

Centerra Gold Inc.
Management's Discussion and Analysis
For the fiscal year ended December 31, 2012

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The following discussion has been prepared as of February 20, 2013, and is intended to provide a review of the financial position and results of operations of Centerra Gold Inc. (“Centerra” or the “Company”) as at and for the financial year ended December 31, 2012 in comparison with those as at and for the financial year ended December 31, 2011. This discussion should be read in conjunction with the Company’s audited financial statements and notes thereto for the year ended December 31, 2012 prepared in accordance with International Financial Reporting Standards. In addition, this discussion contains certain forward-looking information regarding Centerra’s businesses and operations. Such forward-looking statements involve risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. See “Risk Factors” and “Caution Regarding Forward-Looking Information” in this discussion. All dollar amounts are expressed in United States (US) dollars, except as otherwise indicated. Additional information about Centerra, including the Company’s Annual Information Form for the year ended December 31, 2012, will be available on the Company’s website at www.centerragold.com and on the System for Electronic Document Analysis and Retrieval (“SEDAR”) at 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 around the world. Centerra’s principal operations are located in the Kyrgyz Republic and Mongolia and are subject to political and regulatory risks. See “Other Corporate Developments” and “Risk Factors”.

Centerra’s common shares are listed for trading on the Toronto Stock Exchange. As of February 20, 2013, being the date of this Management’s Discussion and Analysis (“MD&A”), there are 236,376,011 common shares issued and outstanding.

As of December 31, 2012, Centerra’s significant subsidiaries and jointly-controlled entities include its wholly-owned Kumtor Gold Company and Kumtor Operating Company in the Kyrgyz Republic, Boroo Gold LLC and Centerra Gold Mongolia LLC (owner of the Gatsuurt property and the Altan Tsagaan Ovoo (“ATO”) property) in Mongolia, its 70% interest in the Kara Beldyr Russian joint venture and 70% interest in the Öksüt Turkish joint venture (subsequently increased to a wholly-owned operation in January 2013). Additionally, the Company is earning an interest in other joint venture exploration properties located in Russia, Turkey and China. The Gatsuurt property is in the development phase. The Kara Beldyr, Öksüt and other Russian, Turkish, Chinese and Mongolian properties are in the exploration phase.

Substantially all of Centerra’s revenues are derived from the sale of gold. The Company’s revenues are derived from production 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 until September 30, 2011 sold under a refining agreement with Johnson Matthey Limited or under a master sale agreement with Auramet Trading LLC.

The average spot price for gold in 2012 based on the London PM fix was \$1,669 per ounce, an increase of 6% over the average in 2011. This follows year-over-year increases of 28% in 2011 and 26% in 2010. The average realized price of gold received by Centerra in 2012 was \$1,692 per ounce.

The Company's costs are comprised primarily of the cost of producing gold from its two mines, exploration expenses relating to its own projects and its joint venture projects, 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 include labour, diesel fuel and equipment maintenance.

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

Both mining and milling costs are also affected by labour costs, which depend on the availability of qualified personnel in the regions where the operations are located, the wages in those markets, and the number of people required. Mining and milling activities involve the use of many materials. The varying costs of acquiring these materials and the amount used in the processing of the ore also influence the cash costs of mining and milling. The non-cash costs (primarily depreciation, depletion and amortization ("DD&A")) 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 accrue these costs according to the principles of IFRS. In addition, Kumtor has established a reclamation trust fund to pay for these costs (net of forecast salvage value of assets) from the revenues generated over the life of mine. At Boroo, 50% of the upcoming year's annual reclamation budget is deposited by Boroo into a government account and such funds are recovered by Boroo when the annual reclamation commitments are completed.

Gold Industry

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

The gold price fell during the fourth quarter of 2012 from US\$1,776/oz to US\$1,657/oz, a 6.7% decrease. The 2012 performance remained positive with an overall gain of 8.3% for the year.

In 2013, the global gold production is anticipated to have modest growth with producers refocusing to ensure that mines under development and current operating mines are profitable and achieve acceptable return on investments. The increasing cost of gold production pressures along with the higher than anticipated capital expenditures which were experienced in 2012 are expected to continue. This has led to several planned projects being deferred in the global gold industry.

