

**Centerra Gold Inc.**  
**Management's Discussion and Analysis**  
**For the fiscal year ended December 31, 2010**

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The following discussion has been prepared as of February 23, 2011, and is intended to provide a review of the financial position of Centerra Gold Inc. (“Centerra” or the “Company”) as at and for the financial year ended December 31, 2010 and results of operations in comparison with those as at and for the financial year of the Company ended December 31, 2009. This discussion should be read in conjunction with the Company’s audited financial statements and notes thereto for the year ended December 31, 2010 prepared in accordance with Canadian generally accepted accounting principles. In addition, this discussion contains certain forward-looking information regarding Centerra’s businesses and operations. See “Risk Factors” and “Caution Regarding Forward-Looking Information” in this discussion. All dollar amounts are expressed in United States (US) dollars, except as otherwise indicated. Additional information about Centerra, including the Company’s annual information form for the year ended December 31, 2010, will be available on the Company’s website at [www.centerragold.com](http://www.centerragold.com) and on the System for Electronic Document Analysis and Retrieval (“SEDAR”) at [www.sedar.com](http://www.sedar.com).

## **Centerra’s Business**

Centerra is a Canadian-based gold company, focused on acquiring, exploring, developing and operating gold properties in Asia, the former Soviet Union and other emerging markets worldwide. Centerra’s common shares are listed for trading on the Toronto Stock Exchange. As of February 23, 2011, being the date of this Management’s Discussion and Analysis (“MD&A”), there are 235,869,397 common shares issued and outstanding.

Centerra’s assets consist of a 100% interest in the Kumtor mine, located in the Kyrgyz Republic, a 100% interest in the Boroo mine and a 100% interest in the Gatsuert development property, both located in Mongolia, and a 50% interest in the Kara Beldyr property in Russia. Additionally, the Company is earning an interest in other joint venture exploration properties located in Turkey, the United States (Nevada) and Mongolia.

Substantially all of Centerra’s revenues are derived from the sale of gold. The Company’s revenues are derived from production volumes from its mines and gold prices realized. Gold doré production from the Kumtor mine is purchased by Kyrgyzaltyn JSC (“Kyrgyzaltyn”) for processing at its refinery in the Kyrgyz Republic while gold doré produced by the Boroo mine is exported and sold under a refining agreement with Johnson Matthey Limited. Both sales agreements are based on spot gold prices. The Gatsuert property is in the development phase. The Kara Beldyr and other United States, Russia, Turkey and Mongolia properties are in the exploration phase.

In 2010, the Company’s two mines produced a total of 678,941 ounces of gold, ranking Centerra as an intermediate-sized North American-based gold producer.

The average spot price for gold in 2010 based on the London PM fix was \$1,225 per ounce, an increase of 26% over the average in 2009. This follows year-over-year increases of 11% in 2009 and 25% in 2008. The average realized price of gold received by Centerra in 2010 was \$1,235 per ounce. Historically, gold has been seen to be a hedge against inflation and U.S. dollar weakness. A number of factors continue to support the strengthening of the gold price, including a general fear with respect to the stability of the U.S. dollar, sovereign debt levels, inflation stemming from aggressive economic stimulus programs, heightened equity market

volatility and an increase in the demand for gold for investment purposes (see the discussion below under “Gold Industry, Key Economic Trends and Recent Market Uncertainty”).

The Company’s costs are comprised primarily of the cost of producing gold from its two mines, administrative costs from the Toronto, Bishkek, Ulaanbaatar and other exploration offices worldwide and secondarily from depreciation and depletion. There are many operating variables that affect the cost of producing an ounce of gold.

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

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

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

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

## **Gold Industry, Key Economic Trends and Recent Market Uncertainty**

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

Global gold production continued to grow in 2010 as higher prices increased the supply of gold from new and expanding projects around the world. The increasing supply of gold is expected to continue in coming years as the benefits from the significant investments in exploration and expanded capital capacity by the various producers over the recent years materialize. In addition, Centerra believes the cost of gold production in U.S. dollar terms is continuing to rise globally due primarily to a declining quality of reserves at producing mines, higher costs of construction and equipment and higher cost of labour and certain consumables. There has been significant consolidation among senior gold producers since 2002, as well as, more recently, among junior producers. To replace mined reserves, producers explore in new regions because there are fewer remaining opportunities in conventional gold mining locations.

As well as supply factors internal to the industry, described above, external factors impact the gold price. One of these important factors is the trade-weighted U.S. dollar exchange rate. Historically, there has been a strong inverse correlation between the trade-weighted U.S. dollar exchange rate and the gold price resulting in a positive gold price trend during extended periods of U.S. dollar weakness. Another factor affecting the gold price which has gained in importance is investment demand. Since the beginning of the global financial crisis in late 2007, investor demand for gold has significantly increased. The protracted period of financial instability, high unemployment and stagnant economic growth in developed countries, combined with increasing sovereign debt levels as governments endeavor to stimulate an economic recovery have shaken investor confidence in traditional investment vehicles in favour of gold as a safe haven. Investor demand via gold exchange traded funds (“ETF”) which allow investors to directly invest in gold without holding the physical asset increased 100%, year-over-year, in 2009 and ETF investments slipped marginally (2%) in the latter part of 2010. This slight decrease was partially offset by increased buying of physical gold (jewelry, bars and coins). Investor sentiment towards gold, as reflected in ETF activity, can thus have a material impact on the gold price.

Other factors that have impacted the gold price include central bank reserves management, producer hedging/de-hedging activity, and geo-political concerns.

The Company believes that fundamentals remain positive for gold in the coming year. Burgeoning federal deficits in the U.S. resulting from several factors including the economic stimulus measures are expected to weaken the U.S. dollar and ultimately may usher in a period of inflation. The role of gold as a hedge against inflation may support continued demand for the metal as may growing appetite by central banks and developing Asian nations seeking a more reliable store of value as compared with other investments. Doubts in respect of the sustainability of sovereign debt levels in developed countries and the effectiveness of measures to promote economic growth in these countries may also support continued interest in gold.

Financial liquidity represents the Company’s ability to fund future operating activities and investments. Centerra has two operating mines located in Kyrgyzstan and Mongolia. Centerra generated \$271.4 million in cash from operations in 2010 and has a balance of cash and short-term investments of \$413.0 million at December 31, 2010. The Company’s financial risk management policy focuses on cash preservation, while maintaining the liquidity necessary to conduct operations on a day-to-day basis. The Company manages counterparty credit risk, in respect of cash and short-term investments, by maintaining bank accounts with highly-rated U.S. and Canadian banks and investing only in highly-rated Canadian and U.S. Government bills, term deposits or banker’s acceptances with highly-rated financial institutions and

corporate direct credit issues that can be promptly liquidated. The Company has no outstanding debt and it is expected that all planned capital and operating expenditures can be funded out of cash flow for 2011. See “Caution Regarding Forward-Looking Information”.

Continued uncertainty in global financial markets has constrained the ability of most companies to access capital markets financing. Although Centerra has no current requirements for such funding, financial markets have retained an interest in gold producers and, under the right conditions, equity issues of many of these producers have been well received. In November 2010, Centerra secured a three-year, \$150 million revolving credit facility to increase liquidity available for future growth initiatives. The Company may also contemplate an equity issue to support such growth initiatives. See “Caution Regarding Forward-Looking Information”.

The following table shows the average afternoon gold price fixing, by quarter, on the London Bullion Market for 2008, 2009, and 2010:

<b>Quarter</b>	<b>Average Gold Price (\$)</b>
2008 Q1	927
2008 Q2	896
2008 Q3	872
2008 Q4	795
2009 Q1	908
2009 Q2	922
2009 Q3	960
2009 Q4	1,100
2010 Q1	1,109
2010 Q2	1,197
2010 Q3	1,227
2010 Q4	1,367

## **Growth and Strategy**

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

- developing new reserves at or near its existing mines from in-pit and underground, and from regional exploration;
- advancing late-stage exploration properties through drilling and feasibility studies, as warranted; and
- actively pursuing selective acquisitions in Asia, the former Soviet Union and other emerging markets worldwide.

Centerra’s growth strategy could be impacted by the risk factors described on page 59.

During 2010, the Company continued its exploration drilling activities in and around its two mine sites. On February 7, 2011, the Company updated its life-of-mine plans for its Kumtor mine and released the resulting estimates on the Company’s reserves and resources as of December 31, 2010. Overall, the Company’s reserves estimate increased in 2010 to 8.2 million ounces of contained gold in proven and probable reserves. This represents an increase of 1.7 million contained ounces or 24% before accounting for the processing of 885,000 million contained ounces processed at Kumtor and Boroo during 2010. The 2010 year-end

reserves and resources were estimated using a gold price of \$1,000 per ounce compared to \$825 per ounce in 2009. See the “2010 Year-end Reserve and Resource Summary” table.

**Reserves:**

At Kumtor, before accounting for the processing of 723,000 contained ounces during 2010, proven and probable reserves increased by 1.5 million contained ounces.

The increase in the Central Pit open pit reserves is due to an expansion of the ultimate pit towards the southwest as a result of additional exploration drilling, and updating and optimizing the open pit to a greater depth by using a higher gold price assumption. The expansion of the open pit converted 265,000 ounces of gold of measured and indicated open pit resources to reserves as well as 773,000 ounces of gold of the high-grade SB Zone underground inferred resources to open pit reserves. The successful exploration drilling on the southwest extension of the SB Zone contributed 370,000 ounces of gold to the reserve increase. The balance of the reserve increase of 124,000 ounces of gold is a result of the lowering of the gold cut-off grade for reserves in the Central Pit from 1.0 g/t to 0.85 g/t, which is primarily a result of the increase in the gold price assumption used for reserve estimation.

The Kumtor life-of-mine plan has been revised and extended a further two years to 2021. The revised life-of-mine shows an increase of approximately 500,000 ounces of gold production over the next five years.

As was reported in the Company’s third quarter 2009 disclosure, mining capacity was diverted to manage the creep movement in the historical waste dump and original glacial ice in the southeast section of the high wall in the SB Zone of the Central Pit. The offloading plan and dewatering programs continued in 2010 with positive results. The average rates of movement in this area have reduced in 2010 as compared to the prior year. However, Centerra believes that creeping of this section of the pit wall will continue for the next several years and has thus developed plans to manage the anticipated movement.

In response to this anticipated continued creep movement, the updated life-of-mine plan allocates significant levels of mining capacity ranging from 20 to 60 thousand tonnes per day for the period from 2011 to 2012 to a geotechnical remediation plan for the removal and management of this section of historical waste dump and glacial ice.

Kumtor’s life-of-mine plan is based only on the open pit reserves, and no provision has been made for production from the underground development activities.

In November, 2006, SRK Consulting (Canada) Inc. (SRK) completed a scoping study (the “Scoping Study”) to evaluate the potential of mining Kumtor’s deep SB Zone using underground mining methods. The Scoping Study demonstrated that underground mining of the deep SB Zone at Kumtor had the potential to be a viable project. A second study was undertaken by SRK in 2008 (the “2008 SRK Study”) to review the available technical information and site-specific facilities and infrastructure that would be required to develop the proposed underground mining operations to exploit the SB Zone. The 2008 SRK Study reviewed in detail geological and geotechnical information to evaluate a proposal to construct a second access to the underground SB Zone. Included in the 2008 SRK Study were various mining method options, the related ventilation requirements and mining equipment, as well as metallurgical characteristics and surface plant requirements. The 2008 SRK Study concluded

with a Preliminary Economic Assessment (PEA), completed in September 2009, which advanced the mining method options and the data gaps from the Scoping Study. Included in the PEA was a review of the available technical information and site-specific facilities and infrastructure that would be required to develop the proposed underground mining operations to exploit the SB Zone. In 2010, \$31.9 million was spent to advance two underground declines. In addition, \$4.6 million was spent for capital equipment purchases and \$0.4 million was spent on delineation drilling in the Stockwork Zone during the year. Overall, as of the end of 2010, \$99.5 million had been spent on the underground project, which includes \$83.2 million spent on advancement of the two underground declines and \$16.3 million spent for capital equipment purchases. The resources in the SB Zone and Stockwork Zone are in the inferred category. Inferred mineral resources have a great amount of uncertainty as to their existence and as to whether they can be mined economically. It cannot be assured that all or part of the inferred resources will ever be upgraded to a higher category.

At Boroo, after accounting for the processing of 162,000 contained ounces during 2010, proven and probable reserves total 392,000 contained ounces of gold. At the reserve gold price assumption, the Boroo operation could potentially continue to feed the mill for over two years utilizing existing low-grade stockpiles.

At Gatsurt, proven and probable reserves increased by 16% or 209,000 contained ounces to 1.5 million contained ounces of gold due to the successful exploration drilling in the South Slope area which added oxide, transition and sulphide material. The increase in oxide and transition material will extend the oxide mining and processing phase of the Gatsurt project thus delaying the immediate need for construction of the bio-oxidation facility. Development of Gatsurt is subject to certain risks and uncertainties.

See “Other Corporate Developments – Mongolia”, “Risk Factors” and “Caution Regarding Forward Looking Information”.

### **Resources:**

As of December 31, 2010, Centerra’s measured and indicated resources increased by 18% or 739,000 ounces over the December 31, 2009 figures to total 4.9 million ounces of contained gold, compared to 4.1 million contained ounces as of December 31, 2009. The increase from the 2009 year-end measured and indicated resources is largely attributable to a significant increase in resources at Kumtor which results from successful exploration drilling in conjunction with an increase in the size of the resource shell. At Kumtor, an optimized larger pit shell (resource shell) that is considered uneconomic is used to constrain the resource estimation. This large increase in resources at Kumtor has been partially offset by the removal of the REN indicated resources from the Company’s resource statement following the sale of the REN joint venture in the third quarter of 2010.

The Company’s inferred resources decreased by 34,000 contained ounces of gold year-over-year. At Kumtor, the inferred resources in the high-grade underground SB Zone decreased by 384,000 contained ounces to 1.4 million contained ounces of gold with an average grade of 15.3 g/t. This reduction is the result of the expansion of the Central Pit, which captured 773,000 ounces of contained gold that were previously classified as part of the high-grade underground SB Zone inferred resources. These inferred resources are now within the new open pit design and therefore, are included in the Kumtor Central Pit as probable reserves. This reduction in inferred resources has been partially offset by the positive exploration results,

which has extended the SB Zone both to the southwest and northeast adding 389,000 contained ounces of gold to the high-grade underground SB Zone inferred resource, which remains open along strike and at depth. Inferred open pit resources increased by 322,000 contained ounces of gold in the Central Pit. In addition, drilling in 2010 at the Northeast Prospect identified new mineralization resulting in the addition of 128,000 contained ounces of gold of inferred resources.

Exploration drilling at Gatsuurt added 314,000 contained ounces of gold in inferred resources.

The increases in inferred resources at Kumtor and Gatsuurt have been partially offset by the removal of the REN inferred resources from the Company's resource statement following the sale of the REN joint venture.

Centerra reports reserves and resources separately. The amount of reported resources does not include those amounts identified as reserves.

**Centerra Gold Inc.**  
**2010 Year-end Reserve and Resource Summary**  
**(as of December 31, 2010)**

<b>Reserves</b> <sup>(1)</sup> (Tonnes and ounces in thousands) <sup>(11)(12)</sup>										
Property <sup>(3)</sup>	Proven			Probable			Total Proven and Probable Reserves			
	Tonnes	Grade (g/t)	Contained Gold (oz)	Tonnes	Grade (g/t)	Contained Gold (oz)	Tonnes	Grade (g/t)	Contained Gold (oz)	Mining Method <sup>(4)</sup>
Kumtor <sup>(1)(6)(13)</sup>	2,853	2.0	187	59,514	3.2	6,096	62,367	3.1	6,283	OP
Boroo <sup>(1)(8)</sup>	11,769	0.8	310	891	2.9	82	12,660	1.0	392	OP
Gatsuurt <sup>(1)(9)(15)</sup>	-	-	-	16,349	2.8	1,489	16,349	2.8	1,489	OP
<b>Total</b>	<b>14,622</b>	<b>1.1</b>	<b>497</b>	<b>76,754</b>	<b>3.1</b>	<b>7,667</b>	<b>91,376</b>	<b>2.8</b>	<b>8,164</b>	

<b>Measured and Indicated Resources</b> <sup>(2)</sup> (Tonnes and ounces in thousands) <sup>(11)(12)</sup>										
Property <sup>(3)</sup>	Measured			Indicated			Total Measured and Indicated Resources			
	Tonnes	Grade (g/t)	Contained Gold (oz)	Tonnes	Grade (g/t)	Contained Gold (oz)	Tonnes	Grade (g/t)	Contained Gold (oz)	Mining Method <sup>(4)</sup>
Kumtor <sup>(5)(6)(13)</sup>	34,979	2.1	2,411	23,579	2.3	1,723	58,558	2.2	4,134	OP
Boroo <sup>(5)(8)</sup>	452	2.2	32	4,464	1.5	210	4,916	1.5	242	OP
Gatsuurt <sup>(9)(15)</sup>	-	-	-	5,533	2.4	426	5,533	2.4	426	OP
Ulaan Bulag <sup>(10)</sup>	-	-	-	1,690	1.5	80	1,690	1.5	80	OP
<b>Total</b>	<b>35,431</b>	<b>2.1</b>	<b>2,443</b>	<b>35,266</b>	<b>2.2</b>	<b>2,439</b>	<b>70,697</b>	<b>2.1</b>	<b>4,882</b>	

<b>Inferred Resources</b> <sup>(2)(14)</sup> (Tonnes and ounces in thousands) <sup>(11)(12)</sup>				
Property <sup>(3)</sup>	Inferred			Mining Method <sup>(4)</sup>
	Tonnes	Grade (g/t)	Contained Gold (oz)	
Kumtor <sup>(5)(6)(13)</sup>	8,645	2.3	631	OP
Kumtor Stockwork Underground <sup>(7)</sup>	1,616	12.1	628	UG
Kumtor SB Underground <sup>(7)</sup>	2,772	15.3	1,367	UG
Kumtor NE Target <sup>(5,6)</sup>	2,319	1.7	128	OP
Boroo <sup>(5)(8)</sup>	7,323	1.0	233	OP
Gatsuurt <sup>(9)(15)</sup>	5,926	2.6	491	OP
Ulaan Bulag <sup>(10)</sup>	287	1.2	11	OP
<b>Total</b>	<b>28,888</b>	<b>3.8</b>	<b>3,489</b>	

- (1) The reserves have been estimated based on a gold price of \$1,000 per ounce.
- (2) Mineral resources are in addition to reserves. Mineral resources do not have demonstrated economic viability.
- (3) Centerra's equity interests are: Kumtor 100%, Gatsuurt 100%, Boroo 100% and Ulaan Bulag 100%.
- (4) "OP" means open pit and "UG" means underground.
- (5) Open pit resources occur outside the current ultimate pits which have been designed using a gold price of \$1,000 per ounce.
- (6) The open pit reserves and resources at Kumtor are estimated based on a cutoff grade of 0.85 gram of gold per tonne for the Central Pit and 1.0 grams of gold per tonne for the Southwest, Sarytor and Northeast deposits.
- (7) Underground resources occur below the Central pit and are estimated based on a cutoff grade of 7.0 grams of gold per tonne.
- (8) The reserves and resources at Boroo are estimated based 0.5 gram of gold per tonne cutoff grade.
- (9) The reserves and resources at Gatsuurt are estimated using either a 1.2, 1.4 or 1.5 grams of gold per tonne cutoff grade depending on ore type and process method.
- (10) The resources at Ulaan Bulag are estimated based on a cutoff grade of 0.8, 0.9 or 1.0 grams of gold per tonne depending on ore type and process method.
- (11) A conversion factor of 31.10348 grams per ounce of gold is used in the reserve and resource estimates.
- (12) Numbers may not add up due to rounding.
- (13) Kumtor reserves and resources include Sarytor and Southwest reserves of 14.3 million tonnes grading 2.5 g/t for 1,145,000 contained ounces, Sarytor and Southwest indicated resources of 4.8 million tonnes grading 2.1 g/t for 325,000 contained ounces and Sarytor and Southwest inferred resources of 3.7 million tonnes grading 2.5 g/t for 303,000 contained ounces.
- (14) Inferred mineral resources have a great amount of uncertainty as to their existence and as to whether they can be mined economically. It cannot be assumed that all or part of the inferred resources will ever be upgraded to a higher category.
- (15) In July 2009, the Mongolian Parliament enacted legislation that would prohibit mineral prospecting, exploration and mining in water basins and forest areas in the territory of Mongolia and provides for the revocation of mining and exploration licenses affecting such areas. The legislation exempts any "mineral deposit of strategic significance". If the legislation is not repealed or amended or if Gatsuurt is not designated as a "mineral deposit of strategic importance" that is exempt from this legislation, mineral reserves at Gatsuurt may have to be reclassified as mineral resources or eliminated entirely. See "Other Corporate Developments- Mongolia - Mongolian Legislation".

