculation of the units-of-production rate of amortization could be impacted to the extent that actual production in the future is different from current forecast production based on proved and probable ore reserve. This would generally arise when there are significant changes in any of the factors or assumptions used in estimating ore reserve.

Changes to these estimates, which can be significant, could be caused by a variety of factors, including future production differing from current forecasts, expansion of mineral reserves through exploration activities, differences between estimated and actual costs of mining and other factors impacting mineral reserves or the expected life of the mining operation.

iv. Impairment of long-term assets

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. External sources of information that the Company considers include changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverable amounts of long-term assets and goodwill. Internal sources of information that the Company considers include the manner in which long-term assets are being used or are expected to be used and indications of economic performance of the assets.

For the purposes of determining whether an impairment of assets, including goodwill, has occurred, and the amount of any impairment or its reversal, management uses key assumptions in estimating the recoverable value of a CGU which is calculated as the higher of the CGU's value-in-use and fair value less costs to sell. Management performed a goodwill impairment test for the Kumtor CGU as at September 1, 2012 and calculated the fair value less cost to sell using a discounted cash flow model which required management to estimate the future cash flows, future operating plans, gold prices, discount rates and exchange rates.

Expected gold production levels, which comprise proven and probable reserves and a conversion estimate of resources, are used to estimate expected future cash flows. Management also estimates future operating and capital costs based on the most recently approved life of mine plan. The discount rate applied is reviewed annually, although it has been stable in recent years.

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 CGU. Please see Note 12 for additional information on the basis for management's estimates.

Changes in these estimates which decrease the estimated recoverable value of the CGU could affect the carrying amounts of assets and result in an impairment charge. The carrying amount of goodwill in the consolidated financial statements at December 31, 2012 and December 31, 2011 was $129.7 million. The carrying amount of long-term assets (Property plant and equipment and long-term receivables and others), other than goodwill at December 31, 2012 was $623.9 million (2011: $627.7 million).

v. 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, the Company considers factors such as tax rates in the different jurisdictions, non-deductible expenses, 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 effects of these temporary differences are recorded as deferred tax assets or liabilities in the financial statements.

The Company does not recognize deferred tax assets where management does not expect such assets to be realized based upon current forecasts. In the event that actual results differ from these estimates, adjustments are made to future periods in these estimates, and changes in the amount of the deferred tax assets recognized may be required, which could materially impact the financial position and the income for the period. At December 31, 2012, the total deductible temporary differences for which a deferred tax asset is not recognized amounted to $285.1 million (2011- $264.1 million). Most of the unrecognized amount relates to unused loss carry forwards. Deferred tax assets of $5.5 million (2011- $5.2 million) were recognized in the Company's statement of financial position.

vi. Inventories of stockpiled 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 asset 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.

Estimates of the recoverable gold on the leach pads are calculated from the quantities of ore placed on the pads based on tonnage added to the leach pads, the grade of ore placed on the leach pads based on assay data and a recovery percentage based on metallurgical testing and ore type.

Although the quantities of recoverable metal are reconciled by comparing the grades of ore to the quantities of gold actually recovered, the nature of the process inherently limits the ability to precisely monitor recoverability levels. As a result, the metallurgical reconciliation process is constantly monitored and engineering estimates are refined based on actual results over time.

As at December 31, 2012 the carrying amount of inventories (excluding gold doré and supplies inventories) was $116.1 million (2011-$125.3 million)

vii. Ore reserve 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. The estimation of ore reserves requires judgment to interpret available geological data then select an appropriate mining method and establish an extraction schedule. It also requires assumptions about future commodity prices, exchange rates, production costs, recovery rates and discount rates and, in some instances, the renewal of mining licenses. There are numerous uncertainties inherent in estimating ore reserves and assumptions that are valid at the time of estimation may change significantly when new information becomes available. New geological data as well as changes in the above assumptions may change the economic status of reserves and may, ultimately, result in the reserves being restated.

Estimates of mineral reserves and resources impact the following items in the financial statements:

- useful lives of assets depreciated on a straight-line basis, where those lives are limited to the life of the mine.
- Depreciation and depletion of assets using the units-of-production method
- Estimate of recoverable value of the CGU
- Estimated timing of reclamation activities
- Expected future economic benefit of expenditures, including stripping and development activities

viii. Litigation and contingency

On an ongoing basis the Company is subject to various claims and other legal disputes described in note 27, 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. Disclosure of other contingent liabilities is made unless the possibility of a loss arising is considered remote.

5. Future changes in accounting policies

Recently issued but not adopted accounting guidance are as follows:

IFRS 7 *Financial Instruments – Disclosures* ("IFRS 7") was amended by the IASB in October

2011 and provides guidance on identifying transfers of financial assets and continuing involvement in transferred assets for disclosure purposes. The amendments introduce new disclosure requirements for transfers of financial assets including disclosures for financial assets that are not derecognized in their entirety, and for financial assets that are derecognized in their entirety but for which continuing involvement is retained. The Company intends to adopt IFRS 7 in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect IFRS 7 to have a material impact on its financial statements.

The IASB has issued IFRS 9 *Financial Instruments* ("IFRS 9") which proposes to replace IAS 39 *Financial Instruments Recognition and Measurement*. The replacement standard has the following significant components: establishes two primary measurement categories for financial assets — amortized cost and fair value; establishes criteria for classification of financial assets within the measurement category based on business model and cash flow characteristics; and eliminates existing held to maturity, available-for-sale and loans and receivable categories.

This standard is effective for the Company's annual period beginning January 1, 2015 (as amended from January 1, 2013 by the IASB in December 2012). The Company will evaluate the impact of the change to its consolidated financial statements based on the characteristics of its financial instruments at the time of adoption.

IFRS 10 *Consolidated Financial Statements* ("IFRS 10"), which replaces parts of IAS 27, *Consolidated and Separate Financial Statements* ("IAS 27") and all of SIC-12 *Consolidation – Special Purpose Entities*, changes the definition of control which is the determining factor in whether an entity should be consolidated. Under IFRS 10, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Company intends to adopt IFRS 10 in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect IFRS 10 to have a material impact on its financial statements.

IFRS 11 *Joint Arrangements* ("IFRS 11"), which replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers*, requires a venturer to classify its interest in a joint arrangement as either a joint operation or a joint venture. For a joint operation, the joint operator will recognize its assets, liabilities, revenue and expenses, and/or its relative share thereof. For a joint venture, the joint venturer will account for its interest in the venture's net assets using the equity method of accounting. This is a change from the existing standards, under which the Company chose to proportionally consolidate joint ventures. The Company intends to adopt this standard effective January 1, 2013. The impact of these changes on the Company financial statements is currently under review in preparation of the first quarter 2013 financial reporting.

IFRS 12 *Disclosure of Interests in Other Entities* is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles. The required disclosures aim to provide information in order to enable users to evaluate the nature of, and the risks associated with, an entity's interest in other entities, and the effects of those interests on the entity's financial position, financial performance and cash flows. The Company intends to adopt IFRS 12 in its financial statements for the annual period beginning on January 1, 2013. The Company expect IFRS 12 to result in additional disclosure regarding its interests in subsidiaries and joint arrangements in its financial statements.

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

IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* sets out the accounting for overburden waste removal (stripping) costs in the production phase of a 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. The Company intends to adopt IFRIC 20 in its financial statements for the annual period beginning on January 1, 2013. The impact of these changes on the Company financial statements is currently under review in preparation of the first quarter 2013 financial reporting.

(Expressed in thousands of United States Dollars)

6. Restricted cash

(Thousands of U.S. Dollars)		2012		2011
	$		$	
Current:				
Boroo escrow account		-		179
		-		179
Non current:				
Dividend trust account		**5,938**		-
Other		**149**		-
		6,087		-
Total restricted cash	$	**6,087**	$	179

The Boroo escrow bank account was created in compliance with a memorandum of understanding agreed to with the Ministry of Health of Mongolia. The cash deposited was used to fund the design and construction of a maternity hospital in Ulaanbaatar. Funding for the hospital was completed before December 31, 2012 and the hospital is due to be commissioned in early 2013.

Pursuant to an Ontario court decision dated September 5, 2011, Kyrgyzaltyn's portion of the Centerra dividends declared on August 1, 2012 and November 7, 2012 of $6.3 million net of withholding taxes of $0.4 million ($5.9 million net) is held in trust to the credit of the Sistem court proceedings (see note 27). The dividend payable and restricted cash held in trust have been classified as long-term since the timing of the resolution of the court proceedings is unknown.

(Expressed in thousands of United States Dollars)

7. Amounts receivable

(Thousands of U.S. Dollars)		2012		2011
Gold sales receivable from related party (note 27)	$	**48,325**	$	47,366
Gold sales receivable from third party		**17,906**		-
Other receivables		**9,107**		9,383
	$	**75,338**	$	56,749

The aging of the gross amounts receivable at each reporting date was as follows:

(Thousands of U.S. Dollars)		2012		2011
Less than 1 month	$	**68,203**	$	49,817
1 to 3 months		**884**		5,642
Over 3 months		**6,251**		1,290
	$	**75,338**	$	56,749

The Company has not recorded any allowance for credit losses for the periods presented above.

(Expressed in thousands of United States Dollars)

8. Inventories

(Thousands of U.S. Dollars)		2012		2011
Stockpiles of ore	**$**	**90,735**	$	105,635
Gold in-circuit		**19,140**		16,343
Heap leach in circuit		**6,189**		3,359
Gold doré		**7,612**		10,645
		123,676		135,982
Supplies		**175,430**		156,136
Total Inventories (net of provisions)		**299,106**		292,118
Less: Long-term inventory (heap leach stockpiles)		**(10,094)**		(12,174)
Total Inventories-current portion	**$**	**289,012**	$	279,944

The provision for mine supplies obsolescence was increased for the year ended December 31, 2012 by $0.8 million (December 31, 2011- $0.9 million) which was charged to cost of sales, as disclosed in note 17.

The Company de-recognized underground supplies inventories of $14.0 million as part of the $180.7 million de-recognition of the underground development costs and underground assets resulting from the new mine plan for Kumtor announced on November 7, 2012 (see note 10).