In addition to supply factors internal to the industry, described above, external factors also impact the gold price. The underlying U.S. economic performance indicators have shown some early signs of recovery from the global financial crisis though not consistently demonstrating economic recovery has been achieved, likely as a result of the volatility of the U.S. dollar and the gold price. It is unlikely in the near term that the US monetary policy regulators will tighten monetary policies to impact the trade-weighted U.S. dollar exchange rate and the same remains true in other developed countries such as Europe and Japan. Central banks of the developed countries and in recent years, countries with emerging economies, are also now driving investment demand for gold by diversifying their reserves from traditional holdings of paper currencies. Emerging-market central banks, which own on average 4.6% of foreign reserves in gold, hold considerably lower gold reserves than the 22% allocation of the developed-market country counterparts.

The Company believes that fundamentals remain positive for gold in the coming year. Burgeoning federal deficits in the U.S. resulting from economic stimulus measures are expected to weaken the U.S. dollar and ultimately usher in a period of higher inflation. The role of gold as a hedge against inflation would support continued demand for the metal as would growing appetite by central banks and developing Asian nations seeking a more reliable store of value as compared with other investments.

The following table shows the average afternoon gold price fixing, by quarter, on the London Bullion Market for 2011, and 2012:

Quarter	Average Gold Price (\$)
2011 Q1	1,386
2011 Q2	1,506
2011 Q3	1,702
2011 Q4	1,688
2012 Q1	1,721
2012 Q2	1,597
2012 Q3	1,667
2012 Q4	1,711

Liquidity

Financial liquidity provides the Company with the ability to fund future operating activities and investments. Centerra has two operating mines, located in the Kyrgyz Republic and Mongolia. Centerra generated \$134.7 million in cash from operations in 2012 and has a balance of cash and short-term investments of \$382.1 million at December 31, 2012 after drawing \$76 million from its revolving line of credit. The Company's financial risk management policy focuses on cash preservation, while maintaining the liquidity necessary to conduct operations on a day-to-day basis. The Company manages counterparty credit risk, in respect of cash and short-term investments, by maintaining bank accounts with highly-rated U.S. and Canadian banks and investing only in highly-rated Canadian and U.S. Government bills, term deposits or banker's acceptances with highly-rated financial institutions, and corporate direct credit of highly-rated, highly-liquid issuers.

Continued uncertainty in global financial markets has constrained the ability of many companies to access capital markets financing. 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 working capital and future growth initiatives. The Company has \$76 million outstanding on this facility, currently repayable in August 2013, however, at the Company's direction, this amount can be rolled over to a future period. It is expected that all planned capital and operating expenditures can be funded out of cash flow for 2013. See "Caution Regarding Forward-Looking Information".

Growth Strategy

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

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

Centerra's growth strategy could be impacted by the risk factors described on page 62.

Reserves and Resources

During 2012, the Company continued its exploration drilling activities in and around the Kumtor mine site and on its various advanced exploration projects in the Asian region. On February 7, 2013, the Company released the results of the updated reserve and resource estimates for the Kumtor and Boroo mines and updated resource profiles for its advanced projects providing estimates of the Company's reserves and resources as of December 31, 2012.

Reserves:

During 2012, Centerra's proven and probable gold reserves increased by 3.6 million contained ounces (before accounting for 2012 production) to 11.1 million ounces of contained gold, compared to 8.1 million ounces as of December 31, 2011. This represents an increase of 45% before accounting for 534,000 contained ounces processed at Kumtor and Boroo during 2012. The total reserve increase is the result of the significant expansion of the Kumtor Central Pit and is described in detail in a new National Instrument 43-101 technical report filed on SEDAR in December 2012. All 2012 year-end reserves were estimated using a gold price of \$1,350 per ounce compared to \$1,200 per ounce at December 31, 2011.

For the 2012 Kumtor year-end reserve statement, the KS-13 model has been updated from the reserve estimate completed and published at the end of September 2012 by the addition of 17 diamond drill holes and accounting for the gold production and mine reconciliation completed during the last quarter of 2012.