## Reconciliation of Gold Reserves and Resources (in thousands of ounces of contained gold) <sup>(8) (9)</sup>

	December 31 2009 <sup>(1) (4)</sup>	Jan-1 to Dec-31 2010 Throughput <sup>(2)</sup>	2010 Addition (Deletion) <sup>(3)</sup>	December 31 2010
<b>Reserves – Proven and Probable</b>				
Kumtor <sup>(5)</sup>	5,474	723	1,532	6,283
Boroo	567	162	(13)	392
Gatsuurt <sup>(7) (12)</sup>	1,280	0	209	1,489
<b>Total Proven and Probable Reserves</b>	<b>7,321</b>	<b>885</b>	<b>1,728</b>	<b>8,164</b>
<b>Resources – Measured and Indicated</b>				
Kumtor <sup>(6)</sup>	2,201	0	1,933	4,134
Boroo	242	0	0	242
Gatsuurt <sup>(7) (12)</sup>	480	0	(54)	426
REN <sup>(11)</sup>	1,220	0	(1,220)	0
Ulaan Bulag	0	0	80	80
<b>Total Measured &amp; Indicated Resources</b>	<b>4,143</b>	<b>0</b>	<b>739</b>	<b>4,882</b>
<b>Resources – Inferred <sup>(10)</sup></b>				
Kumtor <sup>(6)</sup>	309	0	322	631
Kumtor Stockwork Underground	621	0	7	628
Kumtor SB Underground	1,751	0	(384)	1,367
Kumtor NE Area	0	0	128	128
Boroo	233	0	0	233
Gatsuurt <sup>(7) (12)</sup>	177	0	314	491
REN <sup>(11)</sup>	432	0	(432)	0
Ulaan Bulag	0	0	11	11
<b>Total Inferred Resources</b>	<b>3,523</b>	<b>0</b>	<b>(34)</b>	<b>3,489</b>

- (1) Reserves and resources as reported in Centerra's Annual Information Form filed in March 2010.
- (2) Corresponds to mill feed at Kumtor and Boroo and material stacked on the heap leach pad at Boroo.
- (3) Changes in reserves or resources, as applicable, are attributed to information provided by drilling and subsequent reclassification of reserves or resources, an increase in the gold price, changes in pit designs, reconciliation between the mill and the resource model, and changes to operating costs.
- (4) Centerra's equity interests as at December 31, 2009, were as follows: Kumtor 100%, Gatsuurt 100%, Boroo 100%, Ulaan Bulag 100% and REN 64%.
- (5) Kumtor reserves include the Central Pit and the Southwest and Sarytor Deposits.
- (6) Kumtor open pit resources include the Central Pit and the Southwest Deposit and Sarytor Deposit.
- (7) Gatsuurt reserves and resources include the Central Zone and Main Zone deposits.
- (8) Centerra reports reserves and resources separately. The amount of reported resources does not include those amounts identified as reserves.
- (9) Numbers may not add up due to rounding.
- (10) Inferred mineral resources have a great amount of uncertainty as to their existence and as to whether they can be mined economically. It cannot be assumed that all or part of the inferred resources will ever be upgraded to a higher category.
- (11) Centerra sold its interest in the REN joint venture in 2010.
- (12) In July 2009, the Mongolian Parliament enacted legislation that would prohibit mineral prospecting, exploration and mining in water basins and forest areas in the territory of Mongolia and provides for the revocation of mining and exploration licenses affecting such areas. The legislation exempts any "mineral deposit of strategic significance". If the legislation is not repealed or amended or if Gatsuurt is not designated as a "mineral deposit of strategic importance" that is exempt from this legislation, mineral reserves at Gatsuurt may have to be reclassified as mineral resources or eliminated entirely. See "Other Corporate Developments- Mongolia - Mongolian Legislation".

## Selected Annual Information

The consolidated financial statements of Centerra are prepared in accordance with Canadian GAAP and have been measured and expressed in United States dollars. Some of the information discussed below are non-GAAP measures. See “Non-GAAP Measures”.

\$ millions, unless otherwise specified	Year Ended December 31,		
	2010	2009	2008
Revenue	\$ 847	\$ 685	\$ 636
Cost of sales	264	296	332
Mine standby costs	1	4	-
Depreciation, depletion and amortization	77	104	78
Accretion and reclamation expenses	2	2	1
Revenue-based taxes	99	60	-
Exploration and business development	32	26	24
Impairment charge	-	-	19
Other income and expenses	(1)	(2)	5
General and administration	76	56	46
	<u>551</u>	<u>547</u>	<u>505</u>
	296	139	131
Gain on sale of exploration project	35	-	-
Earnings before unusual items and income taxes	331	139	131
Unusual items <sup>(3)</sup>	-	49	(38)
Income tax expense	8	29	34
Net earnings	<u>\$ 323</u>	<u>\$ 60</u>	<u>\$ 135</u>
Earnings per common share before unusual items (basic and diluted) - \$/share <sup>(2)</sup>	\$ 1.37	\$ 0.48	\$ 0.45
Earnings per common share (basic and diluted) - \$/share	\$ 1.37	\$ 0.27	\$ 0.62
Total assets	\$ 1,397	\$ 1,074	\$ 941
Long-term provision for reclamation and future income taxes	\$ 25	\$ 21	\$ 30
<b>Operating Highlights</b>			
Gold sold – ounces sold	685,389	676,394	745,730
Gold produced - ounces poured	678,941	675,592	748,888
Average realized price – \$/oz sold	\$ 1,235	\$ 1,013	\$ 853
Gold spot market price – \$/oz <sup>(1)</sup>	\$ 1,225	\$ 973	\$ 870
Cost of sales - \$/oz sold	\$ 385	\$ 438	\$ 445
Total cash cost – \$/oz produced <sup>(2)(4)</sup>	\$ 444	\$ 459	\$ 423
Total production cost – \$/oz produced <sup>(2)(4)</sup>	\$ 560	\$ 607	\$ 533

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

<sup>(2)</sup> Total cash cost, total production cost and earnings per share before unusual items are non-GAAP measures and are discussed under “Non-GAAP Measures”.

<sup>(3)</sup> See page 14 for a discussion of unusual items.

<sup>(4)</sup> As a result of Kumtor's Restated Investment Agreement signed in 2009, total cash cost and total production cost per ounce measures for 2009 and 2008 have been restated to exclude operating and revenue-based taxes.

## Results

### 2010 In Review:

- Proven and probable reserves increased by 1.5 million contained ounces which extended Kumtor mine life by two years,
- Entered into a \$150 million three-year revolving credit facility with the European Bank for Reconstruction and Development,
- Mining and milling operations at Kumtor were temporarily suspended from October 1, 2010 to October 10, 2010 as a result of a labour dispute with the Kumtor unionized employees,
- Earned a 50% interest in the Kara Beldyr exploration joint venture and as a result of the encouraging results from the exploration work completed to-date, Centerra has elected to exercise its option to increase its interest in the joint venture to 70% by spending a further \$4 million on exploration on the property over a two-year period,
- The remedial measures the Company has put in place to manage the ice and waste movement in the South-East high-wall at Kumtor over the last few years has resulted in decreased movement rates in 2010. Kumtor's life-of-mine plan has been revised to incorporate these measures,
- Exploration drilling returned significant results both in the Southwest Extension of Kumtor's SB Zone and the northeast extension of the SB Zone where drilling has extended the SB Zone along strike and down dip,
- Exploration at Gatsurt identified new oxide, transition and sulphide gold mineralization which has resulted in an increase of 209,000 contained ounces in proven and probable reserves and 314,000 contained ounces of inferred resources,
- Centerra's interest in the REN joint venture was sold for proceeds of \$35.2 million,
- An inaugural annual dividend of Cdn\$0.06 per share was declared and paid during the year.

### Overview of 2010 Versus 2009

Centerra's 2010 and 2009 results reflect fully consolidated interests in the Kumtor and Boroo mines and a fully consolidated interest in the Gatsurt property. On July 5, 2010, Centerra completed the sale of its 64% proportional consolidated interest in the REN property. Since the Company expenses exploration costs, the entire proceeds less related transaction costs resulted in a gain on the Income Statement.

For the year ended December 31, 2010, the Company recorded net earnings of \$322.6 million or \$1.37 per share, compared to net earnings of \$60.3 million or \$0.27 per share in 2009. The increase reflects a 22% increase in realized gold price in the year and the gain recorded from the sale of the REN property in 2010 (described below), while 2009 recorded the impact of unusual items which resulted in a significant charge. During 2010, the Company recorded a gain on sale of the REN exploration property of \$34.9 million, while net earnings in 2009 reflected unusual items of \$49.3 million (loss) relating to the issuance of common shares and other related costs pursuant to the Agreement on New Terms signed with the Kyrgyz Government during the second quarter of 2009. Before allowing for unusual items, earnings in 2009 were \$109.6 million or \$0.48 per share.

During 2010, the Company's gross profit was \$479 million (57% of revenue), compared to \$256 million (37% of revenue) in 2009. Gross profit is defined as revenue less cost of sales, mine standby costs, regional office administration, depreciation, depletion, amortization, accretion and reclamation. The increase in gross profit results from higher realized gold prices and lower costs.

***Revenue:***

Revenue for 2010 increased by \$161 million, or 23%, to \$846.5 million compared to \$685.5 million in the same period of 2009 primarily due to a 22% increase in the realized gold price. Gold production was 678,941 ounces in 2010 compared to the 675,592 ounces reported in 2009. This result was primarily from an 8% increase in gold production at Kumtor mostly due to higher grades and higher recoveries processed through the mill. Production at Boroo was 26% lower in 2010 as a result of lower mill head grades and recoveries through the mill as well as lower contribution from the heap leach operation which remains idle pending issuance of a final operating permit by the government authorities. At Boroo, the ore became increasingly refractory during 2010 and the grades and recoveries continued to decline throughout the year. Mining activities at Boroo came to a close in November 2010. The mill continues to operate by processing stockpiles. Gold sold in 2010 totalled 685,389 ounces (568,390 ounces from Kumtor and 116,999 ounces from Boroo) which was higher than 2009 ounces sold of 676,394 (511,092 ounces from Kumtor and 165,302 ounces from Boroo). The average realized gold price for 2010 was \$1,235 per ounce compared to \$1,013 per ounce in the same period of 2009 reflecting higher spot prices for gold throughout the year and the concentration of sales during the fourth quarter of 2010 when gold prices were higher.

Consolidated gold production in 2010 of 678,941 ounces of gold was within the Company's initial guidance of 640,000 - 700,000 ounces.

***Cost of sales:***

Cost of sales was \$263.9 million in 2010 compared to \$295.9 million in 2009. The decrease is a result of higher production at Kumtor and decreased operating costs for both operations, as described in the "Results of Operating Segments". Cost of sales per ounce sold was \$385 in 2010 compared to \$438 in 2009.

Total cash cost per ounce produced for 2010 decreased to \$444 compared to \$459 per ounce in 2009 (Total cash cost per ounce produced is a non-GAAP measure and is discussed under "Non-GAAP Measures".) As a result of the Restated Investment Agreement signed in June 2009 (described below), cash cost per ounce at Kumtor for 2010 and its comparative years now exclude operating and revenue-based taxes. The decrease in 2010 reflects the impact of lower operating costs and higher production at Kumtor, partially offset by the impact of lower production at Boroo as discussed in the "Results of Operating Segments" for Kumtor and Boroo.

Total cash cost of \$444 per ounce in 2010 was lower than the initial guidance of \$460 - \$504 due to increased production and lower operating costs.

***Depreciation, Depletion and Amortization:***

Depreciation, depletion and amortization expense of \$77.0 million was recorded in 2010, compared to \$103.7 million in the prior year. Kumtor recorded a decrease of \$14.3 million due to an increase in reserves at the end of 2009 which extended the life-of-mine and slowed the

amortization of assets depreciated on the units of production method. Boroo recorded a decrease of \$12.1 million due to lower ounces sold in 2010 and the impact of an increase in mine ore reserves in late 2009 at Gatsuurt. Since the Gatsuurt ore will be processed through the infrastructure at Boroo, the related assets at Boroo that are amortized on a unit of production basis are being amortized over a longer period as a result of the increased reserves at Gatsuurt.

***Taxes:***

Centerra recorded an amount of \$98.6 million in 2010 compared to \$60.2 million in 2009, as revenue-based tax expense in respect of the Kyrgyz segment, and an amount of \$7.6 million in 2010 in respect of income tax expense compared to \$29.2 million in 2009.

Pursuant to the Restated Investment Agreement between Centerra, Kumtor Gold Company CJSC (“KGC), Kumtor Operating Company CJSC (“KOC”) and the Government of the Kyrgyz Republic (the “Government”), dated as of June 6, 2009 (the “Restated Investment Agreement”), the tax regime previously applicable to the Kumtor project was replaced by a simplified regime with effect from January 1, 2008. Under this simplified regime, tax is paid at a rate of 13% of gross revenue. In addition, with effect from January 1, 2009, Kumtor makes a monthly contribution of 1% of gross revenue to the Issyk-Kul Oblast Development Fund. This new regime, which was approved by the Kyrgyz Parliament on April 30, 2009 (considered the date of substantial enactment for financial reporting purposes), replaced a number of taxes previously imposed. The increase in revenue-based taxes expensed in 2010 over that of 2009 reflects the increase in revenue recognized by Kumtor in 2010. As a result of the enactment of the new regime in 2009, Kumtor recorded a one-time income tax recovery of \$2.9 million in that year.

The Restated Investment Agreement also provides for an annual payment to the State budget of 4% of gross revenue. This annual payment is reduced by the amount of capital and exploration expenditures incurred in the Kyrgyz Republic. Any of these expenditures not applied as a credit in the year are carried forward to future years. As at December 31, 2010, the excess expenditure in the Kyrgyz Republic on capital and exploration over 4% of gross revenue being carried forward to future years is \$232.3 million. This excess amount is subject to audit by the Kyrgyz authorities.

The tax regime for Boroo Gold LLC, which owns the Boroo mine in Mongolia, is governed by a Stability Agreement with the Government of Mongolia. That agreement was amended August 3<sup>rd</sup>, 2007, effective from January 1, 2007, to establish an income tax rate at 25% of taxable income over 3 billion Mongolian Tugriks (MNT) (approximately \$2.4 million at the 2010 year-end exchange rate) with a tax rate of 10% applicable to taxable income up to that amount. Income tax expense in the Mongolian segment is determined by reference to the MNT. The reduction of \$24.5 million in Boroo’s income tax expense for the year 2010 compared to that of the prior year, resulted primarily from the tax benefit that was recorded as a result of the strengthening MNT versus the United States dollar during 2010 on US dollar denominated monetary assets. This reversed the tax charge which occurred in the prior year as a result of the weakening MNT. To a lesser extent, the reduction in income tax was also due to Boroo’s lower earnings in 2010.

Losses incurred by Centerra's entities in the North American segment have not been tax effected. As proceeds on sale of the Company's interest in the REN joint venture in 2010 did not exceed the tax basis for that interest, no tax expense was recorded with respect to the sale.

***Goodwill:***

During the year ended December 31, 2010, the Company undertook its normal annual review of goodwill. As a result, management concluded that current circumstances did not indicate that the carrying value of the Kyrgyz reporting unit exceeded its fair value.

***Impacts on 2009 of the Agreement on New Terms:***

On April 24, 2009, the Company announced that an agreement (the "Agreement on New Terms") had been reached between Centerra, Cameco Corporation ("Cameco"), the Government, Kyrgyzaltyn JSC ("Kyrgyzaltyn"), Kumtor Operating Company CJSC ("KOC") and Kumtor Gold Company CJSC ("KGC") that provides for the Government's full commitment to and support for Centerra's continuing long-term development of the Kumtor project. The parties subsequently executed restated project agreements (including the Restated Investment Agreement), dated as of June 6, 2009, which incorporate the provisions of the Agreement on New Terms, including the settlement of all outstanding claims as well as replacing the tax regime applicable to the Kumtor project with a revenue-based tax regime (see "Taxes" above). Pursuant to the Agreement on New Terms, Centerra agreed to issue 18,232,615 common shares from its treasury to Kyrgyzaltyn, a company indirectly wholly-owned by the Government. Cameco agreed to transfer to the Government between 14.1 million and 25.3 million common shares of Centerra, which were to be released to the Government upon the satisfaction of certain conditions. On December 30, 2009, Cameco released and transferred to the Government 25.3 million common shares of Centerra as a result of these conditions being met. See "Other Corporate Developments".

The transactions contemplated by the Agreement on New Terms including the execution of the Restated Investment Agreement closed on June 11, 2009. On closing, the Company issued from treasury 18,232,615 common shares of Centerra at the closing share price of \$6.62 (Cdn.\$7.30) to Kyrgyzaltyn.

As a result of the issuance of shares from treasury on June 11, 2009, the Company recorded an addition to share capital of \$120.7 million. The previously recorded liability, contingent common shares issuable of \$89.1 million, was drawn down to zero and an additional expense (Unusual Item) of \$31.6 million was recorded in the second quarter of 2009.

Pursuant to the Agreement on New Terms, the Company also paid and expensed (Unusual Item) \$1.75 million in full satisfaction of all liabilities or claims of any governmental authority against Centerra or any of its affiliates in respect of any matter arising before the closing of the transactions contemplated by the Agreement on New Terms.

The Company and the Government also agreed to replace the former tax regime applicable to the Kumtor project with a simplified tax regime whereby income and operational taxes are replaced with a revenue-based tax with effect from January 1, 2008.

During the second quarter 2009, the Company recorded an expense (Unusual Item) for the tax settlement in the amount of \$15.0 million including the 2008 tax settlement, 2009 differences between the new tax regime and the former regime to the end of April 2009 and various

adjustments to the Company's tax accounts balances recorded to April 30, 2009. (See "Other Corporate Developments - Kyrgyz Republic".)

In summary, the total financial impact from the ANT was an expense of \$49.3 million (Unusual Item) in 2009. This includes legal and other transaction costs of \$0.9 million.

***Exploration:***

Exploration expenditures for 2010 totalled \$31.3 million, an increase over the 2009 expenditures of \$25 million.

Exploration expenditures at Kumtor totalled \$11.5 million where work focused on drill testing the strike and dip extension of the SB, Stockwork, Saddle and Northeast Extension zones around the Kumtor Central Pit. This work had positive results which contributed to the reserve and resource increases published by the Company in its February 7, 2011 news release. Regional exploration at Kumtor continued in 2010 and drilling was completed at the Northeast and Muzdusuu prospects and the Sarytor and Southwest deposits. In addition target definition work was carried out on other targets on the Kumtor mining concession and the Karasay and Koendy exploration licenses. Results from the work have been encouraging and additional drilling is planned for these areas in 2011.

In Mongolia, 2010 exploration expenditures totalled \$8.4 million compared to \$3.4 million in 2009. Exploration work focused on definition and drilling of targets on the Company's extensive land holdings along the Yeroogol trend and in eastern Mongolia. Drilling was carried out at the Gatsuurt and Ulaan Bulag properties on the Yeroogol trend and properties in eastern Mongolia. Results continue to be encouraging and additional work is planned for 2011.

Expenditures in Russia were \$2.4 million in 2010 with the focus being drilling of targets identified on the Kara Beldyr JV in the Tyva republic. In August 2010, Centerra earned its 50% interest in the property, and has subsequently exercised its option to earn an additional 20% interest. This work is continuing in 2011.

Drilling of targets on the Illich property in the Amur region of eastern Russia was completed. The results of the work were disappointing and the joint venture was terminated at the end of 2010.

In Turkey target definition work and drilling was carried out on the Akarca, Elmali, and Öksüt and Bakir Tepe properties. Results of the drilling on the Bakir Tepe property were disappointing and the joint venture was terminated in 2010. Work on the remaining properties continues to return positive results and additional drilling is planned in 2011.

In the United States 2010 expenditures were \$3.2 million with work focused on drilling activities on the Tonopah Divide and Oasis projects in Nevada.

Generative work continued in China and other prospective regions in Asia in 2010.

***Cash Flow:***

Cash flow provided from operations for 2010 was \$271.4 million compared to \$245.6 million in 2009, primarily as a result of higher earnings partially offset by higher working capital levels, mainly higher inventories and receivables, at the end of the year. Cash used in investing

activities totaled \$110.4 million in 2010 compared to \$220.2 million in the prior year. Investing activities primarily include the outflow of funds for the investment in capital projects and the purchase of short-term investments, offset by the receipt of funds for the redemption of short-term investments and proceeds received from the sale of the REN property. Investments in capital projects of \$208 million in 2010 compared to \$92 million in 2009, representing higher spending on growth projects mainly for the expansion of the Kumtor fleet and for pre-stripping of waste material capitalized at Kumtor. Investments in growth capital for 2010 totalled \$164 million (\$52 million in 2009), while \$44.0 million was invested in sustaining capital (\$40 million in 2009). Approximately \$64 million in short-term financial instruments matured in 2010, whereas the Company entered into new investments of approximately \$128 million in 2009. The net proceeds from the sale of the REN property added \$35 million of investment cash in 2010.

Net cash and short-term investments increased to \$413.0 million from \$322.9 million at the prior year end.

***Capital:***

Capital expenditures (spent and accrued) in 2010 were \$212.0 million as compared to \$89.8 million in the prior year. Sustaining capital in 2010 of \$44.0 million (including \$40.1 million at Kumtor and \$3.5 million at Boroo), compares to \$40.1 million in 2009 (including \$36.5 million at Kumtor and \$3.3 million at Boroo). Growth capital of \$168.0 million in 2010, compared to \$49.7 million the prior year, reflects \$109.5 million of spending at Kumtor mainly on fleet expansion and for the pre-stripping of cut-back 12B, \$36.6 million on underground development phase I and II, \$17.2 million spending on the development of the Gatsuurt project and spending at Boroo of \$4.4 million in 2010 to raise the tailings dam.

***Credit and Liquidity:***

As at December 31, 2010, the Company had no outstanding debt. On November 16, 2010, the Company secured a three-year, \$150 million revolving credit facility to support future growth initiatives. The facility is subject to the satisfaction of customary conditions precedent. The facility remains undrawn.