The table below summarizes inventories adjusted for the provision for obsolescence:

(Thousands of U.S. Dollars)		2012		2011
Total inventories	$	**302,079**	$	294,319
Less : Provisions for supplies obsolescence		**(2,973)**		(2,201)
Total Inventories (net of provisions)		**299,106**		292,118
Less: Long-term inventory (heap leach stockpiles)		**(10,094)**		(12,174)
Total Inventories-current portion	$	**289,012**	$	279,944

9. Prepaid expenses

(Thousands of U.S. Dollars)		2012		2011
Revenue based taxes	**$**	**30,000**	$	-
Insurance		**6,120**		6,697
Rent		**586**		440
Others		**12,611**		19,699
Total	**$**	**49,317**	$	26,836

(Expressed in thousands of United States Dollars)

10. Property, plant and equipment

The following is a summary of the carrying value of property, plant and equipment:

(Thousands of U.S. Dollars)	Mine buildings	Plant and equipment	Mineral properties	Capitalized stripping costs	Mobile Equipment	Construction in progress ("CIP")	Total
Cost							
January 1, 2011	$ 53,915	$ 310,919	$ 169,187	$ 71,351	$ 264,786	$ 149,484	$ 1,019,642
Additions	310	12,244	18,247	44,847	102,426	30,415	208,489
Disposals	(389)	(1,049)	-	-	(20,588)	(394)	(22,420)
Reclassification	-	661	-	-	303	(964)	-
Balance December 31, 2011	**$ 53,836**	**$ 322,775**	**$ 187,434**	**$ 116,198**	**$ 346,927**	**$ 178,541**	**$ 1,205,711**
Additions	-	7,422	2,288	198,316	146,371	55,091	409,488
De-recognition of underground assets	(1,131)	(2,932)	-	-	(18,521)	(155,613)	(178,197)
Disposals	-	(1,032)	(829)	-	(26,650)	-	(28,511)
Reclassification	-	3,556	-	-	4,517	(8,073)	-
Balance December 31, 2012	**$ 52,705**	**$ 329,789**	**$ 188,893**	**$ 314,514**	**$ 452,644**	**$ 69,946**	**$ 1,408,491**
Accumulated depreciation							
January 1, 2011	$ 32,255	$ 196,826	$ 116,357	$ 40,272	$ 114,913	$ -	$ 500,623
Charge for the year	2,367	12,331	7,556	35,475	78,304	-	136,033
Disposals	(384)	(701)	(3)	-	(20,008)	-	(21,096)
Balance December 31, 2011	**$ 34,238**	**$ 208,456**	**$ 123,910**	**$ 75,747**	**$ 173,209**	**$ -**	**$ 615,560**
Charge for the year	1,406	8,267	9,381	126,737	96,446	-	242,237
De-recognition of underground assets	(388)	(1,733)	-	-	(9,366)		(11,487)
Disposals	-	(832)	(726)	-	(25,470)	-	(27,028)
Balance December 31, 2012	**$ 35,256**	**$ 214,158**	**$ 132,565**	**$ 202,484**	**$ 234,819**	**$ -**	**$ 819,282**
Net book Value							
Balance December 31, 2011	$ 19,598	$ 114,319	$ 63,524	$ 40,451	$ 173,718	$ 178,541	$ 590,151
Balance December 31, 2012	**$ 17,449**	**$ 115,631**	**$ 56,328**	**$ 112,030**	**$ 217,825**	**$ 69,946**	**$ 589,209**

(Expressed in thousands of United States Dollars)

The following is an analysis of the depreciation, depletion and amortization charge for the year recorded in the Statements of Financial Position and Statements of Earnings (Loss) and Comprehensive Income (Loss):

(Thousands of U.S. Dollars)		2012		2011
Amount recorded in cost of sales	**$**	**142,198**	$	98,378
Amount recorded in corporate administration		**248**		462
Amount recorded in abnormal mining costs		**7,035**		-
Amount recorded in mine standby costs		**2,151**		-
Amount recorded in other operating expenses		**1,237**		-
Total included in Statements of Earnings (Loss) and Comprehensive Income (Loss)		**152,869**		98,840
Amount recorded in inventory		**35,036**		18,564
Amount capitalised in PP&E		**54,332**		18,629
Total	**$**	**242,237**	$	136,033

De-recognition of underground development costs and underground assets

On November 7, 2012, the Board of Directors approved an updated reserves estimate and new mine plan for Kumtor. Under the new mine plan, the existing underground development infrastructure at Kumtor will no longer be used. As a result, the Company de-recognized the capitalized cost of the underground development, underground equipment and the underground supplies inventories and recorded a charge of $180.7 million during the year ended December 31, 2012.

The following is a summary of the $180.7 million charge:

(Thousands of U.S. Dollars)		Net Amount
Development costs	$	155,613
Underground mobile equipment		11,097
Total de-recognized underground development and equipment costs		166,710
Underground development consumable inventory (note 8)		13,963
	$	180,673

11. Joint Ventures

The Company proportionately consolidates its seventy percent interest (2011– fifty percent interest) in the Kara Beldyr Russian joint venture and seventy percent interest (2011– fifty percent interest) in the Öksüt Turkish joint venture which the Company jointly-controls. On January 24, 2013, the Company acquired the remaining 30% interest in the Öksüt Gold Project (see note 33).

(Expressed in thousands of United States Dollars)

Included in the consolidated financial statements are the following items that represent the Company's proportionate interest in the assets and liabilities and expenses of these joint ventures:

(Thousands of U.S. Dollars)		2012		2011
Current assets	$	**861**	$	151
Non-current assets		**1,415**		246
Current liabilities		**(2,180)**		(129)
Net assets		**96**		268
Exploration expenses		**6,423**		1,470

12. Goodwill

The Company has two CGUs, one in the Kyrgyz Republic and one in Mongolia, of which only the Kyrgyz CGU has been allocated goodwill. The carrying value of goodwill for the Kyrgyz Republic remained unchanged at $129.7 million as at December 31, 2012 and December 31, 2011.

Annual Test as at September 1, 2012:
The Company performed its annual test for goodwill impairment as at September 1, 2012 in accordance with its policy described in note 3.

The net asset value ("NAV") of the Kyrgyz CGU is determined based on a discounted cash flow analysis and the recoverable amount is determined using a market multiple of the NAV as public gold companies typically trade at a market capitalization that is based on a multiple of their underlying NAV.

As an industry participant would include the future use, including any expansion projects over the life-of-mine ("LOM") in determining fair value, the Company has included future conversion of resources into production and the associated capital and development expenditure in the discounted cash flow estimates. As part of the Company's annual reserve estimation process, each CGU updates its LOM plan which optimizes the production of its proven and probable reserves. The LOM is enhanced with the inclusion of resource conversion based on management's best estimate of convertibility. The resulting valuation model includes the cash flows which management expects to generate over the mine's life, using various business and economic assumptions.

Key assumptions used in the discounted cash flow model and for calculating the Kyrgyz CGU recoverable value used in the September 1, 2012 impairment test were as follows:

i. Gold price per ounce was $1,695 per ounce for the balance of 2012, $1,727 per ounce for 2013, $1,626 per ounce for 2014, $1,510 per ounce for 2015 and $1,249 per ounce for 2016 onwards. Management determined gold prices based on the average of the most recent market commodity price forecasts consensus up to September 1, 2012 from a number of recognized financial analysts.

   For the September 1, 2011 impairment test, gold price per ounce used was $1,700 per ounce for the balance of 2011, $1,545 per ounce for 2012, $1,450 per ounce for 2013, $1,300 per ounce for 2014 and $1,100 per ounce for 2015 onwards.

ii. Total production over the life of the Kumtor mine of 7.4 million ounces (2011 - 6.9 million ounces) includes 2.6 million ounces (2011 – 2.4 million ounces) of converted resources. Management expects the Kyrgyz CGU to continue mining and processing ore (including converted resources) through 2025. Management determined its planned production profile and total life of mine production based on its development activity and its mine and processing plans as at September 1, 2012.

iii. The real after tax discount rate of 11.5% (2011–11.5%) based on the Company's estimated weighted-average cost of capital adjusted for the risks associated with the Kyrgyz cash flows.

As a result of the size of the excess of FVLCS as compared to the carrying amount of the Kyrgyz CGU as at September 1, 2012, management believes no reasonably possible change in assumptions would cause the carrying amount of the CGU to exceed its current recoverable amount.

As a result, management concluded that current circumstances did not indicate that the carrying value of the Kyrgyz reporting unit exceeded its recoverable value and thus no impairment of its goodwill was required at this time.

(Expressed in thousands of United States Dollars)

13. Other assets

(Thousands of U.S. Dollars)		2012		2011
Reclamation trust fund (note 17)	**$**	**11,328**	$	9,081
Other long term receivables		**263**		4
Deferred financing fees (note 15)[a]		**-**		2,474
Other assets[b]		**11,679**		13,115
Total	**$**	**23,270**	$	24,674

a) The carrying value of the deferred financing fees was off-set against the balance of the short-term debt for the year ended December 31, 2012.
b) Includes $7.4 million (December 31, 2011 - $12.9 million) of deposits for the purchase of mobile equipment.

14. Accounts payable and accrued liabilities

(Thousands of U.S. Dollars)		2012		2011
Trade creditors and accruals	**$**	**58,704**	$	34,411
Liability for share-based compensation		**5,236**		41,974
Total	**$**	**63,940**	$	76,385

(Expressed in thousands of United States Dollars)

15. Short-term debt

On November 16, 2010 the Company entered into a Credit Agreement with the European Bank for Reconstruction and Development ("EBRD") which provides for a $150 million, three-year revolving credit facility (the "Facility"). On August 8, 2012, the Company borrowed $76 million under the facility for a six month term to be used for general corporate purposes. The amounts drawn on the Facility bear interest at six-month LIBOR rate of 0.72% plus 2.9%. Interest is payable at the end of the loan term. A commitment (standby) fee is also payable on the undrawn amount of the Facility. A commitment fee of 0.75% is applied to the undrawn portion of the Facility where less than 50% of the Facility amount is drawn, or 0.50% where more than 50% of the facility amount is drawn.

The terms of the Facility requires the Company to pledge certain mobile equipment at Kumtor as security and maintain compliance with specified covenants, including financial covenants. The Company was in compliance with the covenants for the years ended December 31, 2012 and December 31, 2011.

On February 5, 2013, the Company rolled over the $76 million for an additional six month term (repayable August 8, 2013).

The amount of the short-term debt is net of deferred financing fees as shown below:

(Thousands of U.S. Dollars)		2012		2011
Revolver credit facility	**$**	**76,000**	$	-
Deferred financing fees		**(1,383)**		-
Total	**$**	**74,617**	$	-

16. Taxes

a. Revenue Based Taxes - Kumtor

Kumtor pays taxes on revenue, at a rate of 13% of gross revenue, with an additional contribution of 1% of gross revenue payable to the Issyk-Kul Oblast Development Fund.

During the period ended December 31, 2012, the 13% revenue-based tax expense recorded by Kumtor was $69.4 million ($122.3 million in 2011), while payments to the Issyk-Kul Oblast Development Fund of 1% of gross revenue totaled $5.3 million ($9.4 million in 2011).

As at December 31, 2012, $18.6 million of revenue-based tax is payable to the Kyrgyz Government (December 31, 2011– $15.2 million).

On May 28, 2012, a tax advance agreement was signed by Kumtor and the Kyrgyz Government and $30 million of future revenue-based taxes were advanced to the government. This interest-free advance will be applied against revenue-based taxes otherwise payable during 2013 and was included in prepaid expenses at December 31, 2012.

(Expressed in thousands of United States Dollars)

In December 2012, at the request of the Kyrgyz Government, Kumtor advanced $8.3 million of 2012 revenue-based taxes otherwise payable in January 2013. As at December 31, 2012, the amount advanced of $8.3 million was used to reduce the amount of revenue-based taxes payable.

Similarly, revenue-based taxes were also advanced at the request of the Kyrgyz Government in the fourth quarter of 2011 totalling $2 million. This advance was outstanding as at December 31, 2011 and was fully applied against Kumtor's 2011 revenue-based taxes payable in January 2012.

b. Income Tax Expense

(Thousands of U.S. Dollars)		**2012**		2011
Current tax	**$**	**11,734**	$	2,856
Deferred tax		**(50)**		5,274
Total Income Tax Expense	**$**	**11,684**	$	8,130

No entities, other than those in the Mongolian segment, recorded an income tax expense during the years ended December 31, 2012 and December 31, 2011.