In Mongolia, at the Boroo mine, proven and probable reserves total 178,000 contained ounces of gold after accounting for approximately 110,000 contained ounces being processed through the mill or loaded on the heap leach pad in 2012. The remaining reserves are now entirely within existing ore stockpiles on surface. At the current reserve gold price assumption, the Boroo operation can continue to feed the mill for approximately two more years and operate and recover gold from the heap leach pad into 2014. At the Gatsuurt project, proven and probable reserves remain unchanged at 1.5 million ounces of contained gold.

Resources:

As of December 31, 2012, Centerra's measured and indicated resources decreased by 23% or 1.5 million ounces over the December 31, 2011 figures to a total of 5.1 million ounces of contained gold, compared to 6.6 million contained ounces as of December 31, 2011. The majority of this decrease is a result of the conversion of Kumtor's Central Pit measured and indicated open pit resources into mineral reserves as a result of the KS-13 Pit expansion. This conversion of resources to reserves has been offset by increased resources at Kumtor and the addition of 682,000 contained ounces of new resources at the Öksüt project.

As of December 31, 2012, Centerra's inferred resources increased by 22,000 contained ounces over the December 31, 2011 figures to a total of 4.1 million ounces of contained gold. The conversion of Kumtor underground resources into reserves within the KS-13 expanded pit was offset by new high grade resources outlined below the KS-13 pit design and the addition of 477,000 contained ounces of new resources at the Öksüt project.

At the Öksüt project in Turkey, Centerra calculated its initial resource estimate based on the successful 2012 drilling program. As of December 31, 2012, the Öksüt project has an

indicated resource of 682,000 ounces of contained gold and an inferred resource of 477,000 ounces of contained gold.

At the ATO project in Mongolia, measured and indicated contained gold, resources have decreased by 53,000 contained ounces of gold from 2011 year-end, to a total of 0.8 million contained ounces of gold at December 31, 2012. Extensive metallurgical test work completed in 2012 has resulted in revised lower process recovery and net smelter return assumptions for the sulphide mineralization which has lowered the contained gold resources. This has also decreased the corresponding contained silver, lead and zinc resources. Some of the decrease has been offset by increased recovery assumptions for the oxide mineralization and the addition of 50 new exploration drill holes completed in 2012.

Inferred resources at ATO have also decreased by 18,000 contained ounces of gold from 2011 year-end, to a total of 8,000 contained ounces of gold at December 31, 2012 as a result of the same factors outlined above.

The 2012 year-end resource estimates on the Boroo, Gatsuurt, Ulan Bulag properties in Mongolia and Kara Beldyr property in Russia remain unchanged from those outlined at the end of 2011.

Inferred resources have a great amount of uncertainty as to whether they will be mined economically. It cannot be assumed that all or part of the inferred resources will be upgraded to a higher category.

Centerra Gold Inc.
2012 Year-end Gold Reserve and Resource Summary
(as of December 31, 2012)