A significant factor in determining profitability and cash flow from the Company's operations is the price of gold. The spot market gold price based on the London PM fix was approximately \$1,405 per ounce at the end of 2010. For 2010, the gold price averaged \$1,225 per ounce compared to \$972 per ounce for the same period in 2009.

The Company receives its revenues through the sale of gold in U.S. dollars. The Company has operations in the Kyrgyz Republic and Mongolia, and its corporate head office is in Toronto, Canada. During 2010, the Company incurred combined costs (including capital) totaling roughly \$748 million. Approximately \$316 million of this (42%) was in currencies other than the U.S. dollar. The percentage of Centerra's non-U.S. dollar costs, by currency was, on average, as follows: 32% in Mongolian tugriks, 31% in Kyrgyz soms, 19% in Euros, 16% in Canadian dollars, and approximately 2% in Australian dollars, British pounds, Turkish Lira, and Swiss Franc combined. In 2010, the average value of the currencies of the Kyrgyz Republic, and the Eurozone declined against the U.S. dollar by approximately 4.2%, and 8.1%, respectively, from their value at December 31, 2009. The British Pound, Turkish Lira and the Swiss Franc also depreciated against the U.S. dollar by 4.7%, 0.6%, and 0.7%, respectively. On average, the Mongolian Tugrik and the Canadian dollar both appreciated over the year versus

the U.S. dollar value at December 31, 2009 by 6.1% and 2.2%, respectively. The Australian dollar also strengthened against the U.S. currency by 2.2%. The net impact of these movements in 2010, after taking into account currencies held at the beginning of the year, was to reduce annual costs by \$1.8 million.

## **Results of Operating Segments**

Centerra owns 100% of Kumtor and 100% of Boroo and Gatsuurt.

### **Kumtor**

The Kumtor open pit mine, located in the Kyrgyz Republic, is the largest gold mine in Central Asia operated by a Western-based gold producer. It has been operating since 1997 and has produced over 7.8 million ounces of gold to December 31, 2010.

During the year, the mining of waste and ice from the southeast section of the high wall in the SB Zone continued as planned. The overall rate of creep of waste and ice from this area has slowed compared to the same periods last year as a result of the off-loading and de-watering programs.

The SB Zone underground decline (Decline #1) has now advanced a total of 1,080 metres. During the year the decline advancement continued and drill and remuck bays were established. Poor ground conditions limited the advance rate in the latter portion of the year. The new life-of-mine plan (KS11) will expand the open pit and deepen the final pit by 24 metres, resulting in the need to reorient Decline #1, moving the decline further to the south. The re-alignment will require that the decline be driven deeper via a ramp resulting in a 9 to 12 month delay to access the SB Zone for delineation drilling to late 2012. Exploration and geotechnical drilling will continue in the first quarter of 2011. Overall, it is estimated that 600 metres was added to the required development, 250 metres for the re-alignment and 350 metres to achieve the greater depth.

The Stockwork Zone underground decline (Decline #2) has advanced a total of 744 metres (including the second heading for exploration). Decline #2 will facilitate the access to the Stockwork Zone and the SB Zone for further exploration and delineation drilling. During the second quarter of 2010, two headings were established and are advancing concurrently. A second heading in decline #2 established for the exploration and delineation drilling program for the Stockwork Zone has advanced 200 metres toward the north. Drill bays are established along the planned 400 metres access drift. Poor ground conditions in the headings reduced the advance rate in the latter portion of the fourth quarter 2010. Exploration drilling of the Stockwork Zone resource commenced in the fourth quarter of 2010 as planned and will continue into 2011. Delineation drilling of the Stockwork Zone is planned to start in the second quarter of 2011.

<b>Kumtor Operating Results</b>	<b>Year Ended December 31</b>			
	<b>2010</b>	<b>2009</b>	<b>Change</b>	<b>% Change</b>
Gold sold – ounces	<b>568,390</b>	<b>511,092</b>	57,298	11%
Revenue - \$ millions	<b>704.3</b>	<b>523.7</b>	180.6	34%
Average realized price - \$/oz sold	<b>1,239</b>	<b>1,025</b>	214	21%
Cost of sales - \$ millions <sup>(1)</sup>	<b>213.2</b>	<b>236.5</b>	(23.3)	(10%)
Cost of sales - \$/oz sold	<b>374</b>	<b>463</b>	(89)	(19%)
Tonnes mined - 000s	<b>116,466</b>	<b>115,544</b>	922	1%
Tonnes ore mined - 000s	<b>5,765</b>	<b>4,464</b>	1,301	29%
Average mining grade - g/t <sup>(2)</sup>	<b>4.14</b>	<b>4.68</b>	(0.54)	(12%)
Tonnes milled - 000s	<b>5,594</b>	<b>5,780</b>	(186)	(3%)
Average mill head grade - g/t <sup>(2)</sup>	<b>4.02</b>	<b>3.74</b>	0.28	7%
Recovery - %	<b>79.5</b>	<b>76.7</b>	2.8	4%
Gold produced – ounces	<b>567,802</b>	<b>525,042</b>	42,760	8%
Total cash costs - \$/oz produced <sup>(3)(4)</sup>	<b>411</b>	<b>460</b>	(49)	(11%)
Total production cost - \$/oz produced <sup>(3)(4)</sup>	<b>515</b>	<b>593</b>	(78)	(13%)
Capital expenditures - \$ millions	<b>186.5</b>	<b>73.4</b>	113.1	154%

(1) Cost of sales for 2010 and its comparative years exclude regional office administration.

(2) g/t means grams per tonne.

(3) Total cash cost and total production cost are non-GAAP measures and are discussed under “Non-GAAP Measures”.

(4) As a result of Kumtor's Restated Investment Agreement, total cash cost and total production cost per ounce measures for 2009 have been restated to exclude operating and revenue-based taxes.

### ***Revenue and Gold Production:***

Revenue in 2010 increased to \$704.3 million from \$523.7 million in 2009 primarily as a result of higher sales volumes (568,390 ounces in 2010 compared to 511,092 ounces in 2009) and higher average realized gold price in 2010 (\$1,239 per ounce compared to \$1,025 per ounce in the same period in 2009).

Kumtor produced 567,802 ounces of gold in 2010 compared to 525,042 ounces of gold in 2009. The higher production results primarily from higher mill head grade and recovery of the ore processed in 2010. For the current year the average grade was 4.02 g/t with a recovery of 79.5%, compared to 3.74 g/t with a recovery of 76.7% for the comparative period of 2009.

Gold production of 567,802 ounces in 2010 was within the guidance of 530,000-570,000 ounces of gold for the year. Kumtor's initial 2010 guidance of 520,000-560,000 ounces of gold was revised to 530,000-570,000 ounces of gold at the end of the first quarter. The resulting guidance change was due to the higher than anticipated production realized in the first quarter, which resulted from the processing of higher grade stockpiles established in the fourth quarter of 2009 and extracting more ore than expected from the benches mined in the first quarter.

### ***Cost of Sales***

Cost of sales at Kumtor in 2010 was \$213.2 million, a reduction of \$23.3 million (10%) compared to 2009. The reduction is due to higher production in 2010 (42,760 ounces or 8% higher than 2009), as more ore and less waste material was moved with the new larger fleet commissioned throughout 2010 and higher grades and recoveries were achieved through the mill. In addition the efficiency of the new fleet and the reduction of mining costs due to an increased proportion of stripping being capitalized lowered operating costs and further decreased cost of sales of the material sold.

Operating cash costs at Kumtor decreased by \$9.8 million in 2010 compared to 2009. This variance can be explained as follows:

Mining costs in 2010 were \$123.3 million, a reduction of \$8.9 million (7%) compared to 2009. This reduction reflects higher capitalisation of mining costs for pre-stripping (\$10.9 million), reduced equipment usage of CAT 777's and lower dozer costs (\$3.1 million), a reduction in maintenance materials and supplies (\$2.0 million), and lower dewatering materials and supplies costs (\$2.1 million). Other favourable variances include lower lubricant costs as a result of a successful oil sampling program (\$1.2 million) and lower cost on drilling consumables (\$0.9 million). This was partially offset by higher costs for diesel fuel (\$9.7 million) as a result of the introduction of a fuel export duty of approximately \$194 per tonne by the Russian Government, which cost \$8.0 million in the year, and higher fuel consumption predominantly on dewatering caused by greater water inflows into the Kumtor pit, which cost \$1.7 million in the year. Other unfavourable variances are related to higher national labour costs due to the new collective bargaining agreement (\$1.2 million) and higher costs for technical consultants (\$0.4 million).

Milling costs were \$56.1 million in 2010, an increase of \$1.4 million (3%) compared to 2009. The increase is primarily due to higher maintenance materials and supplies (\$1.5 million) which primarily resulted from major repairs performed during the planned shutdown in 2010, higher power costs due to increased power tariffs (\$1.4 million), higher allocation of camp catering costs (\$0.5 million), higher costs on national labour (\$0.3 million), and increased equipment allocation (\$0.2 million) due to greater equipment usage. This was partially offset by lower prices for and consumption of grinding media (\$1.4 million) and reduced reagent costs (\$1.1 million).

Site administration costs for 2010 totalled \$36.8 million, a reduction of \$2.4 million (6%) compared to \$39.2 million in 2009 primarily as a result of lower charge for camp catering costs (\$5.9 million) partially offset by higher maintenance costs (\$0.7 million), higher labour costs due to the new collective bargaining agreement (\$0.7 million), and higher costs for insurance (\$0.6 million) and diesel fuel (\$0.5 million).

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

Total cash cost per ounce produced was \$411 in 2010 compared to \$460 per ounce produced in 2009. This was predominantly due to higher production volumes and lower production costs in 2010. Total cash cost of \$411 per ounce produced in 2010 was below the guidance of \$430-\$460 per ounce provided for 2010 due to the higher production.

Cost of sales per ounce sold decreased to \$374 per ounce in 2010 compared to \$463 per ounce sold in 2009. This was mainly due to higher sales volumes and the decrease in cash operating costs.

### ***Mine Standby Costs***

Standby costs at the Kumtor mine in 2010 totalled \$1.3 million as a result of the temporary suspension of operations due to a ten-day strike initiated by the unionized employees on October 1, 2010. The labour dispute was resolved on October 10, 2010, after which Kumtor resumed full operation.

### ***Kumtor Regional Administration***

Kumtor Regional Administration costs in 2010 were \$15.5 million, \$0.2 million or 1% higher than 2009. The higher costs are a result of increased corporate contributions and higher expatriate labour costs due to higher performance-based remuneration.

### ***Depreciation, Depletion and Amortization***

Depreciation, depletion and amortization decreased by \$14.2 million to \$59.3 million in 2010 compared to 2009. The decrease is mainly due to an increase in reserves at the end of 2009 which extended the life of the mine and slowed the amortization of assets depreciated on the units of production method. In addition, \$3.5 million of depreciation related to the mobile equipment used for pre-stripping activities for cut-back 12 was capitalised.

### ***Exploration***

Exploration expenditures at Kumtor totaled \$11.5 million where work focused on drill testing the strike and dip extension of the SB, Stockwork, Saddle and Northeast Extension zones around the Kumtor Central Pit. This work had positive results which contributed to the reserve and resource increases published by the Company in February 2011. Regional exploration at Kumtor continued in June 2010 and drilling was completed at the Northeast and Muzdusuu prospects and the Sarytor and Southwest deposits. In addition target definition work was carried out on other targets on the Kumtor mining concession and the Karasay and Koendy exploration licenses. Results from the work have been encouraging and additional target definition work and drilling is planned for these areas in 2011.

### ***Capital Expenditures***

Capital expenditure for 2010 was \$186.5 million compared to \$73.4 million in 2009. This consisted of \$40.1 million of sustaining capital, predominantly spent on the heavy duty equipment overhaul program (\$20.5 million), the shear key and buttress additions to the tailings dam construction (\$7.3 million), the replacement of four dozers (\$3.9 million), major mill items (\$2.4 million), the waste dump expansion (\$1.8 million) and other miscellaneous projects totalling (\$4.2 million).

Growth capital investment in 2010 totalled \$146.4 million spent mainly on the purchase of the new CAT 789 haul trucks (\$64.3 million), underground development phase I and II (\$36.6 million), pre-strip capitalization of cut-back 12B (\$14.7 million – including \$11.2 million of cash costs and \$3.5 million of non-cash costs), the purchase of Liebherr shovels (\$13.7 million), the purchase of other mobile mining equipment (\$10.4 million), camp expansion (\$1.2 million), and other smaller projects (\$5.5 million).

The Kumtor pit high wall has been studied extensively since the SB Zone was developed in 2007. During 2008 and 2009, vertical and horizontal drilling established dewatering and depressurization of the till lithography, the waste dumps and the basement rock formations. The dewatering program was established, in consultation with a third-party consultant, to extract perched water and melt waters from the pit. The resulting higher strengths in the unfrozen till structure and the dewatered rock structures improved the geotechnical characteristics in the pit walls. In 2009, the extensive dewatering / depressurizing program was successful in capturing and managing the resulting water. The southeast section of the high wall was more difficult to dewater because of the high movement rate observed in the second quarter of 2009. In 2009 the mine initiated a plan to minimize the movement rate by unloading

the ice and waste from this area. In 2010, the unloading efforts have successfully reduced the movement rates, especially during the warmer summer months.

The SB Zone underground decline has advanced to a total 1,080 metres. The ground conditions vary between good and poor, with the poor ground associated with structural faults.

As planned, a second portal and drift were initiated from the Central Pit in 2009 and the program has been altered to allow access to the two resource structures at the same time. Exploration and delineation drilling of the two resources (SB Zone and Stockwork Zone) is still planned for 2011.

See “Risk Factors” and “Caution Regarding Forward-Looking Information”.

The Kumtor deposit is described in the Company’s most recently filed Annual Information Form (the “AIF”) and technical report dated December 16, 2009 (the “Kumtor Technical Report”) prepared in accordance with National Instrument 43-101 Standards for Disclosure for Mineral Projects (“NI 43-101”). The Kumtor Technical Report describes the exploration history, geology and style of gold mineralization at the Kumtor deposit. Sample preparation, analytical techniques, laboratories used and quality assurance-quality control protocols used during the drilling programs at the Kumtor site and satellite deposits are described in the Kumtor Technical Report. A copy of the Kumtor Technical Report can be obtained on SEDAR at [www.sedar.com](http://www.sedar.com). An updated NI 43-101 technical report is being prepared and will be completed and filed on SEDAR in mid-March.

## **Boroo and Gatsuurt**

The Boroo open pit mine, located in Mongolia, was the first hard rock gold mine in Mongolia. To date it has produced approximately 1.5 million ounces of gold since it began operation in 2004.

Boroo completed its mining activities at the end of November 2010. It is expected that the remaining refractory in situ ore at Boroo will be processed through a bio-oxidation facility which is to be developed for processing of Gatsuurt sulphide ore at the Boroo site. Further spending and development of the bio-oxidation facility is subject to receiving all required approvals and regulatory commissioning from the Mongolian Government allowing the Gatsuurt project to move forward.

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

	Year Ended December 31			
	2010	2009	Change	% Change
<b>Boroo Operating Results</b>				
Gold sold – ounces	116,999	165,302	(48,303)	(29%)
Revenue - \$ millions	142.2	161.8	(19.6)	(12%)
Average realized gold price - \$/oz sold	1,215	979	236	24%
Cost of sales - \$ millions <sup>(1)</sup>	50.7	59.4	(8.7)	(15%)
Cost of sales - \$/oz sold	434	360	74	20%
Total tonnes mined - 000s <sup>(2)</sup>	11,358	12,396	(1,038)	(8%)
Average mining grade (non heap leach material) - g/t <sup>(4)</sup>	1.33	1.48	(0.15)	(10%)
Tonnes mined heap leach – 000s	1,694	3,481	(1,787)	(51%)
Tonnes ore mined direct mill feed -000s	2,399	2,913	(514)	(18%)
Tonnes ore milled - 000s	2,466	2,077	389	19%
Average mill head grade - g/t <sup>(3), (4)</sup>	1.38	2.56	(1.18)	(46%)
Recovery - % <sup>(3)</sup>	71.8	72.9	(1.1)	(2%)
Gold produced – ounces	111,139	150,550	(39,411)	(26%)
Total cash cost - \$/oz produced <sup>(5)</sup>	611	456	156	34%
Total production cost - \$/oz produced <sup>(5)</sup>	786	673	113.2	17%
Capital expenditures (Boroo) - \$ millions	7.9	3.3	4.6	140%
Capital expenditures (Gatsuurt) - \$ millions	17.2	12.9	4.3	34%

- (1) Cost of sales for 2010 and its comparative years exclude regional office administration costs.  
(2) Includes heap leach material of 1,694,000 tonnes with an average mining grade of 0.70 g/t in 2010.  
(3) Excludes heap leach ore.  
(4) g/t means grams per tonne.  
(5) Total cash cost and total production cost are non-GAAP Measure and are discussed under “Non-GAAP Measures”.

### ***Revenue and Gold Production:***

Revenues for 2010 were \$142.2 million, compared to \$161.8 million in 2009, reflecting lower sales volume partially offset by the higher year-over-year realized gold price. The lower ounces sold resulted from lower production of gold in 2010 mainly due to lower grades achieved from the mill feed and lower ounces poured from the heap leach operation which remains idle since the expiry of its temporary permit at the end of April 2009. (See “Other Corporate Developments – Mongolia”.)

Gold production at Boroo was 111,139 ounces in 2010, a reduction of 39,411 ounces of gold produced as compared to 2009. The reduction is mainly due to lower mill head grades and lower contribution from the heap leach operation which remains idle pending issuance of a final operating permit by government authorities.

Gold production of 111,139 ounces in 2010 was within the guidance of 110,000-130,000 ounces of gold for the year. Boroo’s initial 2010 guidance of 120,000-140,000 ounces of gold was revised to 110,000-130,000 ounces of gold at the end of the first quarter. The resulting guidance change was due to the delays in obtaining the final heap leach operating permit and final approvals and regulatory commissioning of the Gatsuurt project.

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

The cost of sales at Boroo for 2010 was \$50.7 million, compared to \$59.4 million in 2009. This reduction is primarily the result of a 29% decrease in ounces sold in 2010 as compared to 2009.

The cost of sales per ounce sold of \$434 in 2010 (\$360 per ounce in 2009) was higher due to the decrease in gold production partially offset by lower operating costs.

The operating costs (including costs such as mining, processing, site administration, and royalties) for the year at Boroo decreased by \$1.0 million as compared to 2009.

Mining costs in 2010 increased 3% to \$20.5 million, \$0.5 million higher than in 2009. The costs were higher mainly due to increased diesel costs (\$1.7 million) and higher labour costs (\$2.7 million). The unit cost of diesel increased to \$0.86/litre in 2010 compared to \$0.72/litre in 2009. The increase in the labour costs results primarily from national salary increases based on a revised collective bargaining agreement as well as severance payments to mining employees who were laid off in the fourth quarter. The above cost increases were partially offset by a decrease in costs as a result of the cessation of mining activities at Boroo at the end of November.

Milling costs in 2010 increased 19% to \$21.1 million, \$3.3 million higher than in 2009. The costs were higher mainly due to higher power costs and increased mill throughput (19% higher in 2010) as a result of the uninterrupted mill operation for the entire twelve months in 2010, (the 2009 production was affected by the two-month plant shutdown in 2009 due to the labour strike and operating license suspension). The higher power costs (\$1.4 million) resulted from a rise in the unit cost to \$0.057/Kwh in 2010 from \$0.047/Kwh in 2009.

Heap leaching costs in 2010 decreased to \$2.3 million compared to \$6.7 million in 2009. In 2010, the heap leaching operations were limited to minimal crushing and stacking activities (where no cyanide was applied) due to the delay in obtaining the final operating permit, while in 2009 the heap leach facility was in full operation for the first four months of 2009 until the expiry of the temporary operating permit for the heap leach operation at the end of April 2009.

Site administration costs in 2010 increased by 4% to \$8.3 million, \$0.3 million higher than in 2009. This is due to higher costs for insurance, property tax, permits and fees in 2010.

Royalties decreased in 2010 by \$0.8 million or 10% to \$7.2 million due to the 12% lower sales in 2010.

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

Total cash costs per ounce produced increased to \$611 per ounce for 2010 compared to \$456 per ounce in 2009. This increase results primarily from the 26% decrease in produced ounces. (Total cash cost per ounce is a non-GAAP measure and is discussed under “Non-GAAP Measures”.) Total cash cost of \$611 per ounce produced in 2010 was within the guidance of \$590-\$690 per ounce provided for 2010.

***Boroo Regional Administration:***

Regional administration costs at Boroo were \$7.9 million for both 2010 and 2009.

***Depreciation and Amortization***

Depreciation and amortization costs were \$17.3 million in 2010, \$12.2 million or 41% lower than in 2009. The lower expense was mainly due to lower ounces sold in 2010 and the impact of an increase in mine ore reserves at Gatsuurt at the end of 2009 leading to lower amortization of the Boroo assets that will be involved in the processing of Gatsuurt ore and which are depreciated on the unit of production method.

***Exploration:***

The Company did not spend money on exploration in either 2010 or 2009 at the Boroo mine site. Exploration expenditures in Mongolia were \$8.2 million in 2010 compared to \$3.4 million incurred in 2009. The 2010 exploration expenditures were incurred in connection with additional drilling activities performed at the Gatsuurt and Ulaan Bulag properties and other projects in eastern Mongolia.

***Capital Expenditures:***

Capital expenditures were \$7.9 million in 2010 compared to \$3.3 million in 2009. The increase reflects \$4.4 million of capital incurred to raise the main cell tailings dam at Boroo to enable processing of the remaining Boroo ore and the Gatsuurt oxide ore.