The provision for income tax differs from the amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

(Thousands of U.S. Dollars)		**2012**		**2011**
Earnings (loss) before income tax	**$**	**(172,314)**	$	379,008
Income tax calculated at Canadian tax rates if applicable to earnings (loss) in the respective countries		**(45,663)**		107,070
Income tax effects of:				
Difference between Canadian rate and rates applicable to subsidiaries in other countries		**41,070**		(121,621)
Change in unrecognized deductible temporary differences		**8,040**		11,555
Impact of foreign currency movements		**298**		2,032
Non-deductible employee costs		**1,339**		1,200
Other non-deductible expenses or non-taxable items		**6,600**		7,894
	$	**11,684**	$	8,130

c. Deferred Income Tax

The significant components of deferred income tax assets and liabilities are as follows:

(Expressed in thousands of United States Dollars)

(Thousands of U.S. Dollars)		2012		2011
Deferred income tax assets:				
Inventory	$	**1,530**	$	2,487
Provisions - asset retirement obligation		**4,009**		2,682
Total deferred tax assets	$	**5,539**	$	5,169
Deferred income tax liabilities:				
Cash and cash equivalents	$	**(848)**	$	(685)
Short-term investments		**(930)**		(930)
Property plant and equipment		**(5,569)**		(5,229)
Other		**-**		(222)
Total deferred tax liabilities	$	**(7,347)**	$	(7,066)
Net deferred tax assets/(liabilities)	$	**(1,808)**	$	(1,897)

The Company had the following positions in respect of which no deferred income tax asset has been recognized:

(Thousands of U.S. Dollars)		Tax losses income		Tax losses capital		Exploration		Non Deductibles Reserves		Other		Total
December 31, 2012												
Expiring within one to five years	$	**23,120**	$	**-**	$	**-**	$	**-**	$	**-**	$	**23,120**
Expiring after five years		**191,592**		**-**		**-**		**-**		**-**		**191,592**
No expiry date		**260**		**32,458**		**26,772**		**3,679**		**7,177**		**70,346**
	$	**214,972**	$	**32,458**	$	**26,772**	$	**3,679**	$	**7,177**	$	**285,058**
December 31, 2011												
Expiring within one to five years	$	15,889	$	-	$	-	$	-	$	-	$	15,889
Expiring after five years		142,499		-		-		-		-		142,499
No expiry date		386		31,629		23,433		43,443		6,854		105,745
	$	158,774	$	31,629	$	23,433	$	43,443	$	6,854	$	264,133

No deferred tax liabilities have been recognized in respect of the aggregate amount of $1,092 million ($1,319 million as at December 31, 2011) of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, as the Company controls the timing and circumstances of the reversal of these differences, and the differences are not anticipated to reverse in the foreseeable future.

(Expressed in thousands of United States Dollars)

17. Provisions

(Thousands of U.S. Dollars)			**2012**		2011
Asset retirement obligations	(a)	**$**	**54,554**	$	55,625
Other provision	(b)		**614**		-
Total provisions			**55,168**		55,625
Less: current portion			**(5,257)**		(1,848)
		$	**49,911**	$	53,777

(a) Asset Retirement Obligations

(Thousands of U.S. Dollars)		**2012**		2011
Kumtor gold mine	**$**	**30,986**	$	30,378
Boroo gold mine		**23,568**		25,247
Total asset retirement obligations		**54,554**		55,625
Less: current portion		**(4,643)**		(1,848)
	$	**49,911**	$	53,777

Centerra's estimates of future asset retirement obligations are based on reclamation standards that meet regulatory requirements. Elements of uncertainty in estimating these amounts include potential changes in regulatory requirements, reclamation plans and cost estimates, discount rates and timing of expected expenditures.

The Company estimates its total undiscounted future decommissioning and reclamation costs at December 31, 2012 to be $61.6 million (December 31, 2011 - $62.9 million). The following is a summary of the key assumptions on which the carrying amount of the asset retirement obligations is based:

i. Expected timing of payment of the cash flows is based on the LOM plans.
ii. Ongoing reclamation spending continues at Boroo, while at Kumtor reclamation is expected to start at the end of its mine life.
iii. Risk-free discount rates of 2% at Kumtor and 1.3% at Boroo at December 31, 2012 (December 31, 2011- 2% at Kumtor and 0.6% at Boroo).

(Expressed in thousands of United States Dollars)

The following is a reconciliation of the total discounted liability for asset retirement obligations

(Thousands of U.S. Dollars)		2012		2011
Balance at January 1	**$**	**55,625**	$	40,433
Liabilities paid		**(702)**		(2,446)
Revisions in estimated timing and amount of cash flows		**(1,129)**		15,942
Impact of revisions in estimated timing and amount of cash flows recorded in earnings		**-**		494
Accretion expense		**760**		1,202
Total asset retirement obligations		**54,554**		55,625
Less: current portion		**(4,643)**		(1,848)
Balance at December 31	**$**	**49,911**	$	53,777

In 1998, a Reclamation Trust Fund was established to cover the future costs of reclamation at the Kumtor gold mine, net of salvage values. This restricted cash is funded on the units of production method, annually in arrears, over the life of the mine and on December 31, 2012 was $11.3 million (December 31, 2011 - $9.1 million).

In December 2012, the Company revised the closure plan at Boroo resulting in an extension of the reclamation spending by an additional two years, ending in 2020. As a result of extending the reclamation spending and an increase in the discount rate, the present value of the obligation at Boroo decreased by $1.1 million with an offsetting decrease in the related reclamation asset.

In December 2011, the Company revised the closure plan at Boroo resulting in an extension of the reclamation spending to 2018 and updated the closure cost plans for Kumtor and Boroo. As a result of extending the reclamation spending, a decrease in the discount rate and an update to the closure cost plan, the present value of the obligation at Boroo increased by $8.9 million with an offsetting increase in the related reclamation asset. A similar update to Kumtor's closure cost plan and a decrease in the discount rate resulted in an increase in the obligation of $7.5 million, with $0.5 million of the increase charged to earnings and $7.0 million recorded as an increase in the related reclamation asset, included as part of property plant and equipment.

The next regular update to the closure costs estimates at Kumtor is scheduled in 2013, at which time the asset retirement obligation for Kumtor will be updated for the new closure cost estimates. The last closure cost update at Boroo was completed in 2012 and its asset retirement obligation was updated at that time.

(Expressed in thousands of United States Dollars)

(b) Other provision

On February 27, 2012, the Company announced that it would close its exploration office in Reno, Nevada USA as of June 30, 2012. As a result, a $0.95 million provision was recorded by the Company. The provision is based on current estimates of the likely amounts to be incurred and include termination benefits that affected employees will be entitled to receive. During the year ended December 31, 2012, the Company made a payment of $0.33 million to settled part of the provision. The remaining balance of the provision will be settled over the next fourteen months.

18. Cost of sales

(Thousands of U.S. Dollars)		**2012**		**2011**
Operating costs:				
Salaries and benefits[(a)]	**$**	**72,251**	$	80,520
Consumables		**96,790**		212,240
Third party services		**5,789**		5,055
Other operating costs		**18,236**		16,221
Royalties, levies and production taxes		**6,500**		4,321
Changes in inventories		**44,934**		(35,336)
		244,500		283,021
Inventories obsolescence (Note 8)		**772**		897
Depreciation, depletion and amortization		**142,198**		98,377
	$	**387,470**	$	382,295

(a) Included in the amounts shown for the year ended December 31, 2011 is $14.1 million recorded for the settlement of the Kyrgyz Social Fund assessment between Kumtor and the Kyrgyz Government, in respect of the base wages of Kumtor's national employees, for the first nine months of 2011 and the full year of 2010. In late 2010, the Social Fund notified the Company of its position that the Company should pay contributions to the Social Fund not only in respect of base wages but also in respect of the premium compensation that the Company is required to pay employees for work at high-altitude. As a result of the revised basis for calculation of the Company's social fund contributions including the high altitude premium, the Company paid $6.2 million in 2012 as the Company's contributions to the Social Fund.

(Expressed in thousands of United States Dollars)

19. Abnormal mining costs

(Thousands of U.S. Dollars)		2012		2011
Abnormal mining costs [(a)]	$	**36,112**	$	-
Unloading of abnormal waste [(b)]		**24,769**		-
	$	**60,881**	$	-

(a) The original mining plan at Kumtor for the year ended 2012 included stripping of waste material in the SB Zone and the continued normal mining of ice and waste in the southeast section of the pit to allow access to and mining of ore. The Company announced on March 27, 2012 its decision to re-sequence the Kumtor mine plan and delay the mining of ore in the SB zone due to concerns created by the acceleration of ice and waste movement in the high movement area above the southeast portion of the SB zone. The resulting stripping activity in the southwest portion of the SB zone under the revised mine plan during a period where little ore was mined resulted in a significant amount of costs which did not relate to the production of inventory in the period and were expensed.

(b) The revised mining plan for 2012 required that a significant area of ice and waste be removed, primarily located outside of the current pit limits, the costs of which have been expensed.

20. Mine Standby Costs

Over a period of ten days ending February 16, 2012 the Company's operations at Kumtor were temporarily suspended due to a labour dispute initiated by unionized workers at Kumtor. The Company incurred and expensed $4.6 million in labour, maintenance and mine support costs directly as a result of the labour dispute at Kumtor.

Over a period of eleven days ending May 28, 2011, the Company's SAG mill plant at Boroo was temporarily shut down due to a failure in the SAG mill exciter. The milling and production processes were stopped during the shutdown. The Company incurred and expensed $0.2 million in labour, maintenance and mine support costs directly as a result of the shutdown at Boroo.

(Expressed in thousands of United States Dollars)

21. Other Operating expenses

(Thousands of U.S. Dollars)		2012		2011
Social development contributions [a]	$	**26,163**	$	12,641
Claim settlement[b]		**-**		2,587
Net alluvial production (income) expenses		**(48)**		(129)
Project care and maintenance[c]		**369**		372
Project closure[d]		**7,796**		-
	$	**34,280**	$	15,471

a) During the year ended December 31, 2012, the Company, through its subsidiary Kumtor, contributed $21 million to a national micro-credit financing program, whose objective is to provide financing for small sustainable development projects throughout the Kyrgyz Republic. The Company also accrued a further $1.1 million for the construction and equipping of a maternity hospital in Ulaanbaatar through the Boroo Community Development Initiatives program in Mongolia. During the year ended December 31, 2011, the Company, through its subsidiary Kumtor, contributed $10 million to be used for the refurbishment of schools through the subsidiary's Community Development and Initiatives program in the Kyrgyz Republic. On-going spending on social development programs were $4.0 million in 2012 and $2.6 million in 2011.

b) During the year ended December 31, 2011, the Company accrued $2.6 million relating to the settlement of a claim for compensation that it received from the Mongolian General Department of Specialized Inspection ("SSIA") in October 2009 following the June 2009 inspection at the Boroo project. The claim related to certain mineral reserves, including state alluvial reserves covered by the Boroo project licenses that are recorded in the Mongolian state reserves registry, but for which there are no or incomplete records or reports of mining activity.

c) Project care and maintenance costs of $0.4 million for the year ended December 31, 2012 (December 31, 2011- $0.4 million) were incurred to maintain the site at the Gatsuurt development project.

d) Project closure costs of $7.8 million in 2012 were expensed (December 31, 2011 – Nil) following the decision on August 1, 2012 to place the underground project at Kumtor on hold and ultimately decommission following the change in mine plan announced on November 7, 2012 (Note 10). Closure costs include employee severance payments, ground condition monitoring, remedial work, water control and ventilation.