Gold Mineral Reserves ^{(1) (3) (13) (14)} (tonnes and ounces in thousands)									
Property ⁽⁵⁾	Proven			Probable			Total Proven and Probable		
	Tonnes	Grade (g/t)	Contained Gold (oz)	Tonnes	Grade (g/t)	Contained Gold (oz)	Tonnes	Grade (g/t)	Contained Gold (oz)
Kumtor ⁽⁵⁾	3,149	1.9	196	88,371	3.3	9,270	91,520	3.2	9,466
Boroo ⁽⁷⁾	7,196	0.8	178	-	-	-	7,196	0.8	178
Gatsuurt ^{(8) (16)}	-	-	-	16,349	2.8	1,489	16,349	2.8	1,489
Total	10,345	1.1	374	104,720	3.2	10,759	115,065	3.0	11,133
Gold Measured and Indicated Mineral Resources ^{(2) (3) (13) (14)} (tonnes and ounces in thousands)									
Property ⁽⁵⁾	Measured			Indicated			Total Measured and Indicated		
	Tonnes	Grade (g/t)	Contained Gold (oz)	Tonnes	Grade (g/t)	Contained Gold (oz)	Tonnes	Grade (g/t)	Contained Gold (oz)
Kumtor Open Pit ^{(4) (5)}	21,975	2.3	1,631	12,113	2.3	898	34,088	2.3	2,529
Kumtor Stockwork Underground ⁽⁶⁾	-	-	-	351	10.7	121	351	10.7	121
Boroo ^{(4) (7)}	452	2.2	32	4,464	1.5	210	4,916	1.5	242
Gatsuurt ^{(4) (8) (16)}	-	-	-	5,533	2.4	426	5,533	2.4	426
Ulaan Bulag ⁽⁹⁾	-	-	-	1,555	1.5	73	1,555	1.5	73
ATO ⁽¹⁰⁾	9,663	1.5	465	8,920	1.1	306	18,583	1.3	771
Kara Beldyr ⁽¹¹⁾	-	-	-	3,790	2.4	289	3,790	2.4	289
Öksüt ⁽¹²⁾	-	-	-	15,404	1.4	682	15,404	1.4	682
Total	32,090	2.1	2,128	52,130	1.8	3,005	84,220	1.9	5,133
Gold Inferred Mineral Resources ^{(2) (3) (13) (14) (15)} (tonnes and ounces in thousands)									
Property ⁽⁵⁾	Tonnes	Grade (g/t)	Contained Gold (oz)						
Kumtor Open Pit ^{(4) (5)}	9,339	2.4	712						
Kumtor Stockwork Underground ⁽⁶⁾	2,002	11.0	705						
Kumtor SB Zone UG ⁽⁶⁾	3,413	11.2	1,229						
Boroo ^{(4) (7)}	7,323	1.0	235						
Gatsuurt ^{(4) (8) (16)}	5,926	2.6	491						
Ulaan Bulag ⁽⁹⁾	315	1.3	13						
ATO ⁽¹⁰⁾	386	0.7	8						
Kara Beldyr ⁽¹¹⁾	3,354	2.0	211						
Öksüt ⁽¹²⁾	14,009	1.1	477						
Total	46,067	2.8	4,081						

- (1) The mineral reserves have been estimated based on a gold price of \$1,350 per ounce.
- (2) Mineral resources are in addition to reserves. Mineral resources do not have demonstrated economic viability.
- (3) Centerra's equity interests as of this MD&A are: Kumtor 100%, Gatsuurt 100%, Boroo 100%, Ulaan Bulag 100%, ATO 100%, Öksüt 100% (including the acquisition of the remaining interest in January 2013) and Kara Beldyr 70%. All contained ounces in table above are shown on a 100% basis.
- (4) Open pit resources occur outside the current ultimate pits which have been designed using a gold price of \$1,350 per ounce.
- (5) The open pit reserves and resources at Kumtor are estimated based on a cut-off grade of 0.85 gram of gold per tonne for the Central Pit and 1.0 grams of gold per tonne for the Southwest, Sarytor and Northeast deposits.
- (6) Underground resources occur below the Central pit and are estimated based on a cut-off grade of 6.0 grams of gold per tonne.
- (7) The open pit reserves and resources at Boroo are estimated based on a 0.5 gram of gold per tonne cut-off grade.
- (8) The open pit reserves and resources at Gatsuurt are estimated using either a 1.2, 1.4 or 1.5 grams of gold per tonne cut-off grade depending on ore type and process method and include the Central Zone and Main Zone deposits.
- (9) The open pit resources at Ulaan Bulag are estimated on a cut-off grade of 0.8, 0.9 or 1.0 grams of gold per tonne depending on ore type and process method.
- (10) The ATO open pit resources are estimated based on a Net Smelter Return (NSR) cut-off grade of \$6.50 NSR per tonne for oxide mineralization and \$25.50 NSR per tonne for sulphide mineralization.
- (11) The open pit resources at Kara Beldyr are estimated based on a 1.0 gram of gold per tonne cut-off grade and the contained ounces are shown on a 100% basis.
- (12) The Open pit resources at Öksüt are estimated based on a 0.2 gram of gold per tonne cut-off grade.
- (13) A conversion factor of 31.10348 grams per ounce of gold is used in the reserve and resource estimates.
- (14) Numbers may not add up due to rounding.
- (15) Inferred mineral resources have a great amount of uncertainty as to their existence and as to whether they can be mined economically. It cannot be assumed that all or part of the inferred resources will ever be upgraded to a higher category.
- (16) In July 2009, the Mongolian Parliament enacted legislation that would prohibit mineral prospecting, exploration and mining in water basins and forest areas in the territory of Mongolia and provides for the revocation of mining and exploration licenses affecting such areas. The legislation exempts any "mineral deposit of strategic significance". If the legislation is not repealed or amended or if Gatsuurt is not designated as a "mineral deposit of strategic importance" that is exempt from this legislation, mineral reserves at Gatsuurt may have to be reclassified as mineral resources or eliminated entirely. See "Other Corporate Developments – Mongolia".