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

**Gatsuurt Project**

As at December 31, 2010, proven and probable reserves for the Gatsuurt Project are estimated at 16.3 million tonnes averaging 2.8 g/t for a total of 1.5 million ounces of contained gold. Measured and Indicated resources are exclusive of proven and probable reserves and are estimated at 5.5 million tonnes averaging 2.4 g/t for a total of 426,000 ounces of contained gold.

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

The Gatsuurt Project anticipates mining and processing of the Gatsuurt Project ores in two phases; an oxide ore phase and a sulfide ore phase. The oxide ore phase encompasses mining

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

The Company anticipates overall gold recovery of 87% for the Gatsuurt Project oxide ore, and 73% for the transitional ore, using the existing Boroo processing facility. Pilot plant test results have confirmed that an overall gold recovery of 87% is achievable for the refractory sulphide ore utilizing bio-oxidation technology followed by cyanide leaching.

Approval to begin construction of the Gatsuurt Project was received from Centerra's Board of Directors in December 2008. To date, \$33.1 million has been expended on pre-production site construction and initial engineering of the proposed flotation and bio-oxidation facility. The Gatsuurt Project site infrastructure and engineering for the flotation and bio-oxidation facility are substantially complete. Completed site infrastructure includes a 55 km haul road, a services and administration building, a water diversion system of dams and channels, a construction camp, pads for ore and waste stockpiles, and a fueling station. Going forward, all development and construction activities at Gatsuurt have been suspended pending clarification of the impact of the Water and Forest Law on the Gatsuurt Project and until final approvals and regulatory commissioning to commence mining are received. See "Other Corporate Developments – Mongolia – Mongolian Legislation".

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

The development of Gatsuurt is subject to certain risks and uncertainties. See "Other Corporate Developments – Mongolia" and "Risk Factors".

## Fourth Quarter Results

Financial and Operating Summary	Three Months Ended December 31			
	2010	2009	Change	% Change
Revenue - \$ millions	323.3	323.9	(0.6)	(0%)
Cost of sales - \$ millions	68.7	74.1	(5.4)	(7%)
Net earnings - \$ millions	153.1	140.0	13.1	9%
Earnings per common share - \$ basic and diluted	0.65	0.60	0.05	8%
Cash provided by operations - \$ millions	137.1	188.6	(51.5)	(27%)
Capital expenditures -\$ millions	55.4	28.7	26.7	93%
Average realized gold price - \$/oz sold	1,375	1,129	246	22%
Gold sold – ounces	235,191	286,888	(51,697)	(18%)
Cost of sales - \$/oz sold	292	258	34	13%
Gold produced – ounces	249,866	296,048	(46,182)	(16%)
Total cash cost - \$/oz produced <sup>(1)</sup>	311	276	35	13%
Total production cost - \$/oz produced <sup>(1)</sup>	405	393	12	3%

(1) Total cash cost and total production cost are non-GAAP measures and are discussed under “Non-GAAP Measures”. As a result of Kumtor’s Restated Investment Agreement, total cash cost and total production cost per ounce measures for 2010 have been restated to exclude operating and revenue-based taxes.

### Overview

In the fourth quarter of 2010, the Company recorded net earnings of \$153.1 million or \$0.65 per common share, compared to net earnings of \$140.0 million (\$0.60 per common share) over the same period of 2009.

### Revenue and Gold Production:

Revenue in the fourth quarter of 2010 was \$323.3 million compared to \$323.9 million during the same period one year earlier. Fourth quarter 2010 revenue reflects an 18% decrease in ounces sold (235,191 ounces in the fourth quarter 2010 versus 286,888 ounces in the fourth quarter of 2009). Lower sold ounces were fully offset by a higher realized gold price (\$1,375 per ounce in the fourth quarter of 2010 versus \$1,129 per ounce in the fourth quarter of 2009).

The Company produced 249,866 ounces in the fourth quarter of 2010, 46,182 ounces or 16% lower than the same period in 2009. The lower gold production was primarily due to lower production at both Boroo and Kumtor. The Boroo production in the fourth quarter of 2010 was lower by 27,520 ounces compared to the same period of 2009 due to lower grades and lower recovery of the ore processed by the mill (representing 25,153 fewer ounces) and the suspension of operations of the heap leach facility (representing 2,367 fewer ounces). The Kumtor production in the fourth quarter of 2010 was lower by 18,662 ounces compared to the same period of 2009 due to lower mill throughput (down 8%) mainly as a result of the labour dispute and related ten-day work stoppage.

### Cost of sales:

Cost of sales of \$68.7 million in the fourth quarter of 2010 was \$5.4 million or 7% lower than the same quarter of 2009 (\$74.1 million) due to decreased operating costs (\$4.7 million) and lower sales volumes.

Fourth quarter operating costs in 2010 as compared to 2009 (including costs such as mining, processing, site administration, and royalties) have decreased by approximately \$4.7 million.

At Kumtor, quarter over quarter, operating costs decreased by \$0.9 million or 2% primarily due to lower mining costs (down \$2.5 million) partially offset by higher milling costs (\$0.7 million) and higher site administration costs (\$0.9 million). The lower mining costs of \$2.5 million reflect an allocation to capital of \$10.9 million of mining costs expended on the pre-stripping of cut-back 12B, partially offset by higher costs for diesel fuel (\$4.2 million) as a result of the introduction of the fuel export duty by the Russian Government, higher national labour costs (\$2.2 million) due to the new collective bargaining agreement, higher maintenance costs (\$1.0 million) and higher tire costs (\$0.4 million) due to the expanded mine fleet, and higher camp catering costs (\$0.6 million). The milling and site administration costs increased due to higher national labour, power and diesel costs.

Operating costs at Boroo were down \$3.8 million quarter-over-quarter primarily due to reduced mining (\$1.1 million), heap leaching (\$1.4 million) and royalties (\$1.3 million) costs. The mining costs were lower as Boroo ceased mining activities at the end of November 2010. Heap leaching costs were \$1.4 million lower as no crushing and stacking activities occurred in the fourth quarter of 2010, while in the same quarter of 2009 Boroo performed limited activities and incurred related costs. Royalties decreased in 2010 due to the 43 % lower sales in the 2010 quarter.

The impact of these cost changes on cost of sales and other reported results varies with the changing levels of capital and operating activities and the build-up or drawdown of inventories during the periods presented.

On a unit basis, cost of sales per ounce sold for the fourth quarter of 2010 was \$292 compared to \$258 for the same period of 2009 reflecting a decrease in efficiencies of fixed costs due to lower production resulting from lower throughput and lower recoveries, as described above.

Total cash cost per ounce produced was \$311 in the fourth quarter of 2010 compared to \$276 per ounce in the same period of 2009. Total cash operating costs of \$77.7 million in the fourth quarter of 2010 were \$4.1 million or 5% lower than the \$81.8 million in the same period in 2009. However, gold production was significantly down by 46,182 ounces or 16% which more than offset the favourable variance coming from the lower cash operating costs. (Total cash cost is a non-GAAP measure and is discussed under “Non-GAAP Measure – Total Cash Cost.”).

#### ***Mine Standby Costs***

During the fourth quarter 2010 Kumtor recorded \$1.3 million as standby costs as a result of the temporary suspension of operations due to a ten-day strike initiated by the unionized employees on October 1, 2010. The labour dispute was resolved on October 10, 2010, after which Kumtor resumed full operation.

#### ***Depreciation, Depletion and Amortization:***

Depreciation, depletion and amortization in the fourth quarter 2010 totalled \$21.3 million, a decrease of \$8.0 million or 27% as compared to the same period in 2009 due to lower depreciation both at Kumtor and Boroo as a result of an 18% reduction in ounces sold and lower depreciation charges due to an increase in mine ore reserves and an extension of the

mine life at the end of 2009 at both sites, leading to a longer period amortization of assets depreciated on the unit of production method in the fourth quarter of 2010. In addition, in the fourth quarter 2010, Kumtor capitalized \$3.5 million of depreciation related to the mobile equipment used for pre-stripping activities for on cut-back 12B.

### ***Cash Flow***

Cash provided by operations was \$137.1 million for the fourth quarter of 2010 compared to \$188.6 for the fourth quarter of the prior year. The decrease reflects an increase in cash expenditures on working capital at both sites.

### ***Capital Expenditures***

Capital expenditures in the fourth quarter of 2010 totalled \$55.4 million compared to \$28.7 million in the same period of 2009. Capital expenditures included \$9.4 million spent and accrued on sustaining capital projects (\$5.7 million in the same period of 2009) and \$46.0 million invested in growth capital (\$23.0 million in the same period of 2009). The major growth capital initiatives at Kumtor were related to the underground development project (\$9.5 million), the capitalized pre-stripping for cut-back 12B (\$14.7 million), the purchase of Liebherr shovels (\$9.7 million), CAT 789 haul truck purchases (\$7.1 million), and D45 drill purchases (\$2.5 million) at Kumtor. The growth capital expenditures for Boroo and Gatsuurt in the fourth quarter of 2010 amounted to \$1.2 million compared to \$10.3 million in the same period of 2009. The growth capital spending included \$0.3 million spent at Boroo on raising the main cell of the tailings dam to process Boroo ores and \$0.9 million spent on the Gatsuurt project.

### ***Goodwill:***

During fourth quarter ended December 31, 2010, the Company undertook its normal annual review of goodwill. As a result, management concluded that current circumstances did not indicate that the carrying value of the Kyrgyz reporting unit exceeded its fair value.

### ***Taxes:***

Centerra recorded revenue-based tax expense of \$40.5 million for the Kyrgyz segment in the fourth quarter of 2010 compared to \$36.8 million in the same period in 2009. In the Mongolian segment, an income tax recovery of \$1.7 million was recorded in the fourth quarter of 2010 compared to an expense of \$15.5 million in the fourth quarter 2009.

The increase in the revenue-based tax expense recorded by the Kyrgyz segment reflects higher revenue in the last quarter of 2010.

Income tax expense in the Mongolian segment is determined by reference to the Mongolian Tugrik (MNT). The reduction of \$17.2 million in income tax expense in the segment in the fourth quarter 2010 compared to the fourth quarter 2009 resulted primarily from the tax benefit recorded as a result of the strengthening MNT versus the US dollar in the fourth quarter 2010 on Boroo's US-dollar denominated monetary assets. To a lesser extent, the reduction in income tax in the quarter was due to Boroo's lower earnings in the current quarter of 2010.

A nil income tax provision in the fourth quarter 2010 for the North American segment reflects the fact that each entity in the segment incurred a loss for income tax purposes, and that none of these losses have been tax effected.

**Exploration:**

Exploration expenditures for the fourth quarter of 2010 were \$11.2 million compared to \$8.5 million in the fourth quarter of 2009 reflecting higher spending at Kumtor and on exploration projects in Mongolia.

***Kyrgyz Republic***

In the fourth quarter of 2010, the drilling program focused on testing the extent and grade of mineralization within, below and along strike of the SB Zone in the Central Pit. Drilling in the fourth quarter to test the Southwest Extension of the SB Zone returned significant results. The results from the holes have been used in the expanded pit design and the associated increase in reserves and resources. In addition drilling has extended the SB Zone a further 100 metres along strike and down dip to the northeast. Further drilling to test the strike and down dip extension of the SB Zone and to test the Saddle zone is planned in the first quarter of 2011.

In addition regional exploration drilling continued in the fourth quarter of 2010 testing targets at Muzdusuu, Southwest and Sarytor areas.

***Mongolia***

During the fourth quarter of 2010 exploration work continued focused on target definition work and drill testing of targets on properties along the Yeroogol trend. Drilling was carried out of the Gatsuurt, Biluut and Ulaan Bulag properties. Results continue to be encouraging and additional work is planned for 2011. In addition in the fourth quarter 2010 an initial drill program was carried out on the Altairgold joint venture Sumber property which is located approximately 25 Km to the northwest of the Boroo operations. The results from this work are being reviewed.

In addition to the exploration in the immediate vicinity of the Boroo deposit and the Gatsuurt district work continued to define and test targets on Centerra's properties in north-eastern Mongolia along the Yeroogol trend and on the land holdings acquired in eastern Mongolia. This work will continue in 2011.

***Russia******Central Asia Gold – Kara Beldyr JV***

Centerra entered into an option/joint venture agreement with Central Asia Gold AB on September 3, 2008 covering the Kara Beldyr project in the Tyva Republic, Russia. In August 2010, Centerra earned its 50% interest in the property, and has subsequently exercised its option to earn an additional 20% interest. The property covers a number of prospects identified by Russian exploration work completed in the 1970s and 1980s. The prospects have not been explored using modern exploration concepts. Under the supervision of Centerra, geochemical and geophysical surveys and limited shallow drilling were completed in 2008. The results have identified two gold-bearing structures both of which have been tested by diamond drilling in 2009 and 2010. The results of this work are encouraging and a further phase of diamond drilling will be carried out in 2011.

### *Amur Gold – Illichy JV*

The Company entered into an option/joint venture agreement with Limited Liability Company Amur Gold on August 27, 2009 covering the Illichy project prospect a potential epithermal gold system in the Illichy Unakhinskiye ore field in Russia. Soil geochemical and geophysical surveys and trenching were completed in the fourth quarter of 2010. Drilling was completed in the first quarter of 2010 and the results were disappointing. The joint venture has been terminated.

## **Turkey**

### *KEFI Minerals – Artvin JV*

Additional target definition work and drilling was completed in the summer of 2009. A second four hole diamond drill program was completed at the end of the fourth quarter of 2009. The results were disappointing and the joint venture agreement was terminated in 2010.

### *KEFI Minerals – Bakir Tepe JV*

The Company entered into a further option/joint venture agreement with KEFI on December 18, 2009 covering the Bakir Tepe property in Turkey. The property is located in southwest Turkey approximately 400 Km to the southwest of Ankara. The property covers a potential gold rich volcanogenic massive sulphides target. A drill program was started at the end of December 2009 and completed in the first quarter of 2010. The results were disappointing and the joint venture has been terminated.

### *Eurasian Minerals Joint Venture – Akarca, Samli, and Elmali Projects*

Centerra entered into an option/joint venture agreement with Eurasian Minerals Inc. (“EMX”) on December 23, 2008 covering three epithermal gold properties in northwest Turkey, in the West Anatolia region; Akarca, Elmali and Samli. Based on encouraging exploration results, the Elmali exploration license was converted into an exploitation license in the fourth quarter of 2009. A 15 hole diamond drill program to test the targets identified on the Elmali property, originally scheduled for 2010, was delayed and will be carried out in 2011. Target definition work was completed on the Akarca property in the summer of 2009 and into 2010 followed by diamond drilling. Results from this work have been encouraging and additional trenching and drilling is planned in 2011.

### *Stratex International – Öksüt JV*

The Company entered into an option/joint venture agreement with Stratex International Plc on August 13, 2009 covering the Öksüt property in Turkey. The property covers a high sulphidation epithermal system with gold and base metal potential. A diamond drilling program was carried out in 2009 and 2010 to test a number of the epithermal targets on the large property. The results are encouraging and additional diamond drilling is planned in 2011. Additional geological, geochemical and geophysical work is also planned in 2011.

## ***United States (Nevada)***

### ***Nevada, USA – Tonopah Divide***

Centerra entered into an exploration and option agreement with Tonogold Resources, Inc. effective January 1, 2008 under which Centerra has the right to earn a 60% interest in the Tonopah Divide project in Nevada by spending \$2.7 million over five years. Centerra earned its 60% interest in the property in the second quarter of 2010. Additional drill programs have been completed in 2010 to test priority targets, defined by geology, geochemistry, and geophysics. The data are being compiled.

### ***Nevada, USA – Oasis***

Centerra entered into an exploration and option agreement with Redstar Gold USA Inc. (“Redstar”) on April 22, 2010 covering the Oasis project in Nevada, USA. Pursuant to the agreement, Centerra has the right to earn a 75% interest in the project by spending a total of \$4 million over five years. Thereafter the Company and Redstar shall further fund the exploration and development of the Oasis property proportionate to their respective interests. Target definition work was carried out and an initial drill program completed in 2010. Data are being compiled and additional drilling planned in 2011.

## **Quarterly Results – Last Eight Quarters**

Over the last eight quarters, Centerra’s results reflect the positive impact of rising gold prices and increased gold production at Kumtor but offset by the rising cash costs. The results for the third quarter of 2010 include the gain on sale of the REN exploration property of \$34.9 million, while the results for the second quarter of 2009 reflect the impact from unusual items of \$49.3 million of charges. The quarterly financial results from 2010 and 2009 are shown below:

### **Key results by quarter**

<i>\$ millions, except per share data</i>	2010				2009			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	323	115	152	255	324	159	104	98
Net earnings (loss)	153	18	30	122	140	20	(80)	(20)
Earnings (loss) per share (basic and diluted)	0.65	0.07	0.13	0.52	0.60	0.09	(0.36)	(0.09)

## **Balance Sheet**

### **Inventory**

Total inventory at December 31, 2010 of \$196 million (\$175 million at December 31, 2009) includes gold inventory of \$83 million (\$69 million in 2009) and supplies inventory of \$113 million (\$106 million in 2009).

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

The aggregate book value of property, plant and equipment at December 31, 2010 of \$516 million, compares to \$381 million at the end of 2009 and is allocated as follows: Kyrgyz \$402 million, Mongolia \$113 million and corporate entities \$1 million. The significant increase in 2010 relates mainly to the growth projects at Kumtor, being the underground project and the mine fleet expansion.

### **Share capital**

As of February 23, 2011, Centerra had 235,869,397 shares outstanding and options to acquire 903,987 common shares outstanding under its stock option plan with exercise prices ranging between Cdn\$4.68 and Cdn\$14.37 per share, with expiry dates ranging between 2014 and 2017.

### **Asset Retirement Obligations**

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

The Company has estimated the net present value of the total asset retirement obligations to be \$34.6 million as at December 31, 2010 (December 31, 2009 - \$29.7 million). These payments are expected to commence over the next 1 to 10 years. The Company used a historical weighted average credit-adjusted risk-free rate of 6.34% at Kumtor and 6.95% at Boroo to calculate the present value of the asset retirement obligations.

The increase in the present value of the obligation of \$4.9 million was mainly as a result of the latest update to the closure costs estimates at both sites and the revision to the estimated mine life at Kumtor.

The Company's future undiscounted decommissioning and reclamation costs have been estimated to be \$49.7 million before salvage value of \$8.4 million.

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

The Company had no gold hedges in place as of December 31, 2010. Centerra currently intends that its gold production will remain unhedged.

Centerra does not enter into off-balance sheet arrangements with special purpose entities in the normal course of its business, nor does it have any unconsolidated affiliates. In the case of joint ventures, the Company's proportionate interest for consolidation purposes is equivalent to the economic returns to which it is entitled as a joint-venture partner.

### **Liquidity and Capital Resources**

At December 31, 2010, Centerra held cash and cash equivalents of \$330.7 million, plus short-term investments of \$82.3 million. In November 2010, Centerra secured a three-year, \$150 million revolving credit facility to increase liquidity available for future growth initiatives. Centerra believes it has sufficient cash to carry out its business plan in 2011, including its exploration plans. To the extent that a new property is acquired and/or developed, additional financing may be required. Continued uncertainty in global financial markets has constrained the ability of many companies to access capital markets funding. Although Centerra has no current requirements for such funding, the markets have retained an interest in gold producers and, under the right conditions, equity issues of many of these companies have been well received. With the conclusion in 2009 of the transactions contemplated in the Agreement on New Terms (June 11, 2009) and the divestiture by Cameco of its interest in Centerra (December 30, 2009), management of Centerra believes that the Company is well positioned to grow and may contemplate an equity issue to support growth initiatives. (See "Caution Regarding Forward-Looking Information" and "Risk Factors".)

The Company's cash is derived from cash provided by operating activities. A summary of the Company's cash position and changes in cash is provided below:

<b>\$ millions</b>	<b>2010</b>	2009	2008
Cash provided by operating activities	<b>271</b>	\$ 246	\$ 166
Cash provided by (used in) investing activities	<b>(110)</b>	(220)	(112)
Cash provided by (used in) financing activities	<b>(7)</b>	2	(10)
Cash provided (used) during the year	<b>154</b>	28	44
Cash and cash equivalents, beginning of the year	<b>177</b>	149	105
Cash and cash equivalents, end of the year	<b>331</b>	\$177	\$149

Cash provided by operations was \$271 million in 2010 compared to \$246 million in 2009 and \$166 million in 2008. The change between 2010 and 2009 reflects increased sales volumes, higher realized prices and lower operating costs, partially offset by an increase in working capital levels. The increase in 2009 from 2008 similarly saw higher sales volumes, higher realized prices and lower working capital levels, partially offset by higher operating costs.

Investing activities in 2010 were \$110 million, including \$64 million in U.S. Government securities and commercial paper settled in the year, proceeds of \$35 million on the sale of the REN property and further reflects \$44 million of sustaining capital and \$164 million of growth capital spent at the Kumtor and Boroo mines. The comparative in 2009 of \$220 million includes \$128 million of funds invested in short-term U.S. Government securities and commercial paper, \$40 million of sustaining capital and \$50 million of growth capital spent at the Kumtor and Boroo mines. The \$112 million of cash used for investing activities in 2008 reflects \$18 million in U.S. Government securities and commercial paper settled in the year and further reflects \$47 million of sustaining capital and \$47 million of growth capital spending at the Kumtor and Boroo mines.

Working capital, which consists of accounts receivable, prepaids, inventory, supplies and accounts payable, increased in 2010 by \$87 million compared to a decrease of \$45 million in 2009.