(Expressed in thousands of United States Dollars)

22. Exploration and business development costs

(Thousands of U.S. Dollars)		2012		2011
Exploration:				
Mine site exploration	**$**	**11,446**	$	12,715
Advanced projects		**9,302**		12,889
Generative exploration and other projects		**13,880**		10,595
Exploration administration		**3,311**		3,399
Total exploration		**37,939**		39,598
Business development		**592**		3,296
	$	**38,531**	$	42,894

23. Corporate Administration

(Thousands of U.S. Dollars)		2012		2011
Administration and office	**$**	**7,574**	**$**	7,876
Professional fees		**7,186**		4,835
Salaries and benefits		**15,099**		14,396
Share-based compensation (recovery)		**(3,061)**		17,333
Depreciation and amortization		**248**		462
	$	**27,046**	**$**	44,902

(Expressed in thousands of United States Dollars)

24. Other (income) and expenses

(Thousands of U.S. Dollars)		2012		2011
Interest income	**$**	**(728)**	$	(1,175)
Loss on disposal of assets		**556**		484
Bank charges		**67**		71
Miscellaneous income		**(119)**		(343)
Foreign exchange loss /(gain)		**92**		(92)
	$	**(132)**	$	(1,055)

25. Finance costs

(Thousands of U.S. Dollars)		2012		2011
Revolving credit facility:				
Amortization of deferred financing costs	**$**	**1,091**	$	772
Interest expense (Note 15)		**1,117**		-
Commitment fees and other revolving credit facility costs		**1,010**		1,077
Accretion expense and impact of revisions on asset retirement obligations (Note 17)		**760**		1,696
	$	**3,978**	$	3,545

(Expressed in thousands of United States Dollars)

26. Shareholders' Equity

a. Share Capital

Centerra is authorized to issue an unlimited number of common shares, class A non-voting shares and preference shares with no par value.

b. Earnings (loss) per Share

All potentially dilutive securities were excluded from the calculation of diluted loss per share for the year ended December 31, 2012 as they would have been anti-dilutive as a result of the net loss recorded for the period.

For the year ended December 31, 2011 certain potentially dilutive securities were excluded from the calculation of diluted earnings per share due to the exercise prices of certain stock options being greater than the average market price of the Company's ordinary shares for the period and the effect of the assumed potential conversion of the performance share units and restricted share units to equity which was anti-dilutive.

Basic and diluted earnings (loss) per share computation:

(Thousands of U.S. Dollars)	**2012**	2011
Net earnings (loss) attributable to shareholders	**$ (183,998)**	$ 370,878
Weighted average number of common shares outstanding (thousands)	**236,369**	236,088
Effect of potential dilutive securities:		
Stock options (thousands)	**-**	248
Restricted share units (thousands)	**-**	18
Diluted weighted average number of common shares outstanding (thousands)	**236,369**	236,354
Basic and diluted earnings (loss) percommon share	**$ (0.78)**	$ 1.57

Potentially dilutive securities, including stock options, restricted share units, performance share units (PSUs) and annual performance share units (annual PSUs), summarized below were excluded in the calculation of the diluted earnings (loss) per share:

(Expressed in thousands of United States Dollars)

(Thousands of units)	**2012**	2011
Stock options	**597**	215
Restricted share units	**92**	-
PSUs and Annual PSUs [(1)]	**150**	1,903
	839	2,118

(1) After the impact of the estimated adjustment factor which represents the relative performance of Centerra's share as compared to the S&P/TSX Global Gold Index Return Value during the applicable period.

c. Dividends

Dividends are declared in Canadian dollars and paid in Canadian dollars. At December 31, 2012, dividends payable to Kyrgyzaltyn of $5.9 million was outstanding (see note 28). The details of dividends distribution in 2012 and 2011 are as follows:

(Thousands of US$)		**2012**		2011
Dividends declared (Thousands of US$)	$	**28,187**	$	99,322
Dividends declared (Canadian Dollar per share amount)	$	**0.12**	$	0.10
Special Dividends declared (Canadian Dollar per share amount)		-		0.30
	$	**0.12**	$	0.40

d. Share-Based Compensation

The impact of Share-Based Compensation is summarized as follows:

(Millions of U.S. dollars except as indicated)	Number outstanding	Expense/(Income)		Liability	
	Dec 31/12	**Dec 31/12**	Dec 31/11	**Dec 31/12**	Dec 31/11
(i) Stock options	**1,674,194**	**$ 2.3**	$ 1.8	**$ -**	$ -
(ii) PSUs	**603,126**	**(3.3)**	15.2	**2.3**	33.0
(iii) Annual PSUs	**76,474**	**-**	1.9	**-**	1.9
(iv) Deferred share units	**209,690**	**(2.5)**	(0.7)	**1.9**	6.2
(v) Restricted share units	**112,397**	**0.5**	0.9	**1.0**	0.9
		$ (3.0)	$ 19.1	**$ 5.2**	**$ 42.0**

(Expressed in thousands of United States Dollars)

(i) Stock Options

Centerra has established a stock option plan under which options to purchase common shares may be granted to officers and employees of the Company. Options granted under the plan have an exercise price of not less than the weighted average trading price of the common shares where they are listed for the five trading days prior to the date of the grant. The options issued prior to 2006 vest over five years while options issued in or after 2006 vest over 3 years, except for special grants issued in 2010 and 2012 which vest under terms ranging from 9 months to 2 years. All issued options expire after eight years from the date granted. Options may be granted with a related share appreciation right. In these circumstances, the participant can either elect to receive shares by exercising the stock option or to receive payment in cash equal to the equivalent gain in the stock price. Centerra, at its discretion, can require any holder who has exercised a share appreciation right to exercise their option instead, or can elect to satisfy the cash amount owing upon exercise of a share appreciation right with common shares. There are currently no stock option grants with a share appreciation right outstanding.

A maximum of 18,000,000 common shares are available for issuance upon the exercise of options granted under the plan. Certain restrictions on grants apply, including that the maximum number of shares that may be granted to any individual within a 12-month period can not exceed 5% of the outstanding common shares.

		2012		2011
Average exercise award price for options granted in the year (Cdn $/share)	$	**11.50**	$	18.42
Weighted exercise average price on outstanding options (Cdn $/share)	$	**11.88**	$	12.31

(Expressed in thousands of United States Dollars)

Centerra's stock options transactions during the year were as follows:

	2012		2011	
	Number of Options	**Weighted Average Exercise Price-Cdn$**	Number of Options	Weighted Average Exercise Price-Cdn$
Balance, January 1	**752,448**	**$ 12.31**	903,986	$ 7.45
Granted	**989,953**	**11.50**	318,106	18.42
Cancelled	**(37,455)**	**(16.42)**	-	-
Exercised	**(30,752)**	**(4.81)**	(469,644)	(7.09)
Balance, December 31	**1,674,194**	**$ 11.88**	752,448	$ 12.31

The weighted average share price at the date of exercise for share options exercised in 2012 was $19.56 (2011- $20.07).

The Black-Scholes model was used to estimate the fair value of stock options. In determining the fair value of these employee stock options, the following weighted average assumptions were used for the series issued in 2012:

- On March 6, 2012, Centerra granted 333,861 stock options at an exercise price of Cdn $19.48 per share. The fair value of the stock options was determined using the Black-Scholes valuation model, assuming a weighted average expected life of 3 years, 49.03% historical volatility of the Company's share price, dividend yield of 2.26% and a risk-free rate of return of 1.18%. The resulting weighted average fair value per option granted was Cdn $4.68. The estimated fair value of the options is expensed over their graded vesting periods, which range from 1 year to 3 years.

- On August 14, 2012, Centerra granted 106,092 stock options at an exercise price of Cdn $7.29 per share. The fair value of the stock options was determined using the Black-Scholes valuation model, assuming a weighted average expected life of 3 years, 67.18% historical volatility of the Company's share price, dividend yield of 2.03% and a risk-free rate of return of 1.23%. The resulting weighted average fair value per option granted was Cdn $2.58. The estimated fair value of the options is expensed over their graded vesting periods, which range from 1 year to 3 years.

- On August 14, 2012, Centerra granted 500,000 stock options at an exercise price of Cdn $7.29 per share. The fair value of the stock options was determined using the Black-Scholes valuation model, assuming a weighted average expected life of 2.5 years, 70.89% historical volatility of the Company's share price, dividend yield of 2.03% and a risk-free rate of return of 1.16%. The resulting weighted average fair value per option granted was

(Expressed in thousands of United States Dollars)

Cdn $2.54. The estimated fair value of the options is expensed over their graded vesting periods, which range from 1 year to 2 years.

- On November 19, 2012, Centerra granted 50,000 stock options at an exercise price of Cdn $9.31 per share. The fair value of the stock options was determined using the Black-Scholes valuation model, assuming average expected life of 10 months, 73.89% historical volatility of the Company's share price, dividend yield of 1.87% and a risk-free rate of return of 1.10%. The resulting weighted average fair value per option granted was Cdn $2.47. The estimated fair value of the options is expensed over a ten months period.

The terms of the options outstanding at December 31, 2012 are as follows:

Award Date	Award Price	Expiry date	Number of Options Outstanding	Number of Options Vested
2008	$14.29 (Cdn)	March 18, 2016	**38,030**	**38,030**
2009	$4.81 (Cdn)	February 17, 2017	**265,560**	**265,560**
2010	$14.37 (Cdn)	August 19, 2018 (a)	**100,000**	**100,000**
2011	$18.31 (Cdn)	March 7, 2019	**299,499**	**99,824**
2011	$22.28 (Cdn)	September 14, 2019	**9,107**	**3,034**
2012	$19.48 (Cdn)	March 6, 2020	**314,410**	**-**
2012	$7.29 (Cdn)	August 14, 2020	**102,588**	**-**
2012	$7.29 (Cdn)	August 14, 2020 (a)	**495,000**	**-**
2012	$9.31 (Cdn)	November 19, 2020 (b)	**50,000**	**-**
			1,674,194	**506,448**

(a) These grants have a different vesting schedule whereby 50% vests on the first anniversary and the remaining 50% vest on the secondary anniversary

(b) The grant carries a 100% vesting on the earlier of August 19, 2013 and the achievement of specific objectives

In 2012, $2.3 million ($1.8 million in 2011) of compensation expense was recorded related to stock options.