## Contractual Obligations

The following table summarizes Centerra's contractual obligations, including payments due for the next five years and thereafter, as of December 31, 2010.

\$ millions	Total	Due in Less than One year	Due in 1 to 3 Years	Due in 4 to 5 Years	Due After 5 Years
Kumtor					
Reclamation trust deed <sup>(1)</sup>	\$ 13.5	\$ 1.8	\$ 3.3	\$ 3.2	\$ 5.2
Capital equipment <sup>(2)</sup>	37.6	37.6	-	-	-
Operational supplies	32.1	32.1	-	-	-
Boroo					
Conservation fund <sup>(3)</sup>	0.1	0.1	-	-	-
Corporate					
Lease of premises <sup>(4)</sup>	2.6	0.4	0.8	0.9	0.5
<b>Total contractual obligations</b>	<b>\$ 85.9</b>	<b>\$ 72.0</b>	<b>\$ 4.1</b>	<b>\$ 4.1</b>	<b>\$ 5.7</b>

(1) Centerra's future decommissioning and reclamation costs for the Kumtor mine are estimated to be \$29.2 million. The estimated future cost of closure, reclamation and decommissioning of the Project net of salvage values which are estimated to be \$8.4 million are used as the basis for calculating the amount to be deposited in the Reclamation Trust Fund (\$20.8 million). This restricted cash is funded by sales revenue, annually in arrears and on December 31, 2010 the balance in the fund was \$7.4 million (2009 - \$6.4 million), with the remaining \$13.4 million to be funded over the life of the mine.

(2) Agreement as at December 31, 2010 to purchase capital equipment.

(3) The Company has agreed to donate funds to the Tiamen conservation fund in Mongolia.

(4) Lease of corporate office premises expiring in November 2016.

## Overview of 2009 Versus 2008

For the year ended December 31, 2009, the Company recorded net earnings of \$60.3 million or \$0.27 per share, compared to net earnings of \$134.8 million or \$0.62 per share in 2008. The decrease reflects a 9% decrease in the ounces sold for the year, a 19% increase in realized gold price and the impact of unusual items (described below) which resulted in a significant charge in 2009 as opposed to a gain in 2008. During 2009, the Company's net earnings reflected unusual items of \$49.3 million (loss) relating to the issuance of common shares and other related costs pursuant to the Agreement on New Terms signed with the Kyrgyz Government during the second quarter of 2009. Before allowing for unusual items, earnings in 2009 were \$109.6 million or \$0.48 per share. During 2008, the Company recorded a write-down of \$18.8 million to the goodwill of the Mongolia reporting unit and unusual items of \$37.7 million (gain) relating to the reduction to fair value recorded in the second quarter of 2008 of the contingent share obligation under the expired preliminary framework agreement with the Kyrgyz Government. Before allowing for unusual items, earnings in 2008 were \$97.1 million or \$0.45 per share.

Gross profit, defined as revenue less cost of sales, regional office administration, depreciation, depletion, amortization, accretion and reclamation, was \$256 million in 2009 compared to \$206 million in 2008. This increase was attributable to:

- Revenues for 2009 increased by \$49.5 million over 2008 due to a 19% increase in realized gold price partially offset by a 9% decrease in ounces sold. The higher realized gold prices resulted from an increase in the spot market prices. Average realized prices were \$1,013 per ounce in 2009 compared to \$853 in 2008. The decrease in the ounces

sold results from a 6% decrease in gold production at Kumtor mostly due to a delay in mining activities necessary to expose high-grade SB ore and mining benches, primarily due to the need to dedicate mining equipment to address the accelerated movement of ice and waste in the southeast high wall of the Central Pit above the SB zone. In addition, there was a 22% decrease in gold production at Boroo as a result of a nine-week operational shutdown due to an employee strike followed by a temporary suspension of the Boroo operating permit.

- Decreases in the cost of sales to \$296 million in 2009 from \$332 million in 2008 resulted primarily from fewer ounces sold as well as decreased costs.
- Total cash cost per ounce produced for 2009 increased to \$459 compared to \$423 per ounce in 2008 (Total cash cost per ounce produced is a non-GAAP measure and is discussed under “Non-GAAP Measures”.) The increase in 2009 reflects the impact of lower production partially offset by lower operating costs at Kumtor and Boroo.
- Depreciation, depletion, amortization, accretion and reclamation increased to \$104 million from \$78 million in 2008. Kumtor recorded an increase of \$14.3 million due to the additional depreciation caused by the componentization adjustment for mobile equipment recorded in 2008, which resulted in an increase in the rate of amortization for certain mobile equipment. Boroo recorded an increase of \$11.3 million due to the additional amortization of the pit 3 pre-strip costs capitalized in 2008.

Interest and other income/expense amounted to \$1.7 million income compared to \$4.5 million expense in 2008. Interest and other income/expense in 2009 reflect a net gain of \$1.6 million (\$nil in 2008) from the mining, processing and sale of doré from the alluvial deposit located on the Boroo mining concession, a lower interest income of \$0.2 million (\$2.0 million in 2008), a foreign exchange gain of \$0.8 million (\$1.1 million loss in 2008), a loss on sale of assets of \$0.7 million (\$3.6 million in 2008), interest expense and financing charges of 0.1 million (\$1.4 million in 2008), and a provision for uncollectible advances of \$0.2 million (\$0.4 million in 2008).

Corporate administration costs were \$33 million in 2009 compared with \$27 million in 2008. The increase is mainly due to higher share-based compensation in 2009 as a result of the increased Centerra share price.

Income tax in the amount of \$29.2 million was expensed in 2009, compared to \$34.1 million in 2008. The net decrease of \$4.9 million represents a reduction in the income tax expense at Kumtor of \$14.3 million, as a result of the agreement between Centerra, Cameco and the Kyrgyz Government. This was partially offset by an increase in the income tax expense at Boroo of \$9.4 million mainly resulting from the impact of the weakened Mongolian Tugrik during 2009.

Cash flow provided from operations for 2009 was \$245.6 million compared to \$166.3 million in 2008, primarily as a result of reduced working capital levels, mainly lower inventories and higher payables, at the end of the year. Cash used in investing activities totaled \$220.2 million in 2009 compared to \$112.2 million in the prior year. Investments in capital projects of \$92 million were similar in both years, while investments in short-term financial instruments were significantly higher in 2009 due to the increase in available cash in 2009 (2009 investments totaled \$128 million compared to \$18 million invested in 2008). Investments in growth capital for 2009 totalled \$52.0 million, while \$40.0 million was invested in sustaining capital.

At December 31, 2009, cash and cash equivalents plus short-term investments totaled \$322.9 million compared to \$167.4 million at December 31, 2008.

## **Non-GAAP Measures**

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

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

Net earnings before unusual items are a non-GAAP measure. It has been included because certain investors use this information to assess how the Company would perform when items not considered to be usual in nature are excluded. This may enable investors to better understand year-over-year changes in income.

## Total Cash Cost per Ounce Produced and Total Production Cost per Ounce Produced can be reconciled as follows:

(unaudited) (\$ millions, unless otherwise specified)	Year ended December 31,			Fourth Quarter	
	2010	2009	2008	2010	2009
<b><i>Centerra:</i></b>					
Cost of sales, as reported	\$ 263.9	\$ 295.9	\$ 332.0	\$ 68.7	\$ 74.1
Adjust for:					
Refining fees & by-product credits	(0.1)	0.6	(0.1)	(0.3)	0.2
Regional office administration	23.4	23.2	18.8	7.4	7.5
Mining Standby Costs	1.3	4.1	-	1.3	-
Operating taxes excluded <sup>(1)</sup>	-	(8.7)	(44.4)	-	-
Non-operating costs	-	(1.3)	1.5	0.8	(0.6)
Inventory movement	12.8	(3.6)	9.3	(0.2)	0.6
Total cash cost - 100%	\$ 301.3	\$ 310.2	\$ 317.1	\$ 77.7	\$ 81.8
Depreciation, depletion, amortization and accretion	78.2	104.3	78.8	21.6	29.5
Inventory movement - non-cash	0.4	(4.5)	3.4	1.9	2.3
Total production cost - 100%	\$ 379.9	\$ 410.0	\$ 399.3	\$ 101.2	\$ 113.6
Ounces poured - 100% (000)	678.9	675.6	748.9	249.8	296.1
Total cash cost per ounce produced	\$ 444	\$ 459	\$ 423	\$ 311	\$ 276
Total production cost per ounce produced	\$ 560	\$ 607	\$ 533	\$ 405	\$ 384
<b><i>Kumtor:</i></b>					
Cost of sales, as reported	\$ 213.2	\$ 236.5	\$ 273.1	\$ 54.4	\$ 57.4
Adjust for:					
Refining fees & by-product credits	(0.2)	0.4	(0.2)	(0.3)	0.1
Regional office administration	15.5	15.3	12.1	4.8	5.1
Mining Standby Costs	1.3	-	-	1.3	-
Operating taxes excluded <sup>(1)</sup>	-	(8.7)	(44.4)	-	-
Non-operating costs	-	(0.7)	1.3	0.8	(0.2)
Inventory movement	3.6	(1.2)	1.5	(1.2)	(1.9)
Total cash cost - 100%	\$ 233.4	\$ 241.6	\$ 243.4	\$ 59.8	\$ 60.5
Depreciation, depletion, amortization and accretion	59.6	73.7	60.0	17.7	20.4
Inventory movement - non-cash	(0.5)	(6.6)	1.5	2.4	1.7
Total production cost - 100%	\$ 292.5	\$ 308.7	\$ 304.9	\$ 79.9	\$ 82.6
Ounces poured - 100% (000)	567.8	525.0	556.3	228.4	247.1
Total cash cost per ounce produced	\$ 411	\$ 460	\$ 438	\$ 262	\$ 245
Total production cost per ounce produced	\$ 515	\$ 588	\$ 548	\$ 349	\$ 334
<b><i>Boroo:</i></b>					
Cost of sales, as reported	\$ 50.7	\$ 59.4	\$ 58.9	\$ 14.3	\$ 16.7
Adjust for:					
Refining fees & by-product credits	0.1	0.2	0.1	-	0.1
Regional office administration	7.9	7.9	6.7	2.6	2.4
Mining Standby Costs	-	4.1	-	-	-
Operating taxes excluded <sup>(1)</sup>	-	-	-	-	-
Non-operating costs	-	(0.6)	0.2	-	(0.4)
Inventory movement	9.2	(2.4)	7.8	1.0	2.5
Total cash cost - 100%	\$ 67.9	\$ 68.6	\$ 73.7	\$ 17.9	\$ 21.3
Depreciation, depletion, amortization and accretion	18.6	30.6	18.8	3.9	9.1
Inventory movement - non-cash	0.9	2.1	1.9	(0.5)	0.6
Total production cost - 100%	\$ 87.4	\$ 101.3	\$ 94.4	\$ 21.3	\$ 31.0
Ounces poured - 100% (000)	111.1	150.6	192.6	21.4	49.0
Total cash cost per ounce produced	\$ 611	\$ 456	\$ 382	\$ 836	\$ 435
Total production cost per ounce produced	\$ 786	\$ 673	\$ 490	\$ 994	\$ 634

(1) Kumtor's operating taxes under the previous tax regime are removed in both years since these were replaced with a revenue-based tax combining income and operating taxes from the previous regime.

## Related Party Transactions

### Kyrgyzaltyn and the Government of the Kyrgyz Republic

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

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

(\$ thousands)	Twelve months ended December 31	
	2010	2009
Management fees paid by KGC to Kyrgyzaltyn	\$ 568	\$ 575
Concession payments paid by KGC to Kyrgyz Republic	-	(116)
Total	\$ 568	\$ 459
Gross gold and silver sales from KGC to Kyrgyzaltyn	\$ 706,823	\$ 526,066
Deduct: refinery and financing charges	(2,558)	(2,362)
Net sales revenue received by KGC from Kyrgyzaltyn	\$ 704,265	\$ 523,704

Gold produced by the Kumtor mine is purchased at the mine site by Kyrgyzaltyn for processing at its refinery in the Kyrgyz Republic pursuant to a Restated Gold and Silver Sales Agreement (the "Sales Agreement"). Under the Sales Agreement Kyrgyzaltyn is required to pay for gold within 12 calendar days of shipment from the Kumtor mill at a price that is fixed based on the London PM fixed price of gold on the London Bullion Market. The obligations of Kyrgyzaltyn are partially secured by a pledge of 2,850,000 shares of Centerra owned by Kyrgyzaltyn, the value of which fluctuates with the market price of Centerra's shares.

At the request of the Kyrgyz Government and as agreed with the Company in August 2010, advances of taxes were made totalling \$11 million, covering a portion of the expected tax obligations of KGC until the end of December 2010. The advances have been applied against the 2010 revenue-based taxes otherwise payable in January 2011.

As at December 31, 2010, \$89 million was outstanding under the Sales Agreement (December 31, 2009 - \$37.9 million).

## **Other Corporate Developments**

### **Kyrgyz Republic**

#### *Events of 2009*

Major events occurred in 2009 with a significant impact on Centerra and the Kumtor project.

On April 24, 2009, Centerra, Cameco Corporation and the Kyrgyz Government entered into an Agreement on New Terms for the Kumtor project (the “ANT”). The parties subsequently, on June 11, 2009, entered into restated project agreements (including a Restated Concession Agreement, a Restated Investment Agreement, a Restated Gold and Silver Sale Agreement and a Restated Shareholders’ Agreement) to govern the Kumtor project. These agreements incorporated the provisions of the ANT and settled certain outstanding disputes related to the Kumtor project. In December 2009, Cameco divested its ownership in Centerra in the public market except for a portion of its outstanding common shares of Centerra which it transferred to Kyrgyzaltyn as provided for in the Restated Investment Agreement. As a result of these transactions at the end of 2009, Kyrgyzaltyn’s ownership represented approximately 33% of the issued and outstanding common shares of Centerra, and the remainder held by public shareholders. The completion of the ANT in 2009 was a significant positive step for both Centerra and the Kyrgyz Government as it provided a stable foundation for the significant growth investments at Kumtor such as the open pit capital and underground development project.

Pursuant to the Restated Shareholders Agreement dated as of June 6, 2009 between Kyrgyzaltyn and Centerra, so long as Kyrgyzaltyn and its affiliates continue to hold 10% or more of Centerra's outstanding shares, Centerra has agreed to include in Centerra's proposed slate of directors to be nominated for election at each annual or special meeting at which directors are to be elected, two board nominees designated by Kyrgyzaltyn, at least one of whom must be independent of the Kyrgyz Government, within the meaning of applicable securities laws in Canada. Should Kyrgyzaltyn and its affiliates own less than 10% but more than 5% of Centerra's outstanding shares, Centerra has agreed to include in the slate of directors one nominee of Kyrgyzaltyn who shall not be required to be independent. Kyrgyzaltyn currently owns approximately 33% of Centerra's outstanding shares and accordingly is entitled to two board nominees, which were appointed to the Board of Directors in August 2010.

#### *2010 Developments*

In early April 2010, civil unrest in the Kyrgyz Republic resulted in the ousting of President Kurmanbek Bakiyev and the formation of an interim government by opposition groups. A national referendum was held in the Kyrgyz Republic on June 27, 2010, which approved a new constitution and the appointment of Roza Otunbaeyva as President of the Kyrgyz Republic for a transition period until December 31, 2011. On October 10, 2010, parliamentary elections were held in the Kyrgyz Republic, with five parties receiving sufficient votes to be represented in the Parliament. In mid December 2010, a coalition government was formed by three parties and on December 18, 2010, the parliament elected a speaker and Mr. Almazbek Atambayev was approved as Prime Minister of the Kyrgyz Republic.

On October 1, 2010, unionized employees of the Company’s Kumtor mine in the Kyrgyz Republic commenced an illegal work stoppage which continued until October 10, 2010

when employees returned to work. The then current collective agreement, which was scheduled to expire on December 31, 2010, was replaced with a new collective agreement that was ratified by the union. The new collective agreement will expire on December 31, 2012. During the ten-day work stoppage, production at the Kumtor mine was suspended.

Kumtor Operating Company (“KOC”), the Company’s Kyrgyz Republic operating subsidiary, pays Kyrgyz Republic Social Fund (“Social Fund”) contributions in respect of the base wages of its national employees. In late 2010, the Social Fund notified KOC of its position that KOC should pay contributions to the Social Fund not only in respect of base wages but also in respect of the premium compensation that KOC is required to pay employees for work at high-altitude. A potential adjustment to the Social Fund contribution for the 2010 year as a result of this matter, could require an additional payment ranging from zero to \$7.4 million. The position of the Social Fund is inconsistent with its past practices and with prior audits of KOC, completed as recently as 2009. KOC plans to continue to vigorously dispute the Social Fund’s position. At this time, the likelihood of liability is not determinable and as a result, no amounts have been accrued in the Company’s financial statements in respect of this matter.

## **Mongolia**

### *Mongolian Legislation*

In Mongolia, the Company continued to work with the Minerals Resource Authority of Mongolia (“MRAM”) and the Mongolian General Department of Specialized Inspection (“SSIA”) with respect to several outstanding issues arising from the inspections at the Boroo mine carried out by the SSIA in mid-2009. As at the end of 2010, the number of outstanding issues has decreased. In 2010, the Company also worked with the SSIA and the Mongolian Specialized Minerals Council in relation to the very significant claim for compensation that the Company received from the SSIA in October 2009 regarding state alluvial reserves covered by the Boroo mine licenses. While Centerra cannot give assurances, it believes that settlement of the outstanding matters and the alluvial claim (which the Company disputes) will be concluded through negotiations and will not result in a material impact. See “Risk Factors”.

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

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

In November 2010, the Mongolian cabinet announced its intention to initiate the revocation of 1,782 mineral licenses under the Water and Forest Law on a staged basis, beginning with the revocation of 254 alluvial gold mining licenses. The Company has four licenses on the list of alluvial gold mining license that may be revoked. None of these licenses are material to the Company. In particular, the Company’s principal Gatsuurt hardrock mining licenses are not on the list of alluvial licenses to be revoked. In accordance with the Water and Forest Law, the Company submitted in February 2011 a formal request for compensation for the four licenses to be revoked.

The Mongolian Government has announced that it is considering taking the following actions as the next stages of its implementation of the Water and Forest Law:

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

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

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

The Water and Forest Law has attracted opposition from Mongolia’s alluvial miners, the Mongolian National Mining Association and other groups. The Company also understands that a group of parliamentarians has proposed amendments to the Water and Forest Law to reduce its impact on environmentally-sound mining operations.

While the Company has continued to receive permits and approvals in connection with the road construction to Gatsuurt and for construction of surface facilities at the project, in November 2010, the Company received a letter from the MMRE indicating that operations at

the Gatsuurt project cannot be commenced while the implementation of the Water and Forest Law is being resolved. Accordingly, it is anticipated that further approvals and regulatory commissioning of Gatsuurt will be delayed as a result of the Water and Forest Law.

Centerra is reasonably confident that the economic and development benefits resulting from its exploration and development activities will ultimately result in the Water and Forests Law having a limited impact on the Company's Mongolian activities. There can be no assurance, however, that this will be the case. Unless the Water and Forest Law is repealed or amended such that the law no longer applies to the project or Gatsuurt is designated as a "mineral deposit of strategic importance" that is exempt from the Water and Forest Law, mineral reserves at Gatsuurt may have to be reclassified as mineral resources or eliminated entirely. A revocation of the Company's mineral licenses, including the Gatsuurt mineral license, could have an adverse impact on Centerra's future cash flows, earnings, results of operations and financial condition.

### *Operations and Labour*

At the Boroo mine, mining activity ceased at the end of November 2010. The Boroo mill is expected to continue to operate for at least a further two years processing low-grade stockpiled ores. Because of the delay in receiving the necessary approvals and regulatory commissioning of the Gatsuurt project due to the uncertainty of the Water and Forest Law, the Company laid off approximately 250 workers at the Boroo mine on December 1, 2010, which the Company had originally planned to redeploy from Boroo to Gatsuurt.

### *New Graduated Royalty Fee*

In November 2010, the Mongolian Parliament passed amendments to its 2006 Mongolian Minerals Law that modified the existing royalty structure on mineral projects. Pursuant to the amended royalty structure, the royalty rate is no longer a fixed percentage but is graduated and dependent upon the commodity price in US dollars. In the case of gold, there is a basic 5% royalty fee that applies while gold is less than \$900 per ounce. For any increase of \$100 to the price of gold, there is a corresponding 1% increase to the royalty fee. Accordingly, at \$900 per ounce, the royalty fee increases to 6% which continues until the gold price reaches \$1,000 per ounce at which point, the royalty increases to 7%, at \$1,100, the royalty increases to 8%, and at \$1,200, the royalty increases to 9%. The highest royalty fee rate is reached at 10% when gold is \$1,300 per ounce and above. The graduated royalty became effective as of January 1, 2011 for all mining projects in Mongolia. On January 19, 2011, the Standing Committee of the State Great Hural of Mongolia issued a resolution to the Mongolian Government which, among other things, resolved to direct the Government to enter into negotiations to have the graduated royalty structure apply to business entities that have already entered into a stability and/or an investment agreement. This would include the Company's Boroo mine which is currently operating pursuant to a stability agreement entered with the Mongolian Government. The Company is of the opinion that the Boroo stability agreement provides, among other things, legislative stabilization for its Boroo operations and accordingly the graduated royalty fee is not applicable to Boroo's remaining operations. However, the Company cannot provide any assurances that Boroo will not be made subject to the graduated royalty fee. If the graduated royalty fee does apply to Boroo, it may have an adverse impact on Centerra's future cash flows, earnings, results of operations or financial condition. Regardless of whether the graduated royalty fee applies to the Boroo operations, it will apply to gold produced from the Gatsuurt project, when developed.

## Corporate Matters

On July 5, 2010, Centerra completed the sale of its 64% interest in the REN joint venture, located in Nevada USA, for \$35.2 million to its joint venture partner, Homestake Mining Company of California (a subsidiary of Barrick Gold Corporation).

Centerra declared its inaugural annual dividend in July 2010. The annual dividend of Cdn\$0.06 per common share was payable on September 8, 2010 to shareholders of record at the close of business on August 18, 2010.

Effective August 19, 2010, Mr. William Braithwaite resigned from Centerra's Board of Directors (the "Board"), and the Board appointed Mr. Raphael Girard to fill the vacancy. In addition, the Board also appointed Mr. Karybek Ibraev and Mr. Amangeldy Muraliev to the Board. Mr. Karybek Ibraev and Mr. Amangeldy Muraliev are the Board representatives of Kyrgyzaltyn JSC ("Kyrgyzaltyn"), Centerra's largest shareholder and a state-owned entity of the Kyrgyz Republic. Pursuant to a Restated Shareholders Agreement dated as of June 6, 2009 entered into by Kyrgyzaltyn and Centerra, so long as Kyrgyzaltyn owns 10% or more of Centerra's outstanding shares, Centerra has agreed to include in Centerra's proposed slate of directors to be nominated for election at each annual or special meeting where directors are to be elected, two Board nominees designated by Kyrgyzaltyn, at least one of who must be independent of the Kyrgyz Government. At the time of Centerra's annual meeting of shareholders in May 2010, the Kyrgyz Government nominees were not identified, and accordingly, the two Board positions remained vacant until their identities were communicated to Centerra, which occurred in August 2010. Mr. Girard, Mr. Muraliev and Mr. Ibraev are appointed until the next annual or special meeting of shareholders where directors are to be elected.

On November 16, 2010, Centerra entered into a \$150 million three-year revolving credit facility (the "Credit Facility") with the European Bank for Reconstruction and Development ("EBRD") as the sole lender. The interest payable on any outstanding borrowings is LIBOR plus 2.9%. The Credit Facility is for general corporate purposes, including working capital, investments and acquisitions and capital expenditures to finance the development of the Company's existing properties in the Kyrgyz Republic and Mongolia, and for future investments and acquisitions in other EBRD countries of operations. Availability under the Credit Facility is subject to customary conditions precedents. The Credit Facility is guaranteed by certain material subsidiaries of Centerra (together with Centerra, the "Obligors"). The Credit Facility is secured by, among other things, a pledge of certain mobile equipment used in the operations at the Kumtor mine and a pledge of the Company's Mongolian mining licenses, in each case, in favour of EBRD. The agreement underlying the Credit Facility (the "Credit Agreement") contains covenants relating to the operations and activities of the Obligors including, among others, restrictions with respect to dividends and other distributions, capital expenditures, indebtedness, entering into of derivative transactions, investments and acquisitions, as well as covenants to maintain certain financial ratios. The Credit Agreement contains certain events of default customary for a credit agreement of this nature. As at December 31, 2010, the conditions precedent were not completed and no amounts were drawn on the Credit Agreement. Centerra expects to complete the conditions precedent in the first quarter 2011.

For information on forward-looking information, see "Caution Regarding Forward-Looking Information". For information regarding risk factors relevant to Centerra and its operations,

please see “Risk Factors” in this MD&A and in the Company’s most recently filed Annual Information Form.

## **Critical Accounting Estimates**

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

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

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

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

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

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

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

Grants under Centerra's stock-based compensation plans are accounted for in accordance with the fair-value-based method of accounting. For stock-based compensation plans that will settle through the issuance of equity such as stock options, the fair value of stock options is estimated on the date of grant using the Black-Scholes option pricing model, while for the cash-settled stock-based compensation, fair value is determined based on the market value of the Company's common shares at the reporting date. In addition, option valuation models require the input of somewhat subjective assumptions including expected share price volatility.

## **Changes in Accounting Policies**

Centerra's audited consolidated financial statements for the year-ended December 31, 2010 were prepared following accounting policies consistent with Centerra's audited annual consolidated financial statements and notes thereto for the year ended December 31, 2009.

The CICA issued three new accounting standards in January 2009: Section 1582, *Business Combinations*, Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non-Controlling Interests*. Section 1582 established standards for the accounting of a business combination. Sections 1601 established standards for the preparation of consolidated financial statements as it applied to interim and annual consolidated financial statements. Section 1602 established standards for accounting of a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination.

These new standards substantially harmonized the existing Canadian standards with their IFRS counterparts and were to be adopted for reporting periods beginning on or after January 1, 2011.

Although early adoption of these standards was permitted, the Company did not adopt the above new accounting standards prior to January 1, 2011.

## **Status of Centerra's Transition to International Financial Reporting Standards (IFRS)**

The Company's conversion to IFRS progressed into the implementation phase during 2010. Major efforts in the year were focused on the quantification of the opening balance sheet as of January 1, 2010 and the conversion of the quarterly statements which will become the comparatives for the 2011 IFRS financial statements.

### **Background**

Following the announcement on February 13, 2008 by the CICA Accounting Standards Board (AcSB) which required publicly accountable enterprises to changeover to IFRS from Canadian GAAP for interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011, the Company commenced its IFRS conversion project. A formal project governance structure was established, including an IFRS Steering Committee, to monitor the progress and critical decisions in the transition to IFRS. The Steering Committee consists of senior financial management and an external advisor. An external consultant was engaged to work with the Company's designated project staff, which consists of employees from Finance, Treasury, Legal, Information Technology, Human Resources, Operations, Internal Audit and Investor Relations, among others to complete the conversion. Regular reporting has been provided by the project team to the Steering Committee and the Audit Committee of the Board of Directors. The external auditors have also been consulted throughout the process.

The conversion project is being completed in four phases: preliminary study, evaluation, development, and implementation.

During 2008 the Company completed the preliminary study phase of the project which involved a high level review of the major differences between current Canadian GAAP and IFRS as related to the Company's accounting policies.

The evaluation and development phases commenced in 2008 and were completed during 2009. As part of these phases, the Company reviewed its options under the IFRS 1 conversion standard and selected its elections/exemptions to be applied to its January 1, 2010 conversion. A review of the Company's accounting policies between Canadian GAAP and IFRS was also completed in 2009 which resulted in the adoption of modified policies for asset impairment, reclamation and rehabilitation provision, share-based payments, revenue recognition and income taxes. These accounting differences between both standards were explained in the Company's 2009 annual MD&A.

### **Work completed in 2010**

#### ***1. Quantification of conversion to IFRS on 2010 comparatives***

As part of the implementation phase, the Company initiated and completed work to quantify its opening balance sheet as of January 1, 2010 under IFRS, applying the IFRS 1 elections/exemptions and accounting policies it selected during the development work performed in 2009. The unaudited IFRS opening balance sheet was reviewed with the

Company's Audit Committee of the Board and the resulting financial impact was disclosed in the Company's third quarter 2010 MD&A and discussed below.

The quantitative impact of the transition to IFRS standards is explained as follows:

**a. Preliminary Unaudited Impact of Adopting IFRS on the Company's Opening Balance Sheet**

Standards under IFRS are based on a conceptual framework similar to Canadian GAAP, however, significant differences exist in certain matters of recognition, measurement and disclosure. While the Company believes that the adoption of IFRS will not have a material impact on the Company's reported cash flows, it will likely have a larger impact on the consolidated balance sheets and statements of income. In particular, the Company's opening balance sheet will reflect the fair value of the provision for reclamation (Decommissioning Liabilities) and the adjusted liability resulting from cash-settled share-based compensation. In addition, a portion of the book value of the Property Plant and Equipment associated with the Asset Retirement Obligation will be increased. Finally, all changes to the opening balance sheet will require that a corresponding tax asset or liability be established based on the resultant differences between the carrying value of assets and liabilities and their associated tax bases. Certain income statement items such as depreciation, depletion and amortization expense, accretion and share-based compensation expense are also expected to be impacted.

The Company's estimate of the impact of the conversion to IFRS on the opening balance sheet at January 1, 2010 will decrease opening retained earnings by approximately \$6.8 million. As a result the retained earnings under Canadian GAAP as at January 1, 2010 decreased from \$272 million to \$265 million. The following summarizes the preliminary quantitative impact of differences between Canadian GAAP and IFRS in the Company's more significant accounting policies and from its transition elections from Canadian GAAP to IFRS as of January 1, 2010.

<i>(Millions of US\$ - Unaudited)</i>		Summary of Opening Balance Sheet Impact		
		Assets	Liabilities	Opening R/E
	Notes	Dr (Cr)	Dr (Cr)	Dr (Cr)
Provision for reclamation	(i) & (ii)	\$ 1.3	\$ (4.3)	\$ 3.0
Share-based compensation	(iii)	-	0.1	(0.1)
Future income taxes	(iv)	(2.9)	(1.0)	3.9
		<u>\$ (1.6)</u>	<u>\$ (5.2)</u>	<u>\$ 6.8</u>

**Adjustments to IFRS opening balance sheet as at the transition date**

This discussion has been prepared using the IFRS standards and interpretations currently issued and expected to be in force during 2011, the Company's first annual IFRS reporting period. It should be noted that should the regulatory environment or standards substantially change from those currently defined, the Company's elections and accounting policy selections may be modified accordingly. This change would potentially affect the underlying values and results of the Company's opening balance sheet at January 1, 2010. At the present time

however, we are not aware of any significant expected changes that would materially impact the summary presented below.

**i.) Provision for reclamation and rehabilitation** (*Decommissioning Liabilities*)

Under IFRS, a liability must be recognized at the time when the entity becomes legally or constructively obliged to rehabilitate a disturbance resulting from mining activities, while under Canadian GAAP, a liability is only recognized when the entity is legally bound. Discount rates used should reflect the risks specific to the decommissioning provision. Unlike IFRS, under Canadian GAAP discount rates for asset retirement obligations are based on the entity's credit-adjusted risk-free rate. IFRS requires re-measurement of the liability at each reporting date whereas Canadian GAAP requires re-measurement of the liability in the event of changes in the amount or timing of cash flows required to settle the obligation. Over and above this, IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, requires the re-measurement of the provision for reclamation and rehabilitation if there is a change in the current market-based discount rate. However under Canadian GAAP HB 3110 *Asset Retirement Obligations*, the provision for reclamation and rehabilitation is not adjusted for changes in the discount rate.

The use of the current discount rate for all changes in estimates combined with the requirement to re-measure the liability at each reporting date under IFRS will significantly simplify the process required to measure any restoration liabilities as there will no longer be a need to record and account for separate layers of the original liability and each subsequent upward revision in estimated cash flows. As a result, the ARO liability under IFRS has been re-measured using the risk-free discount rate in effect at January 1, 2010 resulting in an adjustment of \$4.3 million recorded as an increase to the provision for reclamation.

**ii.) Property, Plant and Equipment**

Under IFRIC 1, *Changes in Decommissioning, Restoration and Similar Liabilities*, contains guidance on accounting for changes in decommissioning, restoration and similar liabilities due to timing in the revision of estimated outflows and revisions to the risk-free discount rate. Where changes occur, these changes are required to be capitalized as part of the cost of the underlying assets and depreciated prospectively over the remaining life of the asset to which they relate.

Due to the adjustments to the provision for reclamation discussed in (i) above, the book value of the property, plant and equipment at January 1, 2010 increased by \$1.3 million.

**iii.) Share-based payments**

In certain circumstances, IFRS requires a different measurement of stock-based compensation related to cash-settled share-based compensation than current Canadian GAAP. While there is convergence in that share-based payments are recognized as an expense, there are a number of measurement differences. IFRS requires that cash-settled share-based payments be accounted for using a fair value method, as opposed to an intrinsic value under Canadian GAAP. IFRS requires that when the employee has

the choice of settling for cash or shares, the entity has been deemed to have granted a compound instrument and must account for the debt and equity components separately. Unlike IFRS, Canadian GAAP requires that when the employee has the choice of settling for cash or shares, the award is accounted for as a liability based on its intrinsic value. If modifications are made to share-based payments, differences could arise due to the specific guidance in IFRS that is absent from Canadian GAAP.

IFRS 2, *Share Based Payments* was applied for applicable liabilities arising from cash-settled share-based payment transactions that existed at January 1, 2010. Under Canadian GAAP, the liability for cash-settled share-based payments is accrued based upon the intrinsic value (mark-to-market) of the award. However under IFRS the liability for cash-settled share-based awards is measured at the fair value of the vested awards using the Monte Carlo valuation model. Changes in fair value are recognized in the period of change until the liability is settled.

Consequently, as a result of the difference in measurement at January 1, 2010, an adjustment of \$0.1 million was recorded to decrease the outstanding liability related to cash-settled share-based compensation (“PSU”) included as part of accounts payables and accrued liabilities.

#### **iv.) Income Taxes**

IAS 12, *Taxes* contains different guidance related to the recognition and measurement of future income taxes. It requires the recognition of future taxes in situations not required under Canadian GAAP. Specifically, a future tax liability (asset) is recognized for exchange gains and losses relating to foreign non-monetary assets and liabilities that are re-measured into the functional currency using historical exchange rates. Similar timing differences are also recognized for the difference in tax bases between jurisdictions as a result of the intra-group transfer of assets

Furthermore, Canadian GAAP requires that the current and long-term portions of future income tax assets, and future income tax liabilities, be shown separately on the financial statements, whereas IFRS does not.

As a result of differences in recognition and measurement under IFRS and Canadian GAAP, a decrease to the future income tax asset of \$2.9 million associated with Boroo was derecognized and adjusted to opening retained earnings. An additional \$1.04 million of future income tax liability was recognized as the deferred tax effect on differences between Canadian GAAP and IFRS, described in (i) to (iii) above.

### **b. Preliminary Unaudited Impact of Adopting IFRS on the Company’s 2010 Interim Statements**

During 2010, the Company completed work on the conversion of its quarterly financial statements from Canadian GAAP to IFRS standards. The converted interim financial statements for 2010 were discussed with the Company’s Audit Committee.

After applying the accounting policies changes adopted under IFRS as described in section (a) above, the Company estimated the impact of the conversion to IFRS to its quarterly 2010 retained earnings as follows:

	Reference	2010 Quarters - three months ended				Total
		March 31	June 30	Sept 30	Dec 31	2010
<i>(Millions of US\$ - Unaudited)</i>						
<b>Net earnings reported under CGAAP</b>		\$ 122,087	\$ 29,764	\$ 17,662	\$ 153,127	\$ 322,640
Net revenue from sales of gold	c. (i)	-	-	2,516	(842)	1,674
Provision for reclamation	c. (ii)	245	243	243	(287)	444
Depreciation	c. (iii)	(47)	(34)	(26)	(76)	(183)
Share-based compensation	c. (iv)	48	650	(3,343)	3,273	628
Provision for constructive obligation	c. (v)	-	-	-	(6,365)	(6,365)
Exchange difference on future income taxes	c. (vi)	260	-	-	(454)	(194)
Future income taxes	c. (vi)	1,174	(48)	(217)	2,279	3,188
<b>Net earnings under IFRS</b>		\$ 123,767	\$ 30,576	\$ 16,835	\$ 150,655	\$ 321,833

Full auditor attestation of the 2010 converted IFRS statements, including the opening balance sheet as of January 1, 2010 and the 2010 interim financial statements, will be provided at the conclusion of the annual audit of the 2011 financial statements which is scheduled to be completed during the first quarter of 2012.

### c. Preliminary Unaudited Impact of Adopting IFRS on the Company's December 31, 2010 Financial Statements

The following consolidated reconciliation shows the expected impact of the noted differences between IFRS and Canadian GAAP as at December 31, 2010.

Condensed consolidated balance sheets as at December 31, 2010:

<i>(Thousands of US\$)</i>	Canadian GAAP	Effect of transition	IFRS
		to IFRS	balance sheet
		Unaudited	Unaudited
<b>Assets</b>			
Current assets	\$ 718,120	\$ 106	\$ 718,226
Property, plant and equipment	515,949	3,070	519,019
Goodwill and other long term assets	159,881	-	159,881
Future income tax asset	2,722	645	3,367
<b>Total assets</b>	<b>\$ 1,396,672</b>	<b>\$ 3,821</b>	<b>\$ 1,400,493</b>
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities	\$ 102,303	\$ 5,514	\$ 107,817
Provision for reclamation	24,891	5,989	30,880
Shareholders' equity	1,269,478	(7,682)	1,261,796
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,396,672</b>	<b>\$ 3,821</b>	<b>\$ 1,400,493</b>

Consolidated statement of income for the year ended December 31, 2010:

<i>(Thousands of US\$)</i>	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
			Unaudited	Unaudited
<b>Revenue from Gold Sales</b>	c(i)	\$ 846,473	\$ 3,281	\$ 849,754
Cost of sales	c(i)	263,895	2,704	266,599
Mine standby costs		1,280	-	1,280
Depreciation, depletion and amortization	c(i) & c(iii)	77,002	(914)	76,088
Accretion and reclamation	c(ii)	1,912	(1,912)	-
Revenue based taxes		98,597	-	98,597
Exploration and business development		32,446	-	32,446
Other (income) and expenses	c(v) & c(vi)	(330)	6,559	6,229
General and administration	c(iv)	76,282	(628)	75,654
Finance costs	c(ii)	-	1,467	1,467
Gain on sale of mineral property		(34,866)	-	(34,866)
<b>Earnings before income taxes</b>		<b>330,255</b>	<b>(3,995)</b>	<b>326,260</b>
Income tax expense	c(vi)	7,615	(3,188)	4,427
<b>Net earnings and comprehensive income</b>		<b>\$ 322,640</b>	<b>\$ (807)</b>	<b>\$ 321,833</b>

**The adjustments to the December 31, 2010 financial statements to reflect IFRS standards are explained as follows:**

**i.) Revenue recognition**

Under Canadian GAAP, revenues from the sale of gold and silver are recognized by the Company when title transfers, risks of ownership have substantially passed, delivery is effected and when the Company has reasonable assurance with respect to measurement and collectability. Under IFRS, revenues from the sale of gold and silver are recognized when risks and rewards of ownership are transferred, which is defined by the Company to be at the point when the customer has taken delivery. Revenue is measured at the fair value of the consideration received or receivable, provided it is probable that economic benefit will flow to the Company and the revenue and costs, if applicable, can be measured reliably.

As a result of differences in recognition and measurement under IFRS and Canadian GAAP, net revenue from sales of gold increased by \$1.7 million (\$3.3 million increase in revenue and \$2.7 million increase to cost of sales and \$1.1 million decrease to depreciation, depletion and amortization).

**ii.) Provision for reclamation and rehabilitation (*Decommissioning Liabilities*)**

As a result of the differences noted in a(i) above, the Company recorded a decrease in accretion expense (finance cost) of \$1.0 million. Furthermore, the ARO liability under IFRS has been re-measured using the risk-free discount rate in effect at December 31, 2010 resulting in an adjustment of \$2.5 million recorded as an increase to the provision for reclamation with an offsetting increase of \$0.5 million to accretion expense (finance cost) and \$2.0 million increase to ARO asset.

**iii.) Depreciation, depletion and amortization expenses**

During the year, depreciation expense of \$0.2 million relating to depreciation on the ARO asset recognized, as noted in a(ii) above, was recorded.

**iv.) Share-based payments**

As a result of the measurement differences noted in a(iii) above, an adjustment of \$0.6 million was recorded to decrease the outstanding liability related to cash-settled share-based compensation included as part of accounts payable and accrued liabilities, and a corresponding reduction to compensation expense, part of general and administration.

**v.) Provision for constructive obligation**

IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* requires provisions to be recorded when a legal or constructive obligation currently exists as a result of past events.

A constructive obligation is an obligation to pay that arises out of conduct and intent rather than a contract. It typically occurs from an established pattern of past practice, published policies or a sufficiently specific current statement, where the entity has indicated to other parties that it will accept certain responsibilities, whereby the entity has created a valid expectation in those parties that they can reasonably rely on it to discharge those responsibilities. Consequently, the entity may have no realistic alternative to fulfilling an obligation, even if it is not legally enforceable.

Through the Company's Community Development and Initiatives program, the Company may have created an expectation that it would collaborate with the Government of Mongolia to build a maternity hospital in the capital city of Ulaan Baatar even though the expectation is not legally enforceable.

Under IFRS, the expectation that the Company may be required to fund its share of the maternity hospital resulted in the Company recording a provision under IFRS of \$6.4 million representing the estimated amount to potentially settle this obligation.

**vi.) Income Taxes**

- i. As a result of differences in recognition and measurement under IFRS and Canadian GAAP, as explained in a(iv) above, a decrease to the future income tax asset of \$3.2 million associated with Boroo was recorded during the year ended December 31, 2010. Included as part of other (income) and expenses is \$0.2 million recognized as exchange difference on the revaluation of the future income tax asset.