(Expressed in thousands of United States Dollars)

(ii) Performance share unit plan

Centerra has established a performance share unit plan for employees and officers of the Company. A performance share unit represents the right to receive the cash equivalent of a common share or, at the Company's option, a common share purchased on the market. Performance share units issued before 2010 vest two years after December 31 of the year in which they were granted. Performance share units granted in 2010 and thereafter vest 50% at the end of the year after grant and the remaining 50% the following year. The number of units which will vest is determined based on Centerra's total return performance (based on the preceding sixty-one trading days volume weighted average share price) relative to the S&P/TSX Global Gold Index Total Return Index Value during the applicable period. The number of units that vest is determined by multiplying the number of units granted to the participant by the adjustment factor, which ranges from 0 to 1.5 for units granted before 2010 or 0 to 2.0 for units granted in 2010 and onwards. Therefore, the number of units that will vest and are paid out may be higher or lower than the number of units originally granted to a participant.

In 2010 "special" performance share units were granted in lieu of stock options. The "special" units vest one third at the end of each year of their three-year term and have a fixed adjustment factor of 1.0.

If dividends are paid, each participant will be allocated additional performance share units equal in value to the dividend paid on the number of common shares equal to the number of performance share units held by the participant, based on the sixty-one trading days volume weighted average share price on the date of the dividend.

Centerra's performance share unit plan transactions during the year were as follows:

	2012	2011
Balance, January 1	**1,314,134**	1,528,209
Granted	**227,505**	219,211
Exercised	**(903,534)**	(421,964)
Cancelled	**(34,979)**	(11,322)
Balance, December 31	**603,126**	1,314,134

The Monte Carlo simulated option pricing model was used in estimating the fair value of performance share units that are not vested as at year end. The model requires the use of subjective assumptions, including expected stock-price volatility, risk-free rate of return and forfeiture rate. Historical data has been considered in setting the assumptions. In determining the fair value of these units, the principal assumptions used in applying the Monte Carlo simulated option pricing model were as follows:

(Expressed in thousands of United States Dollars)

		2012		2011
Share price	$	**9.07**	$	20.37
S&P/TSX Global Gold Index	$	**324.18**	$	429.16
Expected life (years)		**1.35**		1.29
Expected volatility- Centerra's share price		**88.0** %		54.1 %
Expected volatility- S&P/TSX Global Gold Index		**29.4** %		33.4 %
Expected dividends		**1.3** %		1.5 %
Risk-free rate of return		**1.6** %		0.4 %
Forfeiture rate		**3.8** %		2.8 %

For the units that are fully vested as at year end, the fair value of the units were determined using the calculated sixty-one trading days volume weighted average share price multiplied by the adjustment factor. In determining the fair value of the vested units, the principal assumptions used were a share price of $10.33 and adjusted factor of 1.04 (December 31, 2011- share price of $20.37 and adjusted factor of 1.53).

The vested number of units outstanding as at December 31, 2012 are 306,328 (December 31, 2011 – 892,262). The intrinsic value of the vested units at December 31, 2012 is $2.3 million (December 31, 2011 – $27.8 million).

At December 31, 2012, the total number of units outstanding (vested and unvested) was 603,126, with a related liability of $2.3 million (December 31, 2011 – 1,314,134, with a related liability of $33.0 million). In 2012, a compensation cost recovery of $3.4 million was recorded on this plan (a charge of $15.2 million in 2011) as a result of a decrease in the market price of the Company's common shares in 2012.

(iii) Annual performance share unit plan

Centerra has established an annual performance share unit plan for eligible employees at its mine sites. A performance share unit represents the right to receive the cash equivalent of a common share or, at the Company's option, a common share purchased on the market. At the start of a year, an eligible employee receives a number of performance share units based on Centerra's preceding sixty-one trading days volume weighted average share price. The number of units which will vest at the end of the same year is determined based on Centerra's total return performance (based on the preceding sixty-one trading days weighted average share price) relative to the S&P/TSX Global Gold Index Total Return Index Value during the applicable period. The number of units that vest is determined by multiplying the number of units granted to the participant by the adjustment factor, which can be as high as a factor of 2.0 or potentially result in no payout. The annual performance share units cannot be converted to shares at the option of the unit holder.

(Expressed in thousands of United States Dollars)

If dividends are paid, each participant will be allocated additional performance share units equal in value to the dividend paid on the number of common shares equal to the number of performance share units held by the participant, based on the sixty-one trading days volume weighted average share price on the date of the dividend.

Centerra's annual performance share unit plan transactions during the year were as follows:

	2012	2011
Balance, January 1	**77,013**	156,571
Granted	**89,654**	96,059
Exercised	**(77,013)**	(159,497)
Cancelled	**(13,180)**	(16,120)
Balance, December 31	**76,474**	77,013

At December 31, 2012, the number of units outstanding and fully vested was 76,474 with a related liability of $ Nil (December 31, 2011– 77,013 with a related liability of $1.9 million). In 2012, compensation cost expense of $ Nil was recorded on this plan ($1.9 million in 2011).

The fair value of the units that are fully vested as at year end was determined using the calculated sixty-one trading day volume weighted average share price multiplied by the adjustment factor. In determining the fair value of the vested units, the principal assumptions used were a share price of $10.33 and weighted average adjusted factor of Nil (December 31, 2011- share price of $20.37 and weighted adjusted factor of 1.17).

(iv) Deferred share unit plan

Centerra has established a deferred share unit plan for Directors of the Company to receive all or a portion of their annual retainer as deferred share units. A similar plan was established to provide compensation in the form of deferred share units to the Company's Vice Chair (the "Vice Chair Deferred Unit Plan") for the duration of the Vice Chair tenure.

Deferred share units are paid in full to a Director and to the Vice Chair no later than December 31 of the calendar year immediately following the calendar year of termination of service. A deferred share unit represents the right to receive the cash equivalent of a common share or, at the Company's option, a common share purchased on the market. Deferred share units vest immediately upon grant. If dividends are paid, each Director and the Vice Chair will be allocated additional deferred share units equal in value to the dividend paid on the number of common shares equal to the number of deferred share units held. The deferred share units cannot be converted to shares at the option of the unit holder.

(Expressed in thousands of United States Dollars)

Centerra's deferred share unit plan transactions during the year were as follows:

	2012	2011
Balance, January 1	**354,516**	344,728
Granted	**12,724**	9,788
Exercised	**(157,550)**	-
Balance, December 31	**209,690**	354,516

At December 31, 2012, the number of units outstanding was 209,690 with a related liability of $1.9 million (December 31, 2011 – 354,516 with a related liability of $6.2 million). In 2012, a compensation cost recovery of $2.4 million was recorded on this plan (recovery of $0.7 million in 2011) as a result of a decrease in the market price of the Company's common shares in 2012.

(v) Restricted share unit plan

Effective as of January 7, 2011, Centerra established a restricted share unit plan for non-executive Directors and designated employees of the Company to receive all or a portion of their annual retainer and salaries as restricted units.

The restricted share units vest immediately upon grant and are redeemed on a date chosen by the participant (subject to certain restrictions as set out in the plan). A restricted share unit represents the right to receive the cash equivalent of a common share or, at the holder's option, a common share issued from the Company's treasury. The plans reserves 1,000,000 shares for issuance. If dividends are paid, each participant will be allocated additional restricted share units equal in value to the dividend paid on the number of common shares equal to the number of restricted share units held.

Centerra's restricted share unit plan transactions during the year were as follows:

	2012	2011
Balance, January 1	**49,659**	-
Granted	**94,737**	55,422
Exercised	**(31,999)**	(5,763)
Balance, December 31	**112,397**	49,659

At December 31, 2012, the number of units outstanding was 112,397 with a related liability of $1.0 million and expense of $0.5 million (December 31, 2011- 49,659 units with a related liability and expense of $0.9 million).

(Expressed in thousands of United States Dollars)

27. Commitments and Contingencies

Commitments

As at December 31, 2012, the Company had entered into contracts to purchase capital equipment and operational supplies totalling $98.3 million (Kumtor $97.9 million and Boroo $0.4 million).. These commitments are expected to be settled over the next twelve months.

Leases

The Company enters into operating leases in the ordinary course of business, primarily for its various offices and facilities around the world. Payments under these leases represent contractual obligations as scheduled in each agreement. The significant operating lease payments, including operating costs, are for its corporate offices in Toronto and in the current year 2012 were $0.7 million (2011 - $0.7 million). The future aggregate minimum lease payments for the non-cancellable operating lease of the Toronto Corporate office are as follows:

(Thousands of US$)		**2012**		2011
2012	$	**-**	$	398
2013		**401**		401
2014		**438**		438
2015		**478**		478
2016		**478**		478
	$	**1,795**	$	2,193

Contingencies

Kyrgyz Republic

(a) *Kyrgyz Republic State Commission Report*

In 2012, Kyrgyz Government established a state commission for the purpose of inspecting and reviewing Kumtor's compliance with Kyrgyz operational and environmental laws and regulations and community standards (the "State Commission"). The following developments have occurred:

(i) State Commission Report

In December 2012, the State Commission issued its final report (the "State Commission Report"), following five months of study and several visits to the Kumtor mine site, and over 120 written requests for information on a wide variety of matters going back to 1993 when the original agreement regarding the Kumtor Project was executed. The State Commission was comprised of three working groups with responsibility for environmental and technical matters, legal matters (including a review of all prior and current agreements relating to the Kumtor Project), and social-economic matters (including a review of financial, taxation, procurement and employment-related matters).

The State Commission Report includes a large number of allegations in regard to prior transactions relating to the Kumtor Project and the Kumtor Project's operations and management.

The State Commission Report recommends that the Kyrgyz Government open negotiations 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. The State Commission Report also recommends 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 Company received the final copy of the State Commission Report on January 18, 2013. Subsequently, the Kyrgyz Government received the State Commission Report and issued a decree, Decree of the Kyrgyz Government dated January 24, 2013, #34 ("Decree #34"), accepting the State Commission Report and sending it to the Kyrgyz Parliament. 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.

The Company believes that the conclusions and claims in the State Commission Report are exaggerated or without merit. The Company has responded in detail in writing to such conclusions and claims. The Company believes that the agreements entered into in 2009 governing the Kumtor Project (the "Kumtor Project Agreements") are legal, valid and enforceable obligations. The Kumtor Project Agreements were reviewed and approved by the Kyrgyz Republic Government and the Kyrgyz Republic Parliament, and were the subject of a positive decision of the Kyrgyz Republic Constitutional Court and a legal opinion by the Kyrgyz Republic Ministry of Justice.

The Company intends to meet with the working group and other Kyrgyz Government officials, with the objective of resolving matters through constructive dialogue. However, there can also be no assurance that such discussions will result in a successful outcome for the Company, or that the Kyrgyz Government will not take actions that are inconsistent with its obligations under the Kumtor Project Agreements or cancel government decrees, orders or licenses under which the Kumtor Project currently operates. Any such actions could have a material adverse impact on the Company's future cash flows, earnings, results of operations and financial conditions.