**d. Impact of ongoing or future differences between IFRS and Canadian GAAP**

**i. Impairment of Assets**

IAS 36, *Impairment of Assets*, uses a one-step approach for both the testing and measurement of impairment, with the asset carrying values compared directly with the higher of fair value less costs to sell and value in use, which is based on discounted

future cash flows. Canadian GAAP, on the other hand, generally uses a two-step approach to impairment testing of long-lived assets and finite-life intangible assets by first comparing asset carrying values with undiscounted future cash flows to determine whether an impairment exists. If it is determined that there is impairment under this basis, the impairment is then calculated by comparing the asset carrying values with fair values (on a discounted basis) in much the same manner as computed under IFRS. Additionally under IFRS, testing for impairment occurs at the level of cash generating units, which is the lowest level of assets that generate largely independent cash inflows. This lower level of grouping compared to Canadian GAAP along with the one-step approach to testing for impairment may or may not increase the likelihood that the Company will realize an impairment of assets under IFRS. It should also be noted that under IAS 36, previous impairment losses can be reversed when there are indications that the circumstances that gave rise to the impairment have changed whereas Canadian GAAP prohibits reversal of non-financial asset impairment losses.

As at January 1, 2010, impairment testing was performed in accordance with the provisions of IAS 36. The result indicated no impairment of the assets or goodwill.

The Company's IFRS-based accounting policies related to impairment of non-financial assets will be changed to reflect the differences in the standards.

**ii. Foreign Currency**

IFRS requires that the functional currency of Centerra and its subsidiaries be determined independently for each entity, and under IFRS the factors considered to determine the entity's functional currency are somewhat different than current Canadian GAAP. After review, the Company has determined that its current accounting treatment related to foreign currency and its determination of its entity-specific functional currency is not affected and therefore no change is required.

**iii. Exploration Expenditures**

IFRS 6 applies to exploration and evaluation expenditures incurred by an entity in connection with the exploration and evaluation of mineral resources. An entity may choose to defer on the balance sheet nearly all exploration and evaluation expenditures or recognize all such expenditures in the income statement as incurred. IFRS currently allows an entity to retain its existing accounting policies related to the exploration and evaluation of mineral properties, subject to some restrictions. The Company expects to retain its current policy of expensing exploration costs as incurred, and therefore does not expect that the adoption of IFRS will result in any significant change to the related line items within the Company's financial statements.

**2. IFRS Impact on Internal Control over Financial Reporting (ICFR) and Disclosure Controls and Procedures (DC&P)**

Management has continually evaluated the impact of the adoption of IFRS on the reporting and disclosure processes of the Company. During the conversion project, management made modifications to its data analysis, information systems and reporting processes to incorporate the collection of information necessary under IFRS and to allow for dual reporting under IFRS and Canadian GAAP.

As a result of the convergence of Canadian GAAP with IFRS standards, the Company has not made material changes to its ICFR or DC&P during the course of its conversion project. Most changes to the Company's internal controls were already incorporated incrementally over time as a result of the Company's adoption of the converged standards.

In conjunction with the analysis of the Company's January 1, 2010 opening balances under IFRS, management implemented during 2010 changes to certain of its internal reports and data analysis to facilitate the appropriate collection of data for IFRS reporting purposes. The changes were implemented in parallel with existing reporting processes and appropriately reconciled to previously reported totals to ensure the completeness and accuracy of the revised reports and analyses. Since these changes represented only a component part of the reporting process, no material changes to the Company's processes or controls have been specifically required as a result of this conversion.

### **3. *IFRS Impact on Information Systems***

In order to facilitate the compilation of information required for IFRS reporting and disclosures, management has made appropriate modifications to its consolidation system and processes. Those changes, which have now been implemented, generally required minor changes to reports or data analysis to ensure that additional information required for disclosures under IFRS which were not currently collected under Canadian GAAP were appropriately tracked for IFRS reporting purposes.

### **4. *Others***

#### ***Financial Disclosures***

Annual IFRS-compliant financial statement notes disclosures were drafted and reviewed with the Company's Audit Committee of the Board during the fourth quarter of 2010.

The Company does anticipate a significant increase in disclosure resulting from the adoption of IFRS and is continuing to assess the level of disclosure required as well as any further systems changes that may be necessary to gather and process the information.

#### ***Training***

Training of IFRS requirements with all management levels concerned continued during 2010 including training of Directors and other concerned parties. Management training will continue into 2011. IFRS training program requirements for other stakeholders of the Company are being assessed.

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

As of December 31, 2010, Centerra evaluated its disclosure controls and procedures and internal control over financial reporting, as defined in the rules of the Canadian Securities Administrators. These evaluations were carried out under the supervision of and with the participation of management, including Centerra's Chief Executive Officer and the Chief Financial Officer. Based on these evaluations, the Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures and internal control over financial reporting were effective.

## **Sustainable Development**

Centerra believes in the principles of sustainable development. In endeavoring to achieve its strategic objectives, the Company strives to be a leading performer among its peers with regard to shareholder value, business ethics, workplace safety, environmental protection and community development. Centerra believes that its strong commitment to these principles, which is supported by its past practices, will further its objective of becoming a sought-after partner in Asia, Central Asia, the former Soviet Union and other emerging markets worldwide.

## **Outlook for 2011**

Centerra's 2011 consolidated gold production is forecast to be 600,000 to 650,000 ounces. Total cash cost in 2011 is expected to be \$460 to \$495 per ounce produced. Total cash cost is a non-GAAP measure and is discussed under "Non-GAAP Measures".

The Kumtor mine is expected to produce 550,000 to 600,000 ounces in 2011. The production profile at Kumtor differs significantly from recent years in that it will have consistent quarterly production throughout the year. Kumtor's total cash cost for 2011 is expected to be \$430 to \$460 per ounce produced.

At the Boroo mine, gold production is forecast to be 50,000 ounces and assumes no mining activities at Boroo in 2011. Boroo total cash cost is expected to be \$865 per ounce produced in 2011. The 2011 forecast also assumes no production from the heap leach facility or the Gatsuurt project due to uncertainties with permitting final approvals and regulatory commissioning. The Boroo mill is expected to process the remaining direct mill feed stockpiled ore at Boroo until the end of May 2011 with an average grade of approximately 1.44 g/t. For the balance of the year, the Boroo mill is expected to process stockpiled material with grades between 0.76 – 0.81 g/t. At the current reserve gold price assumption of \$1,000 per ounce, the Boroo operation could potentially continue to feed the mill for at least a further two years utilizing existing low-grade stockpiles.

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

**Centerra's Production and Unit Cost – 2010 Actual and 2011 Forecast as follows:**

<b>Production</b> <i>Ounces of gold</i>	<b>2011</b> <b>Forecast</b>	<b>2010</b> <b>Actual</b>
Kumtor	550,000 – 600,000	567,802
Boroo	50,000	111,139
Total Consolidated	600,000 – 650,000	678,941

<b>Total Cash Cost</b> <sup>(1)</sup> <i>\$ per ounce</i>	<b>2011</b> <b>Forecast</b>	<b>2010</b> <b>Actual</b>
Kumtor	430 – 460	411
Boroo	865	611
Consolidated	460 – 495	444

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

**2011 Exploration Expenditures**

Exploration expenditures of \$34 million are planned for 2011, an increase from \$31 million in 2010. The 2011 program will continue the aggressive exploration work at the Kumtor mine together with an increase in the exploration in the Kumtor district with target definition and drilling programs on the properties acquired in 2010 and planned expenditures of about \$13 million. In Mongolia \$5 million is allocated for target definition and drill programs on the Gatsuert project and on our land holdings along the Yeroogol trend and in eastern Mongolia.

In 2011, drilling programs will continue on the Kara Beldyr project in Russia to determine the resource potential of the property. Drilling programs will also continue in Turkey and Nevada. In addition, generative programs will continue in Russia, China, Turkey and the U.S. to increase the pipeline of projects that the Company is developing to meet the longer term growth targets of Centerra.

**2011 Capital Expenditures**

The capital expenditures for 2011 are estimated to be \$213 million, including \$38 million of sustaining capital and \$175 million of growth capital.

Capital expenditures include:

<b>Projects</b>	<b>2011 Growth Capital</b> (\$ millions)	<b>2011 Sustaining Capital</b> (\$ millions)
Kumtor mine	170	36
Mongolia	5	1
Corporate	-	1
Consolidated Total	175	38

**Kumtor**

At Kumtor, during 2011 total capital expenditures are forecast to be \$206 million including \$36 million of sustaining capital. The largest sustaining capital spending will be on the major overhaul maintenance of the heavy duty mine equipment (\$19 million), expenditures for the shear key, buttress and tailings dam construction works (\$5 million) and for equipment replacement and other items (\$12 million).

Growth capital investment at Kumtor for 2011 is forecast at \$170 million primarily for the purchase of seven CAT 789 haul trucks (\$21 million), purchase of remaining equipment for the North Wall expansion project (\$28 million), pre-strip costs related to the development of the open pit (\$63 million) and a waste dump expansion project (\$3 million). Also, \$52 million is included in growth capital investment for the underground growth capital, of which \$40 million has been allocated to advance the two underground declines to continue to develop the SB Zone and Stockwork Zone, as well as, \$5 million for delineation drilling and \$6 million for capital purchases and other costs in 2011.

### **Boroo & Gatsuurt (Mongolia)**

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

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

### **Corporate Administration**

Corporate and administration expenses for 2011 are forecast at \$44 million.

### **Taxes**

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

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

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

### **Sensitivities**

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

	Change	Impact on (\$ millions)			
		Costs	Revenues	Cash flow	Earnings before income tax
Gold Price	\$50/oz	4.8	31.6	26.8	26.8
Diesel Fuel <sup>(1)</sup>	10%	4.2	-	4.2	4.2
Kyrgyz som	1 som	1.9	-	1.9	1.9
Mongolian tugrik	25 tugrik	0.6	-	0.6	0.6
Canadian dollar	10 cents	3.7	-	3.7	3.7

<sup>(1)</sup> a 10% change in diesel fuel price equals \$7/oz produced

## Material Assumptions

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

- a gold price of \$1,300 per ounce,
- exchange rates:
  - \$1USD:\$1.03 CAD
  - \$1USD:48.50 Kyrgyz Som
  - \$1USD:1,250 Mongolian Tugrik
  - \$1USD:0.74 Euro
- diesel fuel price assumption:
  - \$0.78/litre at Kumtor
  - \$0.94/litre at Boroo

The assumed diesel price of \$0.78/litre at Kumtor includes a customs export duty imposed by the Russian authorities on the diesel fuel exported to the Kyrgyz Republic. Russia imposed a customs duty of approximately \$194 per tonne on gasoline and diesel fuel exports to the Kyrgyz Republic that went into effect on April 1, 2010. The customs export duty for 2011 is assumed to be at approximately \$0.18/litre or \$212.77 per tonne of diesel fuel; however, there has been public statements made by Kyrgyz authorities that it could be revoked retroactive to January 1, 2011. Should the Russian authorities revoke the customs export duty, Kumtor's cash costs are expected to decrease by approximately \$17 million per year.

Diesel fuel is sourced from separate Russian suppliers for both sites and only loosely correlates with world oil prices. The diesel fuel price assumptions were made when the price of oil was approximately \$84 per barrel.

Other important assumptions include the following:

- any recurrence of political and civil unrest in the Kyrgyz Republic will not impact operations, including movement of people, supplies and gold shipments to and from the Kumtor mine,
- grades and recoveries at Kumtor will remain consistent with the life-of-mine plan to achieve the forecast gold production,
- the dewatering program at Kumtor continues to produce the expected results and the water management system works as planned,

- the remedial plan to deal with the Kumtor waste and ice movement continues to be successful (see "Kumtor Mine - Remedial Plan to Manage the High Movement Area" in the Company's December 7, 2009 news release),
- no unplanned delays in or interruption of scheduled production from our mines, including due to civil unrest, natural phenomena, labour, regulatory or political disputes, equipment breakdown or other developmental and operational risks,
- certain issues at Boroo raised by the General Department of Specialized Inspection ("SSIA") concerning state alluvial reserves, the production and sale of gold from the Boroo heap leach facility and other matters will be resolved through negotiation without material adverse impact on the Company, see "Other Corporate Developments - Mongolia - Mongolian Legislation",
- no further suspension of Boroo's operating licenses, and
- all necessary permits, licences and approvals are received in a timely manner.

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

## **Qualified Person**

Reserve and resource estimates for Kumtor, Boroo, Gatsuurt and Ulaan Bulag, and the other scientific and technical information contained in this management's discussion and analysis were prepared by Centerra's geological and mining engineering staff under the supervision of Ian Atkinson, Senior Vice-President, Global Exploration, who is a Qualified Person under NI 43-101.

## **Risk Factors**

Below are some risk factors that Centerra believes can have a material effect on the profitability, future cash flow, earnings, results of operations, stated reserves and financial condition of the Company. If any event arising from these risks occurs, the Company's business, prospects, financial condition, results of operations or cash flows could be adversely affected, the trading price of Centerra's common shares could decline and all or part of any investment may be lost. Additional risks and uncertainties not currently known to the Company, or that are currently deemed immaterial, may also materially and adversely affect the Company's business operations, prospects, financial condition, results of operations or cash flows.

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

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

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

***Centerra's principal operations are located in the Kyrgyz Republic and Mongolia and are subject to political risk***

All of Centerra's current gold production and reserves are derived from assets located in the Kyrgyz Republic and Mongolia, countries that have experienced political difficulties in recent years including, in the Kyrgyz Republic, civil unrest in April 2010 that resulted in the ouster of the incumbent President. Accordingly, there continues to be a risk of future political instability.

Centerra's mining operations and gold exploration activities are affected in varying degrees by political stability and government regulations relating to foreign investment, social unrest, corporate activity and the mining business in each of these countries. Operations may also be affected in varying degrees by terrorism, military conflict or repression, crime, extreme fluctuations in currency rates and high inflation in Central Asia and the former Soviet Union. The relevant governments have entered into contracts with Centerra or granted permits, licenses or concessions that enable it to conduct operations or exploration and development activities. Notwithstanding these arrangements, Centerra's ability to conduct operations or exploration and development activities is subject to obtaining and/or renewing permits or concessions (including a permanent license with respect to the Boroo heap leach operations, a certificate of temporary land use in relation to its concession area around the Kumtor mine, and permits and concessions to begin mining activities at Gatsuurt), changes in laws or government regulations or shifts in political attitudes beyond Centerra's control.

There can be no assurance that industries deemed of national or strategic importance like mineral production will not be nationalized. Government policy may change to discourage foreign investment, renationalization of mining industries may occur or other government limitations, restrictions or requirements not currently foreseen may be implemented. There can be no assurance that Centerra's assets will not be subject to nationalization, requisition or confiscation, whether legitimate or not, by any authority or body. While there are often provisions for compensation and reimbursement of losses to investors under such circumstances, there is no assurance that such provisions would effectively restore the value of

Centerra's original investment. Similarly, Centerra's operations may be affected in varying degrees by government regulations with respect to restrictions on production, price controls, export controls, income taxes, expropriation of property, environmental legislation, labour legislation, mine safety, and annual fees to maintain mineral properties in good standing. There can be no assurance that the laws in these countries protecting foreign investments will not be amended or abolished or that these existing laws will be enforced or interpreted to provide adequate protection against any or all of the risks described above. Furthermore, there can be no assurance that the agreements Centerra has with the governments of these countries will prove to be enforceable or provide adequate protection against any or all of the risks described above.

Centerra has made an assessment of the political risk associated with each of its foreign investments and currently has political risk insurance covering its investments in the Kyrgyz Republic which is intended to mitigate a portion of any losses. The Company does not currently have political risk insurance covering its investments in Mongolia. From time to time, Centerra assesses the costs and benefits of maintaining such insurance and may not continue to purchase the coverage. Furthermore, there can be no assurance that the insurance would continue to be available at any time or that particular losses Centerra may suffer with respect to its foreign investments will be covered by the insurance. These losses could have an adverse impact on Centerra's future cash flows, earnings, results of operations and financial condition if not adequately covered by insurance.

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

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

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

If the laws and regulations relating to the Company's operations were to change, or the application of such laws and regulations were to become more rigorous, the Company could be required to incur significant capital and operating expenditures to comply, which could have a material adverse effect on the Company's financial position.

***The Minerals Law of Mongolia provides the government of Mongolia with the right to take up to a 50% interest in the exploitation of a minerals deposit of strategic importance***

In 2006, the Mongolian Parliament passed the Minerals Law that, among other things, empowers Parliament to designate mineral deposits that have a potential impact on national security, economic and social development or deposits that have a potential of producing above 5% of the country's GDP as deposits of strategic importance. The state may take up to a 50% interest in the exploitation of a minerals deposit of strategic importance where state funded exploration was used to determine proven reserves and up to a 34% interest in an investment to be made by a license holder in a mineral deposit of strategic importance where proven reserves were determined through funding sources other than the state budget.

The designation of any of the Company's mineral deposits in Mongolia as deposits of strategic importance under the Minerals Law could have a significant material adverse effect on Centerra's future cash flows, earnings, results of operations, stated reserves and financial conditions.

***The November 2010 Amendments to the 2006 Mongolian Minerals Law may result in a significant increase to the royalty payments payable in connection the Company's Mongolian operations***

In November 2010, the Mongolian Parliament also passed amendments to The Minerals Law of Mongolia that modified the existing royalty structure on mineral projects. Pursuant to the amended royalty structure, the royalty rate is no longer a fixed percentage but is graduated and dependent upon the commodity price in US dollars. In the case of gold, there is a basic 5% royalty fee that applies while gold is less than US\$900 per ounce. For any increase of US\$100 to the price of gold, there is a corresponding 1% increase to the royalty fee. Accordingly, at US\$900 per ounce, the royalty fee increases to 6%, at US\$1,000 per ounce, the royalty increases to 7%, at US\$1,100 per ounce, the royalty increases to 8%, and at US\$1,200, the royalty increases to 9%. The highest royalty fee rate is 10% when the price of gold is US\$1,300 per ounce and above. The graduated royalty became effective as of January 1, 2011 for all mining projects in Mongolia. On January 19, 2011, the Standing Committee of the State Great Hural of Mongolia issued a Direction to the Government which, among other things, resolved to have the graduated royalty structure apply to business entities that have already entered into a stability and/or an investment agreement. This would include the Company's Boroo mine which is currently operating pursuant to a stability agreement entered with the Mongolian government. The Company is of the opinion that the Boroo stability agreement provides, among other things, legislative stabilization for its Boroo operations and accordingly the graduated royalty fee is not applicable to Boroo's remaining operations.

The Company is of the opinion that the Boroo Stability Agreement affords Boroo protection against the new laws described above, but Centerra's Gatsuurt project does not yet have any such benefits. Centerra has been in discussions with the Government of Mongolia to obtain an investment agreement for the development and mining of the Gatsuurt project which would stabilize the tax regime applicable to Gatsuurt, and including whether such new mineral laws will apply to Gatsuurt. In April 2010, the MMRE indicated to Centerra that further discussions and negotiations with respect to any investment agreement would be postponed until the MMRE received clarification on the application of the Water and Forest Law on the Gatsuurt project. Even with the Water and Forest Law matter being resolved, there can be no assurance that any negotiations will be successful. In addition, Centerra holds other exploration and mining licenses in Mongolia which are not subject to the Boroo Stability Agreement and which may not be subject to any investment agreement to be entered into for Gatsuurt, and therefore these exploration and mining licenses may become subject to such new Mongolian

mining laws. For further information on the new graduated royalty structure, see “Other Corporate Developments – Mongolia – Mongolian Legislation”.

The imposition of the new graduated royalty regime on any of the Company’s operations in Mongolia could have a significant material adverse effect on Centerra’s future cash flows, earnings, results of operations, stated reserves and financial conditions.

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

In July 2009, the Mongolian Parliament passed the Water and Forest Law, which would have the effect of revoking any issued licenses covering such areas. The legislation provides a specific exemption for “mineral deposits of strategic importance”, and accordingly, the Company expects that the main Boroo mining licenses will not be subject to the Water and Forest Law. The Company’s Gatsuurt licenses and its other exploration license holdings in Mongolia are currently not so exempt. For a further discussion on the regulatory action described above see “Other Corporate Developments – Mongolia – Mongolian Legislation”.

The revocation of the Company’s mining or exploration licenses in Mongolia under the Water and Forest could have a significant material adverse effect on Centerra’s future cash flows, earnings, results of operations, stated reserves and financial conditions.

***The Company’s operations at the Boroo mine have been suspended in the past, and continue to face scrutiny from Mongolian regulatory authorities***

On June 12, 2009, the main operating licenses at the Company’s Boroo mine were suspended by the MRAM following extensive inspections of the Boroo mine operation conducted by the SSIA. In its report, the SSIA expressed its view that a number of deficiencies existed at the Boroo mine. After discussions by Centerra and its subsidiaries with both the MRAM and the SSIA, the suspension of the operating licenses was lifted on July 27, 2009. Despite the lifting of the suspension, several issues arising from the inspections continue to be discussed by Centerra and the Mongolian regulatory authorities.

In particular, on October 23, 2009, the Company received a very significant claim for compensation from the SSIA in respect of certain mineral reserves, including state alluvial reserves covered by the Boroo mine licenses, that are recorded in the Mongolian state reserves registry but for which there are no or incomplete records or reports of mining activity. The Company disputes the claim. While the Company is attempting to settle this claim through negotiation, there can be no assurance that such negotiation can be successfully concluded and any failure to do so could have a material adverse impact on Centerra.

The SSIA inspections in 2009 raised a concern about the production and sale of gold from the Boroo heap leach facility. The heap leach facility was operated under a temporary permit from June 2008 until the expiry of the temporary permit in April, 2009 and paid all relevant royalties and taxes with respect to gold produced from the heap leach facility during that period. BGC believes that it had all necessary permits to carry out its heap leach activities and that any regulatory concerns are unfounded. While BGC is continuing its effort to obtain a final permit for the operation of its heap leach facility at the Boroo mine, there can be no assurance that a final permit will be obtained. The failure to obtain a final permit for the Boroo mine heap leach facility could have a material adverse impact on Centerra.

On November 2, 2009, Centerra received a letter from the Mongolian Ministry of Finance re-iterating some of the issues raised by the SSIA and indicating that the Boroo Stability Agreement would be terminated if such issues were not resolved within a period of 120 days from the date of the letter. The deadline has since passed and the Company continues to be in discussions with the Ministry of Finance regarding such concerns.

While the Company believes that the issues raised by the Ministry of Finance will be resolved through negotiations with the authorities without a material impact on the Company, there can be no assurance that this will be the case. The Company's inability to resolve these issues through negotiation could have a significant material adverse effect on Centerra's future cash flows, earnings, results of operations, stated reserves and financial conditions.

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

The Company is subject to environmental regulation in connection with the Company's exploration, development and operation activities in each of the jurisdictions in which it operates. The financial and operational effects of the Company's environmental protection requirements relate primarily to the Company's operations in the Kyrgyz Republic, where it operates the Kumtor mine, and in Mongolia, where it operates the Boroo mine, and has a 100% interest in the both the Gatsuurt and Ulaan Bulag exploration and development properties.

If the environmental laws and regulations relating to the Company's operations, including its operations in the Kyrgyz Republic and Mongolia, were to change, or the enforcement of such laws and regulations were to become more rigorous, the Company could be required to incur significant capital and operating expenditures to comply, which could have a material adverse effect on the Company's financial position.

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

The Kumtor and Boroo mines are currently Centerra's only sources of gold production. Based on the current life-of-mine plan, Kumtor will be depleted by 2021. At Boroo, mining has ceased as of the end of November 2010, and the mill will continue to operate for at least a further two years processing low grade stockpiled ore, some of which is low-grade and was originally intended for the heap leach. Additionally, if the bio-oxidation facility is not constructed, the remaining Boroo refractory ores would be processed and depleted by 2013. If Centerra's existing mineral reserves (including reserves at the Gatsuurt deposit in Mongolia) are not replaced either by the development or discovery of additional reserves and/or extension of the life-of-mine at Kumtor or Boroo or through the acquisition or development of an additional producing mine, this could have an adverse impact on Centerra's future cash flows, earnings, results of operations and financial condition, including as a result of requirements to expend funds for reclamation and decommissioning. Although Centerra is actively engaged in programs to increase mineral reserves and expand the life-of-mine at both Kumtor and Boroo, as well as to develop and mine the Gatsuurt deposit in Mongolia, there can be no assurance that these programs will be successful.

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

On July 8, 2002, a high-wall ground movement at the Kumtor mine resulted in the death of one of Centerra's employees and the temporary suspension of mining operations. The movement led to a considerable shortfall in 2002 gold production because the high-grade Stockwork Zone was rendered temporarily inaccessible. Consequently, Centerra milled lower grade ore and achieved lower recovery rates. In February 2004, movement was also detected in the southeast wall of the open pit and a crack was discovered at the crest of the wall. In February 2006, there was further movement detected in the southeast wall of the open pit. In July 2006, there was ground movement in the northeast wall of the open pit that required the adoption of a new mining sequence at Kumtor and resulted in lower than anticipated gold production in 2006. In the first quarter of 2007, minor slope movement was detected in the waste dump above the SB Zone high-wall in the Central Pit. Deformation cracks in the waste rock above the till focused attention on wall instability seated in the glacial till between the waste dumps and the underlying bedrock. Drilling has indicated that further push backs of the Kumtor pit will encounter unfrozen, water saturated till. The outer face of the till is frozen and hence the water behind the slope face is pressurized. The depressurization and dewatering programs which were established at the mine in 2008 and continuously operated since, have reduced the hydrological content of the waste dump and the till. The till dewatering program has improved the geotechnical strength of the till. The step out wells have been planned to further intersect ground water that may contribute to the hydrological characteristics. If depressurization of the till and of the underlying rocks cannot be achieved, a flatter slope angle will be required which could lead to a reduction of the mineral reserves mineable by open pit.

Although extensive efforts are employed by Centerra to prevent further ground movement, there is no guarantee against such movements. A future ground movement could result in a significant interruption of operations. Centerra may also experience a loss of reserves or a material increase in costs, if it is necessary to redesign the open pit as a result of a ground movement. The consequences of a ground movement will depend upon the magnitude, location and timing of any such movement. If mining operations are interrupted to a significant magnitude or the mine experiences a significant loss of reserves or materially higher costs of operation, this would have an adverse impact on Centerra's future cash flows, earnings, results of operations and financial condition.

### ***Centerra will experience further waste and ice movement at the Kumtor mine***

During 2009, continued movement of waste and ice from the South East Ice Wall into the Kumtor Central Pit above the SB Zone section required the mining of ice and waste which reduced the production of ore. While management has developed a plan to manage this movement (which plans have seen positive results in 2010), there is no guarantee that these efforts will avert further negative impact on the Company's expected production, costs and earnings. Future movements could result in a significant interruption of operations or impede access to ore deposits. Centerra may also experience a loss of reserves or a material increase in costs if it is necessary to redesign the open pit as a result of waste and ice movements. The consequences of further waste and ice movement into the Kumtor Central Pit will depend upon the extent, location and timing of any such movement. If mining operations are interrupted to a significant magnitude or the mine experiences a significant loss of reserves or materially higher costs of operation, this would have an adverse impact on Centerra's future cash flows, earnings, results of operations and financial condition.

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

The Company may, currently or in the future, be subject to claims (including class action claims and claims from government regulatory bodies) based on allegations of negligence, breach of statutory duty, public nuisance or private nuisance or otherwise in connection with its operations or investigations relating thereto. While the Company is presently unable to quantify its potential liability under any of the above heads of damage, such liability may be material to the Company and may materially adversely affect its ability to continue operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***Gold mining is subject to a number of operational risks and Centerra may not be adequately insured for certain risks***

Centerra's business is subject to a number of risks and hazards, including environmental pollution, accidents or spills; industrial and transportation accidents; unexpected labour shortages, disputes or strikes; cost increases for contracted and/or purchased goods and services; shortages of required materials and supplies; electrical power interruptions; mechanical and electrical equipment failure; changes in the regulatory environment; natural phenomena, such as inclement weather conditions, floods, earthquakes, pit wall failures, tailings dam failures and cave-ins; encountering unusual or unexpected climatic conditions that may or may not result from global warming; and encountering unusual or unexpected geological conditions.

While Centerra takes measures to mitigate the foregoing risks and hazards, there is no assurance that these risks and hazards will not result in damage to, or destruction of, Centerra's gold properties, personal injury or death, environmental damage, delays in or interruption of or cessation of production from Centerra's mines or in its exploration or development activities, costs, monetary losses and potential legal liability and adverse community and/or governmental action, all of which could have an adverse impact on Centerra's future cash flows, earnings, results of operations and financial condition.

In March 2008, an unplanned shutdown of the ball mill at Kumtor was required to temporarily repair the ring gear which had failed. The repair was completed in late March and the ball mill returned to full operation. A new gear was ordered from the original supplier of the mill. In order to limit the impact which a shut-down would have on production, the installation of the new gear was carried out in April 2010 when only low-grade mill feed was being processed. In February 2009, the SAG mill at the Kumtor mill also experienced a similar mechanical failure of the girth gear with the failure of two teeth. A spare girth gear was installed immediately. A replacement for the damaged quadrant of the girth gear was purchased and installed in late February 2009.

The Kumtor tailings dam design was initially approved by the Kyrgyz authorities to elevation 3,670 metres. Subsequent to this approval, it was determined by the Kyrgyz authorities that additional construction permits and authorizations would be required in connection with the raising and the operation of the tailings facility. The tailings dam crest is currently at elevation 3,664 metres. The next tailings dam raise is scheduled for 2013 which

will raise the elevation of the tailings dam to 3,667 metres. A tailings dam with 3,670 metres elevation would be sufficient to contain all the tailing generated in the KS-10 life-of-mine plan to 2019. While the Company has obtained the necessary permits and authorizations in the past in connection with tailings dam raises, there are no assurances that such permits and authorizations can be obtained in the future or obtained in the timeframe required by the Company. If all necessary permits and authorizations are not obtained, delays in, or interruptions or cessation of Centerra's production from the Kumtor mine may occur, which may have an adverse impact on Centerra's future cash flows, earnings, results of operations or financial condition.

Although Centerra maintains insurance to cover some of these risks and hazards in amounts it believes to be reasonable, its insurance may not provide adequate coverage in all circumstances. No assurance can be given that insurance will continue to be available at economically feasible premiums or that it will provide sufficient coverage for losses related to these or other risks and hazards.

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

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

Centerra expends significant financial and managerial resources to comply with a complex set of environmental, health and safety laws, regulations, guidelines and permitting requirements (for the purpose of this paragraph, "laws") drawn from a number of different jurisdictions. Centerra believes it is in material compliance with these laws. Centerra anticipates that it will be required to continue to do so in the future as the historical trend toward stricter laws is likely to continue. The possibility of more stringent laws or more rigorous enforcement of existing laws exists in the areas of worker health and safety, the disposition of wastes, the decommissioning and reclamation of mining sites, restriction of areas where exploration, development and mining activities may take place and other environmental matters, each of which could have a material adverse effect on Centerra's exploration, operations and the cost or the viability of a particular project.

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

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

Centerra has investigated its rights to explore and exploit all of its material properties, and, except as described below, to the best of its knowledge, those rights are in good standing. However, no assurance can be given that such rights will not be revoked or significantly altered to Centerra's detriment. There can also be no assurance that Centerra's rights will not be challenged or impugned by third parties, including local governments. On December 6,

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

Centerra is currently in discussions with the applicable Kyrgyz regulatory authorities regarding a certificate of temporary land use in relation to its concession area in the Kyrgyz Republic. The Company is in receipt of a governmental decree authorizing the issuance of the certificate and is in negotiations to obtain the final certificate. The Company expects that a new certificate of temporary land use will be issued shortly, although there can be no assurance that this will be the case.

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

***Restrictive covenants in Centerra’s revolving credit facility may prevent the Company from pursuing business activities that could otherwise improve the Company’s results of operations***

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

***There can be no assurance that Centerra will be able to successfully complete negotiations for an investment agreement for Gatsuurt, to complete the development of the mine, and obtain all necessary permits and commissions needed to commence mining activity at Gatsuurt***

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

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

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

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

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

The areas surrounding both Centerra's Kumtor mine and Boroo mine are seismically active. While the risks of seismic activity were taken into account when determining the design criteria for Centerra's Kumtor and Boroo operations, there can be no assurance that Centerra's operations will not be adversely affected by this kind of activity, all of which could have an adverse impact on Centerra's future cash flows, earnings, results of operations and financial condition.

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

Centerra operates in remote locations and depends on an uninterrupted flow of materials, supplies and services to those locations. In addition, Centerra uses expensive, large equipment that requires a long time to procure, build and install. Any interruptions to the procurement of equipment, or the flow of materials, supplies and services to Centerra's

properties could have an adverse impact on its future cash flows, earnings, results of operations and financial condition. Access to the Kumtor mine has been restricted on several occasions by illegal roadblocks.

***Illegal mining has occurred on Centerra's Mongolian properties, is difficult to control, may disrupt its operations and may expose it to liability***

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

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

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

The dispute resolution provisions of: (i) the Restated Investment Agreement and (ii) the Boroo Stability Agreement stipulate that any dispute between the parties thereto is to be submitted to international arbitration. However, there can be no assurance that a particular governmental entity or instrumentality will either comply with the provisions of these or any other agreements or voluntarily submit to arbitration. Centerra's inability to enforce its rights could have an adverse effect on its future cash flows, earnings, results of operations and financial condition.

***Centerra faces substantial decommissioning and reclamation costs which may be difficult to predict accurately***

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

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

The further development and exploration of mineral properties in which Centerra holds or acquires interests may depend upon its ability to obtain financing through joint ventures, debt financing, equity financing or other means. While the Company successfully negotiated a three-year \$150 million revolving credit facility in 2010, there is no assurance that Centerra will be successful in obtaining required financing as and when needed.

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

### ***Current global financial conditions***

The financial crisis which began in the latter part of 2007 has resulted in global financial conditions which are characterized by continued high volatility, and financial institutions are still recovering from significant losses. Access to public financing and bank credit has been negatively impacted by both the rapid decline in value of sub-prime mortgages and the liquidity crisis affecting the asset backed commercial paper market as financial institutions saw their balance sheet impaired. Notwithstanding some improvement in the financial health of major financial institutions, global financial conditions may affect Centerra's ability to obtain equity or debt financing in the future on favourable terms. Additionally, these factors, as well as other related factors, may cause decreases in Centerra's asset values that may be other than temporary, which may result in impairment losses. If such increased levels of volatility and market turmoil continue, or if more extensive disruptions of the global financial markets occur, Centerra's operations could be adversely impacted and the trading price of Centerra's common shares may be adversely affected.

### ***Currency fluctuations***

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

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

The Company may from time to time invest excess cash balances in short-term commercial paper or similar securities. Recent market conditions affecting certain types of short-term investments of some North American and European issuers as well as certain financial institutions have resulted in reduced liquidity for these investments. There can be no guarantee that further market disruptions affecting various short-term investments or the potential failure of such financial institutions will not have a negative effect on the liquidity of investments made by the Company.

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

Recruiting and retaining qualified personnel is critical to Centerra's success. The number of persons skilled in the acquisition, exploration and development of mining properties is limited and competition for such persons is intense. As Centerra's business activity grows, it will require additional key financial, administrative and mining personnel as well as additional operations staff. The Restated Concession Agreement relating to Centerra's Kumtor operations also requires two thirds of all administrative or technical personnel to be citizens of the Kyrgyz Republic. However, it has been necessary to engage expatriate workers for Centerra's operations in Mongolia and, to a lesser extent, the Kyrgyz Republic because of the shortage of locally trained personnel. Although Centerra believes that it will be successful in attracting, training and retaining qualified personnel, there can be no assurance of such success. If Centerra is not successful in attracting and training qualified personnel, the efficiency of its operations could be affected, which could have an adverse impact on its future cash flows, earnings, results of operations and financial condition.

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

Centerra is a holding company that conducts substantially all of its operations through subsidiaries, many of which are incorporated outside North America. Centerra has no direct operations and no significant assets other than the shares of its subsidiaries. Therefore, Centerra is dependent on the cash flows of its subsidiaries to meet its obligations, including payment of principal and interest on any debt Centerra incurs. The ability of Centerra's subsidiaries to provide it with payments may be constrained by the following factors: (i) the cash flows generated by operations, investment activities and financing activities; (ii) the level of taxation, particularly corporate profits and withholding taxes, in the jurisdiction in which they operate; and (iii) the introduction of exchange controls and repatriation restrictions or the availability of hard currency to be repatriated.

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

### ***Centerra may experience difficulties with its joint venture partners***

Centerra has a number of joint venture partners and it may in the future enter into additional joint ventures with third parties. Centerra is subject to the risks normally associated with the conduct of joint ventures. These risks include disagreement with a joint venture partner on how to develop, operate and finance a project and possible litigation between Centerra and a joint venture partner regarding joint venture matters. These matters may have an adverse effect on Centerra's ability to pursue the projects subject to the joint venture, which could affect its future cash flows, earnings, results of operations and financial condition.

### ***Centerra's largest shareholder is the Kyrgyz Government***

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

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

Certain of Centerra's directors also serve as directors and/or officers of other companies involved in natural resource exploration, development and production and consequently there exists the possibility for such directors to be in a position of conflict. In accordance with Centerra's policies, directors are required to disclose, from time to time, any potential conflicts of interest.

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

Information contained in this Annual MD&A which are not statements of historical facts, and the documents incorporated by reference herein, may be "forward looking information" for the purposes of Canadian securities laws. Such forward looking information involves risks, uncertainties and other factors that could cause actual results, performance, prospects and opportunities to differ materially from those expressed or implied by such forward looking information. The words "believe", "expect", "anticipate", "contemplate", "target", "plan", "intends", "continue", "budget", "estimate", "may", "will", "schedule" and similar expressions identify forward-looking information. These forward-looking statements relate to, among other things, the statements made under the heading, "Outlook for 2011", including the Company's expectations regarding future growth, results of operations, future production and sales, operating capital expenditures, and performance; expected trends in the gold market, including with respect to costs of gold production; capital and operational expenses for 2011

and the ability to fund them from cash flow; spending by the Company on a maternity hospital in Ulaanbaatar, Mongolia; exploration plans for 2011 and the success thereof; mining plans at each of the Company's operations and at the Gatsuurt property; the receipt of permitting and regulatory approvals at the Company's Gatsuurt development property; the impact of the Water and Forest Law on the Company's Mongolian activities; the application of the new graduated royalty fee regime under the 2006 Mongolian Minerals Law to the Company's Mongolian properties; the resolution of the social fund dispute with respect to high altitude premiums paid to national employees at the Kumtor mine; permitting of the Company's heap leach activities at the Boroo mine; anticipated delays and approvals and regulatory commissioning of the Company's Gatsuurt development property as a result of the Water and Forest Law; the continued success with the management of ice and water movement at Kumtor; the timing for satisfying the conditions precedents for the Company's credit facility with EBRD; the Company's business and political environment and business prospects; and the timing and development of new deposits.

Forward-looking information is necessarily based upon a number of estimates and assumptions that, while considered reasonable by Centerra, are inherently subject to significant political, business, economic and competitive uncertainties and contingencies. Known and unknown factors could cause actual results to differ materially from those projected in the forward looking information. Material assumptions used to forecast production and costs include those described under the heading "Outlook for 2011". Other factors that could cause actual results or events to differ materially from current expectations include, among other things: the sensitivity of the Company's business to the volatility of gold prices; the political risks associated with the Company's principal operations in the Kyrgyz Republic and Mongolia; the impact of changes in, or more oppressive enforcement of, laws, regulations and government practices in the jurisdictions in which the Company operates; the effect of the 2006 Mongolian Minerals Law; the effect of the November 2010 amendments to the 2006 Mongolian Minerals Law on the royalty payments payable in connection with the Company's Mongolian operations; the effect of the Water and Forest Law on the Company's operations in Mongolia; the impact of continued scrutiny from Mongolian regulatory authorities; the impact of changes to, or the increased enforcement of, environmental laws and regulations relating to the Company's operations; the Company's ability to replace its reserves; ground movements at the Kumtor Mine; waste and ice movement at the Kumtor Mine; litigation; the accuracy of the Company's reserves and resources estimate; the accuracy of the Company's production and cost estimates; the success of the Company's future exploration and development activities; competition for mineral acquisition opportunities; the adequacy of the Company's insurance; environmental, health and safety risks; defects in title in connection with the Company's properties; the impact of restrictive covenants in the Company's revolving credit facility; the Company's ability to successfully negotiate an investment agreement for the Gatsuurt development property to complete the development of the mine and the Company's ability to obtain all necessary permits and commissions needed to commence mining activity at the Gatsuurt development property; seismic activity in the vicinity of the Company's operations in the Kyrgyz Republic and Mongolia; long lead times required for equipment and supplies given the remote location of the Company's properties; illegal mining on the Company's Mongolian properties; the Company's ability to enforce its legal rights; the Company's ability to accurately predict decommissioning and reclamation costs; the Company's ability to obtain future financing; the impact of current global financial conditions; the impact of currency fluctuations; the effect of recent market conditions on the Company's short-term investments; the Company's ability to attract and retain qualified personnel; the Company's ability to make payments including payments of principal and interest on the Company's debt facilities; risks

associated with the conduct of joint ventures; risks associated with the Company's largest shareholder, the Kyrgyz government; and possible director conflicts of interest. There may be other factors that cause results, assumptions, performance, achievements, prospects or opportunities in future periods not to be as anticipated, estimated or intended. See "Risk Factors" in the Company's most recently filed AIF available on SEDAR at [www.sedar.com](http://www.sedar.com).

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

Reserve and resource figures included in this MD&A are estimates and Centerra can provide no assurances that the indicated levels of gold will be produced or that Centerra will receive the gold price assumed in determining its reserves. Such estimates are expressions of judgment based on knowledge, mining experience, analysis of drilling results and industry practices. Valid estimates made at a given time may significantly change when new information becomes available. While Centerra believes that these reserve and resource estimates are well established and the best estimates of Centerra's management, by their nature reserve and resource estimates are imprecise and depend, to a certain extent, upon analysis of drilling results and statistical inferences which may ultimately prove unreliable.

Centerra has not adjusted resource figures included herein in consideration of these risks and, therefore, Centerra can give no assurances that any resource estimate will ultimately be reclassified as proven and probable reserves or incorporated into future production guidance. If Centerra's reserve or resource estimates or production guidance for its gold properties are inaccurate or are reduced in the future, this could have an adverse impact on Centerra's future cash flows, earnings, results of operations and financial condition. Centerra estimates the future mine life of its operations and provides production guidance in respect of its mining operations. Centerra can give no assurance that mine life estimates will be achieved or that actual production will not differ materially from its guidance. Failure to achieve estimates or production guidance could have an adverse impact on Centerra's future cash flows, earnings, results of operations and financial condition.

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

There can be no assurances that forward looking information and statements will prove to be accurate, as many factors and future events, both known and unknown could cause actual results, performance or achievements to vary or differ materially, from the results, performance or achievements that are or may be expressed or implied by such forward looking statements contained herein or incorporated by reference. Accordingly, all such factors should be considered carefully when making decisions with respect to Centerra, and prospective investors should not place undue reliance on forward looking information. Forward looking information is as of February 23, 2011. Centerra assumes no obligation to update or revise forward looking information to reflect changes in assumptions, changes in circumstances or any other events affecting such forward looking information, except as required by applicable law.