(ii) Claims from Kyrgyz Authorities for Alleged Environmental Violations

Kumtor received in mid-December 2012, five claims from the SIETS for alleged environmental violations. The claims are for an aggregate amount of approximately $152 million, including (i) a claim for approximately $142 million for alleged damages in relation to the placement on waste dumps of waste rock (unprocessed rock) from mining operations for the period from 2000 to 2011; (ii) a claim for approximately $4 million for use of water resources from Petrov Lake for the period of 2000 to 2011; and (iii) a claim for approximately $2.3 million for alleged damages caused to land resources, including in some cases from the time of initial construction of the Kumtor facilities in 1995. One claim for $2.8 million for waste placed in the tailings management facilities and for emissions for 2009-2011 was withdrawn after discussions with the applicable Kyrgyz regulatory authorities, although there are no assurances that further claims will not be issued on this matter. The claims reference the review of the Kumtor Project carried out by the environmental and technical working group of the State Commission. Kumtor disagrees with these claims and has responded to them in detail in writing to the relevant authority. Centerra believes that the Kumtor Project operates in compliance with Kyrgyz laws on environmental, safety and health standards and that Kumtor has good defenses against these claims under Kyrgyz law and the Project Agreements, which were reviewed and approved by all relevant Kyrgyz governmental authorities, including the Kyrgyz Government, Parliament and the Constitutional Court, and subject to a legal opinion by the Kyrgyz Republic Ministry of Justice. While the Company believes that such claims are exaggerated or without merit, there can be no assurances that these claims will be successfully resolved in favour of the Company or that further claims will not be issued.

(iii)Decree #168

The Government cancelled, on July 5, 2012, Government Decree #168, which provided Kumtor with land use (surface) rights over the Kumtor concession area for the duration of the Restated Concession Agreement. Correspondingly, the related land use certificate issued by the local land office was also cancelled. 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 such legislation 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 Kumtor's land use rights are considered invalid (which the Company does not accept), the Company would seek to enforce its rights under the Restated Investment Agreement to obtain the rights otherwise guaranteed to it.

(b) Kyrgyz Republic Social Fund Dispute

The Social Fund commenced a claim in the Kyrgyz courts to invalidate documentary acts (assessments) issued by the Social Fund for the years 2004-2009. Preliminary motions regarding jurisdictional matters were argued on August 28, 2012 and subsequently determined in favour of Kumtor. Such decision was appealed by the Social Fund to the Bishkek City Court, which dismissed the appeal of the Social Fund on November 28, 2012. In early February 2013, the Social Fund appealed this decision of the Bishkek City Court to the Kyrgyz Republic Supreme Court.

In addition to the court claim commenced by the Social Fund, the Company also received notices from the Social Fund in July 2012 alleging (i) the illegality of an August 23, 1994 agreement between the Social Fund and Kumtor Operating Agreement, which if found invalid, could require Kumtor to pay Social Fund contributions for all expatriate employees for the period from February 15, 1993 to date (subject to the application of Kyrgyz limitation periods and the terms of a release agreement entered into between the Government and KOC (among others) dated June 6, 2009); and (ii) that Kumtor should make Social Fund contributions on high altitude premiums paid to all Kumtor employees before 2010.

The Company does not believe it is likely that the Social Fund will be successful in its claims. However, there are no assurances that the Company and Kumtor will be able to resolve the outstanding matters relating to the Social Fund without any material impact on the Company's future cash flows, earnings, results of operations and financial condition.

Mongolia

Gatsuurt and the Impact of the Mongolian Water and Forest Law

The Mongolian Parliament enacted in July 2009 the Mongolian Law to Prohibit Mineral Exploration and Mining Operations at River Headwaters, Protected Zones of Water Reservoirs and Forested Areas (the "Water and Forest Law") which prohibits mineral prospecting, exploration and mining in water basins and forestry areas in Mongolia. The law provides for a specific exemption for "mineral deposits of strategic importance", which exempts the Boroo hard rock deposit from the application of the law. Centerra's Gatsuurt licenses are currently not exempt. Under the Mineral Laws of Mongolia, Parliament on its own initiative or, on the recommendation of the Mongolian Government, may designate a mineral deposit as strategic. Such designation could result in Mongolia receiving up to a 34% interest in the applicable project.

Centerra is currently in discussions with the Mongolian Government regarding the development of the Gatsuurt property. Centerra is reasonably confident that the economic and development benefits resulting from its exploration and development activities will ultimately result in the Water and Forest Law having a limited impact on the Gatsuurt property, in particular, and other Company's Mongolian activities including ATO. There can be no assurance, however, that this will be the case. Unless the Water and Forest Law is repealed or amended such that the law no longer applies to the Gatsuurt project or Gatsuurt is designated as a "mineral deposit of strategic importance" that is exempt from the Water and Forest Law, mineral reserves at Gatsuurt may have to be reclassified as mineral resources or eliminated entirely and the Company may be required to write-off the associated investment in Gatsuurt and Boroo.

As at December 31, 2012, the Company had net assets recorded amounting to approximately $37 million related to the investment in Gatsuurt and approximately $28 million remaining capitalized for the Boroo mill facility and other surface structures which are expected to be utilized for the processing of ore from Gatsuurt. Although the Company expects to exploit the Gatsuurt deposit, should this not be the case, the Company would be required to write-off these amounts. A revocation of the Company's mineral licenses, including the Gatsuurt mineral license, or the reclassification of mineral reserves or the write-off of assets could have an adverse impact on Centerra's future cash flows, earnings, results of operations or financial condition.

Corporate

Enforcement Notice by Sistem:

During 2011, Centerra was served by a Turkish company, Sistem Muhenkislik Insaat Sanayi Ticaret SA ("Sistem"), with a notice of enforcement to seize any shares and dividends in Centerra held in the name of the Kyrgyz Republic, followed by a notice of garnishment in April 2011 for any debts owed by Centerra to the Kyrgyz Republic. These notices were served by Sistem as part of the enforcement proceedings brought by Sistem in the Ontario Superior Court to collect approximately US$11 million with additional interest, owed to Sistem by the Kyrgyz Republic in accordance with a judgment of the Ontario Superior Court enforcing an international arbitration award against the Kyrgyz Republic. In these Ontario proceedings, Sistem alleges that the shares in Centerra owned by Kyrgyzaltyn and any dividends paid in respect of those shares, are in fact legally and beneficially owned by the Kyrgyz Republic and are therefore subject to execution to pay the judgment.

Based on legal advice received, Centerra disputes those allegations and paid to Kyrgyzaltyn its portion of Centerra dividends payable on May 18, 2011 (approximately C$31 million) and on May 31, 2012 (approximately C$3 million). Sistem is continuing with its claim regarding the Centerra shares owned by Kyrgyzaltyn. If this claim is successful in the Ontario court proceedings, Sistem may have a right to execute its judgment against those shares and may assert a claim against Centerra in respect of the payment of the dividends to Kyrgyzaltyn. However, Centerra believes it has a strong defense to that claim based on the facts and the law.

Preliminary motions regarding jurisdictional matters have been heard in the Ontario Superior Court over the course of 2012, with the objective of setting aside the Ontario judgment enforcing the arbitration award. The lower court decision found in favour of Sistem and dismissed the motion. Kyrgyzaltyn appealed such decision to the Court of Appeal where it was not successful. At this point, the matter can either be appealed further by Kyrgyzaltyn or the trial on the substantive issue will commence.

Pursuant to a Ontario court decision dated September 5, 2012 (the "Court Order"), Centerra is required to hold in trust to the credit of the Sistem court proceeding, Kyrgyzaltyn's portion of dividends payable on shares of Centerra, up to a maximum of C$11.2 million. The Court Order has been put in place until the resolution of the court proceedings. To date, Centerra is holding in trust for the credit of the Sistem court proceedings, an amount equal to $5.9 million. The Court Order also places certain restrictions on 4 million of the Centerra shares held by Kyrgyzaltyn, including restrictions on the transfer or encumbrance of such shares. The Centerra shares pledged by Kyrgyzaltyn to Kumtor Gold Company and Kumtor Operating Company as security for payments due from Kyrgyzaltyn under the Restated Gold and Silver Sale Agreement dated as of June 6, 2009 are not subject to the Court Order restrictions.

(Expressed in thousands of United States Dollars)

28. Related Party Transactions

a. 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 and concession payments paid and accrued by Kumtor Gold Company ("KGC"), a subsidiary of the Company, to Kyrgyzaltyn and the amounts paid and accrued by Kyrgyzaltyn to KGC according to the terms of a Restated Gold and Silver Sale Agreement between KGC, Kyrgyzaltyn and the Government of the Kyrgyz Republic dated June 6, 2009.

The breakdown of the sales transactions and expenses with Kyrgyzaltyn are as follows:

(Thousands of U.S. Dollars)		**2012**		2011
Management fees to Kyrgyzaltyn	**$**	**315**	$	599
Gross gold and silver sales to Kyrgyzaltyn	**$**	**535,437**	$	944,020
Deduct: refinery and financing charges		**(1,883)**		(2,947)
Net sales revenue received from Kyrgyzaltyn	**$**	**533,554**	$	941,073

Dividend

(Thousands of U.S. Dollars)		**2012**		2011
Dividends declared to Kyrgyzaltyn	**$**	**5,949**	$	29,412

(Expressed in thousands of United States Dollars)

Related party balances

The assets and liabilities of the Company include the following amounts with Kyrgyzaltyn:

(Thousands of U.S. Dollars)		**2012**		**2011**
Prepaid amounts	**$**	**-**	$	143
Amounts receivable (note 7)		**48,325**		47,366
Total related party assets	**$**	**48,325**	$	47,509
Dividend payable (net of withholding taxes)	**$**	**5,949**	$	-
Total related party liabilities	**$**	**5,949**	$	-

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 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.

Dividend payable and restricted cash held in trust

Pursuant to an Ontario court decision dated September 5, 2012, Kyrgyzaltyn’s portion of the Centerra dividend declared on August 1, 2012 and November 7, 2012 of $6.3 million net of withholding taxes of $0.4 million ($5.9 million net) is held in trust to the credit of the Sistem court proceedings (see note 6).

The dividend payable and restricted cash held in trust have been classified as long-term since the timing of the resolution of the court proceedings is unknown.

b. Transactions with Directors and Key Management

The Company transacts with key individuals from management and with its directors who have authority and responsibility to plan, direct and control the activities of the Company. The nature of these dealings were in the form of payments for services rendered in their capacity as director (director fees, including share-based payments) and as employees of the Company (salaries, benefits and share-based payments).

(Expressed in thousands of United States Dollars)

Key management personnel are defined as the executive officers of the Company including the President and Chief Executive Officer, Vice President and Chief Financial Officer, Vice President and Chief Operating Officer, Vice President Global Exploration, General Counsel and Corporate Secretary, Vice President Business Development and Vice President Human Resources.

During 2012 and 2011, remuneration to directors and key management personnel were as follows:

Compensation of Directors

(Thousands of U.S. Dollars)		2012		2011
Fees earned and other compensation	**$**	**1,027**	$	1,055
Share-based compensation (recovery)		**(2,880)**		544
Total expensed (recovery)	**$**	**(1,853)**	$	1,599

Fees earned and other compensation
These amounts represent fees paid to the non-executive chairman and the non-executive directors during the financial year.

Share-based compensation
A portion of the directors' compensation is settled with the Company's share-based payment plans (Deferred Share Unit plan and Restricted Share Unit plan) according to the election of the directors.

The Deferred Share Unit and Restricted Share Unit amounts granted to directors represent the intended value to settle the compensation obligations owed by the Company in satisfaction of the directors' election. The Deferred Share Unit and Restricted Share Unit plans in which the directors participate are discussed in note 26.

Compensation of Key Management Personnel

Compensation of key management personnel comprised:

(Thousands of U.S. Dollars)		2012		2011
Salaries and benefits	**$**	**5,236**	$	5,462
Share-based compensation (recovery)		**(724)**		9,221
Total expensed	**$**	**4,512**	$	14,683

Salaries and benefits
These amounts represent salary, supplementary executive retirement plan contributions, and benefits earned during the year, plus cash bonuses awarded for the year.

(Expressed in thousands of United States Dollars)

Share-based compensation
This is the recognized cost to the Company of senior management's participation in share-based payment plans, as measured by the fair value of options and performance share units granted, accounted for in accordance with IFRS 2 '*Share-based Payments*'. The main plans in which senior management have participated are the stock options plan and PSU plan. For details of these plans refer to note 26.

29. Capital Management

The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to maintain its ongoing operations, to provide returns for shareholders and benefits for other stakeholders and to pursue growth opportunities. To secure additional capital to pursue these plans, the Company may attempt to raise additional funds through borrowing and/or the issuance of equity or debt. In 2012, the Company borrowed $76 million under the revolving credit facility (see note 15).

The Company's capital structure consists of short-term debt (net of cash and cash equivalents and short-term investments) and shareholders' equity, comprising issued common shares, contributed surplus and retained earnings as shown below:

(Thousands of U.S. Dollars)		**2012**		**2011**
Short-term debt	**$**	**76,000**	$	-
Cash and cash equivalent		**(334,115)**		(195,539)
Short-term investments		**(47,984)**		(372,667)
Net assets		**(306,099)**		(568,206)
Shareholders' equity		**1,328,826**		1,538,459
Total invested capital	**$**	**1,022,727**	$	970,253

The Company is bound by certain covenants stipulated in the revolving credit facility. These covenants place restrictions on total debt, dividend payments, and set threshold parameters for certain financial ratios. As at December 31, 2012 and December 31, 2011 the Company was in compliance with these requirements.

30. Financial Instruments

The Company has various financial instruments comprised of cash and cash equivalents, short-term investments, restricted cash, amounts receivables, a reclamation trust fund, short-term debt, accounts payable and accrued liabilities.

The estimated fair values of certain financial instruments have been determined using available market information or other valuation methodologies that require considerable judgement in interpreting market data and developing estimates. Cash and cash equivalents, short-term investments, restricted cash and reclamation trust fund are classified as financial assets carried at fair value through profit or loss and amounts receivable are classified as "Loans and Receivables", which is measured at amortized cost.

Cash and cash equivalents consist of cash on hand, with financial institutions, invested in term deposits, treasury bills, banker's acceptances and corporate direct credit with original maturities of three months or less. Short-term investments consist of investments in term deposits, treasury bills, banker's acceptances, bearer's deposit notes and corporate direct credit with original maturities of more than three months but less than twelve months. Fair values of the cash equivalents and short-term investments are determined directly by reference to published price quotations in an active market at the reporting date.

The fair value of amounts receivable approximates to the carrying value due to the short-term nature of the receivables.

The Company has a credit facility available with the EBRD whereby borrowings bear interest at a fixed premium over the variable London Interbank Offered Rate ("LIBOR"). The fair value of borrowings under this facility approximate their carrying amount given the floating component of the interest rate.

Classification of the financial assets and liabilities in the statement of financial position were as follows:

(Expressed in thousands of United States Dollars)

December 31, 2012

(Thousands of US$)	Loans and receivables	Other financial liabilities	Assets/liabilities at fair value through earnings
Financial Assets			
Cash and cash equivalents	$ -	$ -	$ **334,115**
Short-term investments	-	-	**47,984**
Restricted cash	-	-	**6,087**
Amounts receivable	**75,338**	-	-
Reclamation trust fund	-	-	**11,328**
Long-term receivables	**263**	-	-
	$ **75,601**	$ -	$ **399,514**
Financial Liabilities			
Accounts payable and accrued liabilities	$ -	$ **58,703**	$ -
Short-term debt	-	**76,000**	-
	$ -	$ **134,703**	$ -

December 31, 2011

(Thousands of US$)	Loans and receivables	Other financial liabilities	Assets/liabilities at fair value through earnings
Financial Assets			
Cash and cash equivalents	$ -	$ -	$ 195,539
Short-term investments	-	-	372,667
Restricted cash	-	-	179
Amounts receivable	56,749	-	-
Reclamation trust fund	-	-	9,081
Long-term receivables	4	-	-
	$ 56,753	$ -	$ 577,466
Financial Liabilities			
Accounts payable and accrued liabilities	$ -	$ 35,790	$ -
	$ -	$ 35,790	$ -

(Expressed in thousands of United States Dollars)

IFRS 7 *Financial Instruments – Disclosures,* requires that an explanation be provided about how fair value is determined for assets and liabilities measured in the financial statements at fair value and establishes a hierarchy for which of these assets and liabilities must be grouped based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's assumptions. These two types of inputs create the following fair value hierarchy:

Level 1: observable inputs such as quoted prices in active markets;

Level 2: inputs, other than the quoted market prices in active markets, which are observable, either directly and/or indirectly; and

Level 3: unobservable inputs for the asset or liability in which little or no market data exists, therefore require an entity to develop its own assumptions.

The following table summarizes the fair value measurement by level at December 31, 2012, and December 31, 2011 for assets and liabilities measured at fair value on a recurring basis:

	December 31, 2012		**December 31, 2011**	
(Thousands of US$)	**Level 1**	**Level 2**	**Level 1**	**Level 2**
Financial Assets				
Cash and cash equivalents	$ **334,115**	$ -	$ 195,539	$ -
Short-term investments	**47,984**	-	372,667	-
Restricted cash	**6,087**	-	179	-
Reclamation trust fund	**11,328**	-	9,081	-
	$ **399,514**	$ -	$ 577,466	$ -
Financial Liabilities				
Cash settled share-based compensation liabilities	$ -	$ **5,235**	$ -	$ 41,974
	$ -	$ **5,235**	$ -	$ 41,974

31. Financial Risk Exposure and Risk Management

The Company is exposed in varying degrees to certain financial risks by virtue of its activities. The overall financial risk management program focuses on preservation of capital, and protecting current and future Company assets and cash flows by reducing exposure to risks posed by the uncertainties and volatilities of financial markets.

The Board of Directors has a responsibility to ensure that an adequate financial risk management policy is established and to approve the policy. Financial risk management is carried out by the Company's Treasury department under a policy approved by the Board of Directors. The Treasury department identifies and evaluates financial risks, establishes controls and procedures to ensure financial risks are mitigated in accordance with the approved policy and programs, and risk management activities comply thereto.

The Company's Audit Committee oversees management's compliance with the Company's financial risk management policy, approves financial risk management programs, and receives and reviews reports on management compliance with the policy and programs. The Internal Audit department assists the Audit Committee in undertaking its oversight of financial risk management controls and procedures, the results of which are reported to the Audit Committee.

The types of risk exposure and the way in which such exposures are managed are as follows:

a. Currency Risk

As the Company operates in an international environment, some of the Company's financial instruments and transactions are denominated in currencies other than the U.S. Dollar. The results of the Company's operations are subject to currency transaction risk. The operating results and financial position of the Company are reported in U.S. Dollars in the Company's consolidated financial statements.

The fluctuation of the U.S. Dollar in relation to other currencies will consequently have an impact upon the profitability of the Company and may also affect the value of the Company's assets and the amount of shareholders' equity.

The Company either makes purchases in foreign currencies at the prevailing spot price to fund corporate activities or enters into short-term forward contracts to purchase Canadian Dollars or Euros. During the year ended December 31, 2012, Cdn $76.5 million and Euro 29.0 million of such forward contracts were executed (December 31, 2011 - Cdn $111.7 million and Euro 8.0 million). There were no outstanding Cdn forward contracts and no outstanding Euro contracts outstanding at December 31, 2012 (December 31, 2011 - no outstanding Cdn forward contracts and Euro 2 million contracts).

The exposure of the Company's financial assets and liabilities to currency risk is as follows:

(Expressed in thousands of United States Dollars)

December 31, 2012

(Thousands of US$)	Kyrgyz Som	Mongolian Tugrik	Canadian Dollar	Russian Rubles	European Euro	Turkish Lira	Australian Dollar
Financial Assets							
Cash and cash equivalents	$ **157**	$ **559**	$ **15,545**	$ **389**	$ **5,398**	$ **76**	$ **-**
Restricted cash	**148**	**2**	**-**	**-**	**-**	**-**	**-**
Amounts receivable	**261**	**7,317**	**216**	**137**	**590**	**54**	**-**
	$ 566	**$ 7,878**	**$ 15,761**	**$ 526**	**$ 5,988**	**$ 130**	**$ -**
Financial Liabilities							
Accounts payable and accrued liabilities	$ **19,956**	$ **5,435**	$ **12,307**	$ **28**	$ **106**	$ **531**	$ **164**
	$ 19,956	**$ 5,435**	**$ 12,307**	**$ 28**	**$ 106**	**$ 531**	**$ 164**

December 31, 2011

(Thousands of US$)	Kyrgyz Som	Mongolian Tugrik	Canadian Dollar	Russian Rubles	European Euro	Turkish Lira	Australian Dollar
Financial Assets							
Cash and cash equivalents	$ 650	$ 684	$ 32,572	$ 50	$ 6,313	$ 15	$ -
Short-term investments	-	-	4,758	-	-	-	-
Restricted cash	-	179	-	-	-	-	-
Amounts receivable	132	2,093	616	125	173	29	-
	$ 782	$ 2,956	$ 37,946	$ 175	$ 6,486	$ 44	$ -
Financial Liabilities							
Accounts payable and accrued liabilities	$ 10,077	$ 7,862	$ 251	$ 254	$ 843	$ 16	$ -
	$ 10,077	$ 7,862	$ 251	$ 254	$ 843	$ 16	$ -

A strengthening of the U.S. Dollar by 10% against the Canadian Dollar, the Kyrgyz Som, the Turkish Lira, the Russian Ruble, the European Euro and the Mongolian Tugrik at December 31, 2012, with all other variables held constant would have led to additional income before tax of $0.8 million (2011 - $2.9 million) as a result of a change in value of the financial assets and liabilities denominated in those currencies.

b. Interest Rate Risk

Interest rate risk is the risk borne by an interest-bearing asset or liability as a result of fluctuations in interest rates.

Financial assets and financial liabilities with variable interest rates expose the Company to risk of changes in cash flow as a result of the change in interest rate. The Company's cash and cash equivalents and short-term investments include highly liquid investments that earn interest at market rates. As of December 31, 2012, the majority of the $382.1 million in cash and cash equivalents and short-term investments (December 31, 2011- $568.2 million) were comprised of interest-bearing assets. Based on amounts as at December 31, 2012, a 100 basis point change in interest rates would change net annual interest income by approximately $3.8 million (2011 - $4.4 million).

In addition, the interest on the $76 million short-term debt includes a variable rate component pegged to the London Interbank Offer Rate, or LIBOR. Based on the amount drawn as at December 31, 2012, a 100 basis point change in LIBOR would change net annual interest expenses by approximately $0.8 million (2011 - nil).

Although the Company endeavours to maximize the interest income earned on excess funds, the Company's policy focuses on cash preservation, while maintaining the liquidity necessary to conduct operations on a day-to-day basis. The Company's policy limits the investing of excess funds to liquid term deposits, treasury bills, banker's acceptances, bearer's deposit notes and corporate direct credit having a single "A" rating or greater.

c. Concentration of Credit Risk

Credit risk is the risk of a financial loss to the Company if a gold sales customer or counterparty to a financial instrument fails to meet its contractual obligation. Credit risk arises principally from the Company's receivables from customers, deposits and short-term investments.

The Company's exposure to credit risk, in respect of gold sales, is influenced mainly by the individual characteristics of each customer. The Company's revenues are directly attributable to sales transactions with three customers. Boroo sells the gold and silver content of its doré to Auramet Trading, LLC or Johnson Matthey Limited. The sales of gold and silver are governed by a Master Purchase Contract with Auramet Trading, LLC, and a Gold Doré Refining Agreement with Johnson Matthey Limited's North American precious metals division. Kyrgyzaltyn LLC, a state-owned company that operates a refinery in the Kyrgyz Republic, is Kumtor's sole customer and is a shareholder of Centerra.

To partially mitigate exposure to potential credit risk related to Kumtor sales, the Company has an agreement in place whereby Kyrgyzaltyn has pledged 2,850,000 of Centerra common shares it owns as security against unsettled gold shipments, in the event of default on payment (note 28).

Based on movements of Centerra's share price, and the value of individual or unsettled gold shipments, over the course of 2012, the maximum exposure during the year, reflecting the shortfall in the value of the security as compared to the value of any unsettled shipments, was approximately $56.7 million.

The Company manages counterparty credit risk, in respect of 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 issues that can be promptly liquidated.

At December 31, 2012, 21% of cash and cash equivalents were held with Bank of Nova Scotia, 13% each held in bonds issued by the Provinces of Quebec and Ontario. Another 23% were held with various other U.S. and foreign banks. This 41% of liquid assets held includes not only cash in operating bank accounts, but also term deposits and other investments where the bank is the counterparty. The remainder of the assets were held in government and agency securities, and highly-rated corporate direct credit issues.

d. Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company manages its liquidity risk by ensuring that there is sufficient capital to meet short and long-term business requirements, after taking into account cash flows from operations and the Company's holdings of cash and cash equivalents and short-term investments. In addition, $74 million of the credit facility financing remains available. The Company believes that these sources will be sufficient to cover its anticipated short and long-term cash requirements.

At December 31, 2012, the Company had cash and cash equivalents and short-term investments totaling $382.1 million (2011- $568.2 million). A maturity analysis of the Company's financial liabilities, contractual obligations, other fixed operating commitments and capital commitments is set out below:

(Expressed in thousands of United States Dollars)

(Millions of US$)	Total	Due in Less than One year	Due in 1 to 3 Years	Due in 4 to 5 Years	Due in After 5 Years
Account payable and accrued liabilities	$ **63.9**	$ **63.9**	**$ -**	**$ -**	**$ -**
Short-term debt	**76.0**	**76.0**	**-**	**-**	**-**
Reclamation trust deed	**25.7**	**2.2**	**7.4**	**5.0**	**11.1**
Capital equipment	**28.9**	**28.9**	**-**	**-**	**-**
Operation supplies	**69.4**	**69.4**	**-**	**-**	**-**
Lease of premises[(a)]	**2.6**	**0.6**	**1.5**	**0.5**	**-**
Total contractual obligations	**$ 266.5**	**$ 241.0**	**$ 8.9**	**$ 5.5**	**$ 11.1**

a) Includes leases for the Company's offices in Toronto, Canada, Bishkek, Kyrgyzstan and Ulaanbaatar, Mongolia.

The Company has sufficient cash and cash equivalents and short-term investments to meet its current obligations.

e. Commodity Price Risk

The value of the Company's revenues and mineral resource properties is related to the price of gold, and the outlook for this mineral. Adverse changes in the price of certain raw materials can also significantly affect the Company's cash flows.

Gold prices historically have fluctuated widely and are affected by numerous factors outside of the Company's control, including, but not limited to, industrial and retail demand, central bank reserves management, forward sales by producers and speculators, levels of worldwide production, short-term changes in supply and demand due to speculative or hedging activities, macro-economic variables, and certain other factors related specifically to gold.

The profitability of the Company's operations is highly correlated to the market price of gold. To the extent that the price of gold increases over time, the fair value of the Company's mineral assets increases and cash flows will improve; conversely, declines in the price of gold will reduce the fair value of mineral assets and cash flows. A protracted period of depressed prices could impair the Company's operations and development opportunities, and significantly erode shareholder value.

To the extent there are adverse changes to the price of certain raw materials (e.g. diesel fuel), the Company's profitability and cash flows may be impacted.

If the world market price of gold was to drop and the prices realized by the Company on gold sales were to decrease by 10%, based on the number of ounces in inventory as at December 31, 2012, the Company's profitability and cash flow, after adjusting for any remaining conversion costs not yet incurred, would be negatively affected by an additional loss before tax of $75.1 million (2011 - $52.2 million).

The Company does not enter into any financial instruments to mitigate commodity price risk.

(Expressed in thousands of United States Dollars)

32. Supplemental cash flow disclosure

a. Changes in operating working capital

(Thousands of U.S. Dollars)		2012		2011
(Increase) decrease in amounts receivable	**$**	**(18,589)**	$	43,813
(Increase) decrease in inventory- ore and metal		**10,226**		(55,521)
(Increase) decrease in inventory- supplies		**(19,294)**		(42,790)
Increase in prepaid expenses		**(22,481)**		(4,615)
Increase (decrease) in accounts payable and accrued liabilities		**(12,445)**		5,475
Increase (decrease) in revenue-based tax payable		**3,465**		(10,311)
Reduction (increase) in depreciation and amortization included in inventory (note 10)		**35,036**		18,564
Reduction (increase) in accruals included in additions to PP&E		**10,138**		1,235
De-recognition of underground inventory- supplies		**(13,962)**		-
Accrued interest excluded from accrued liabilities		**(713)**		-
Reclassification of prepaid revenue - based tax from prepaid		**30,000**		-
Reclassification of other taxes payable from income taxes payable		**212**		-
	$	**1,593**	$	(44,150)

b. Investment in property, plant and equipment (PP&E)

(Thousands of U.S. Dollars)		2012		2011
Additions to PP&E during the year ended December 31, (note 10)	**$**	**(409,488)**	$	(208,489)
Impact of revision to asset retirement obligation included in PP&E (note 17)		**(1,129)**		15,942
Depreciation and amortization included in additions to PP&E (note 10)		**54,332**		18,627
Increase in accruals included in additions to PP&E		**(10,138)**		(1,235)
	$	**(366,423)**	$	(175,155)

33. Subsequent event

On January 24, 2013, the Company purchased the remaining 30% interest in the Öksüt Gold Project, located in central Turkey, from Stratex International Plc. With the closing, the Company became the sole owner of the Öksüt Gold Project and assumed operatorship and 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.

34. Segmented Information

In accordance with IFRS 8, *Operating Segments*, the Company's operations are segmented on a regional basis and are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The Chief Executive Officer has authority for resource allocation and assessment of the Company's performance and is therefore the CODM. Information presented in the table below is shown at the level at which it is review by the CODM in his decision making process.

The Kyrgyz Republic segment involves the operations of the Kumtor Gold project and local exploration activities, and the Mongolian segment involves the operations of the Boroo Gold project, activities related to the Gatsuurt project and local exploration activities. The Corporate and other segment involve the head office located in Toronto and other international exploration projects. The segments' accounting policies are the same as those described in the summary of significant accounting policies in the Company's 2012 annual financial statements except that inter-company loan interest income and expenses, which eliminate on consolidation, are presented in the individual operating segments where they are generated when determining earnings or loss from operations.

Geographic Segmentation of Revenue

The Company's only product is gold doré, produced from mines located in the Kyrgyz Republic and Mongolia. All production from the Kumtor Gold project is sold to the Kyrgyzaltyn refinery in the Kyrgyz Republic while production from the Boroo Gold project is sold to Auramet Trading, LLC or Johnson Matthey Limited; the latter also refines the gold for Boroo at its refinery located in Ontario, Canada.

The following table reconciles segment operating profit per the reportable segment information to operating profit per the consolidated statements of earnings (loss) and comprehensive income (loss).

(Expressed in thousands of United States Dollars)

Year ended December 31, 2012

(Millions of U.S. Dollars)	Kyrgyz Republic	Mongolia	Corporate and other	Total
Revenue from Gold Sales	$ **533.5**	$ **127.2**	$ **-**	$ **660.7**
Cost of sales	**311.1**	**76.4**	**-**	**387.5**
Abnormal mining costs	**60.9**	**-**	**-**	**60.9**
Mine standby costs	**4.6**	**-**	**-**	**4.6**
Regional office administration	**15.5**	**5.5**	**-**	**21.0**
Earnings from mine operations	**141.4**	**45.3**	**-**	**186.7**
Revenue based taxes	**74.7**	**-**	**-**	**74.7**
Other operating expenses	**31.8**	**2.5**	**-**	**34.3**
Loss on de-recognition of underground assets	**180.7**	**-**	**-**	**180.7**
Exploration and business development	**11.8**	**10.0**	**16.7**	**38.5**
Corporate administration	**1.8**	**0.2**	**25.0**	**27.0**
Earnings (loss) from operations	**(159.4)**	**32.6**	**(41.7)**	**(168.5)**
Other (income) and expenses				**(0.2)**
Finance costs				**4.0**
Loss before income taxes				**(172.3)**
Income tax expense				**11.7**
Net loss and comprehensive loss				**$ (184.0)**
Capital expenditure for the year	**$ 399.9**	**$ 10.2**	**$ 0.5**	**$ 410.6**
Goodwill	**$ 129.7**	**$ -**	**$ -**	**$ 129.7**
Assets (excluding Goodwill)	**$ 889.2**	**$ 346.3**	**$ 188.9**	**$ 1,424.4**

Year ended December 31, 2011

(Millions of U.S. Dollars)	Kyrgyz Republic	Mongolia	Corporate and other	Total
Revenue from Gold Sales	$ 941.1	$ 79.2	$ -	$ 1,020.3
Cost of sales	332.6	49.7	-	382.3
Mine standby costs	-	0.2	-	0.2
Regional office administration	15.3	6.0	-	21.3
Earnings from mine operations	593.2	23.3	-	616.5
Revenue based taxes	131.8	-	-	131.8
Other operating expenses	11.5	3.9	-	15.4
Exploration and business development	13.6	11.4	17.9	42.9
Corporate administration	2.1	0.4	42.4	44.9
Earnings (loss) from operations	434.2	7.6	(60.3)	381.5
Other (income) and expenses				(1.0)
Finance costs				3.5
Earnings before income taxes				379.0
Income tax expense				8.1
Net earnings and comprehensive income				$ 370.9
Capital expenditure for the year	$ 180.7	$ 6.6	$ 0.6	$ 187.9
Goodwill	$ 129.7	$ -	$ -	$ 129.7
Assets (excluding Goodwill)	$ 1,016.6	$ 319.4	$ 222.9	$ 1,558.9