Centerra Gold Inc.
Polymetallic Mineral Resources as of December 31, 2012

Category	Tonnes (000's)	Gold Grade (g/t)	Contained Gold ⁽²²⁾ (oz 000's)	Silver Grade (g/t)	Contained Silver (oz 000's)	Lead Grade (%)	Contained Lead (lb 000's)	Zinc Grade (%)	Contained Zinc (lb 000's)
ATO Project ^{(17) (18) (19) (20) (21) (23) (24)}									
Oxide Mineral Resources (> \$6.50 NSR cut-off Grade)									
Measured Resources	3,677	1.3	148	8.5	1,010	-	-	-	-
Indicated Resources	3,294	0.7	78	7.2	758	-	-	-	-
Measured and Indicated	6,971	1.0	226	7.9	1,768	-	-	-	-
Inferred Resources ⁽¹⁹⁾	87	0.8	2	4.9	14	-	-	-	-
Sulphide Mineral Resources (> \$25.50 NSR cut-off Grade)									
Measured Resources	5,986	1.7	318	8.02	1,543	0.979	129,197	1.704	224,874
Indicated Resources	5,626	1.3	228	8.52	1,541	0.803	99,598	1.447	179,474
Measured and Indicated	11,612	1.5	545	8.26	3,085	0.894	228,795	1.579	404,349
Inferred Resources ⁽¹⁹⁾	299	0.6	6	5.78	56	1.025	6,757	2.306	15,201

- (17) Mineral resources have been estimated on the following metal prices (gold \$1,350 per ounce), (silver \$20 per ounce), (lead \$ 0.87 per lb), (zinc \$0.87 per lb).
- (18) Mineral resources do not have demonstrated economic viability.
- (19) Inferred mineral resources have a great amount of uncertainty as to their existence and as to whether they can be mined economically. It cannot be assumed that all or part of the inferred resources will ever be upgraded to a higher category.
- (20) Centerra's equity interest in the ATO project is 100%.
- (21) Numbers may not add up due to rounding.
- (22) The contained gold resources have also been included in Centerra's 2012 Year-end Gold Reserve and Resource Summary
- (23) The ATO resources are estimated based on a Net Smelter Return cut-off grade of \$6.50 NSR per tonne for oxide mineralization and \$25.50 NSR per tonne for sulphide mineralization.
- (24) Variables used to calculate NSR values include;
Oxide total recovery of gold=69.8%
Oxide total recovery of Silver=56.7%
Sulphide Net Smelter Return total recovery of gold=59.9%
Sulphide Net Smelter Return total recovery of silver=48.5%
Sulphide Net Smelter Return total recovery of lead=42.6%
Sulphide Net Smelter Return total recovery of zinc=27.7%
Payable royalty on total recovered gold=10.0%
Payable royalty on total recovered silver=6.75%
Payable royalty on total recovered lead=6.75%

Centerra Gold Inc.
Reconciliation of Gold Reserves and Resources
(in thousands of ounces of contained gold) ^{(8) (9)}

	December 31 2011 ⁽¹⁾	2012 Throughput ⁽²⁾	2012 Addition (Deletion) ⁽³⁾	December 31 2012
Gold Proven and Probable Mineral Reserves				
Kumtor ⁽⁴⁾⁽⁵⁾	6,278	424	3,612	9,466
Boroo ⁽⁴⁾	298	110	(10)	178
Gatsuurt ⁽⁴⁾⁽⁷⁾⁽¹¹⁾	1,489	0	0	1,489
Total Proven and Probable Reserves	8,065	534	3,602	11,133
Gold Measured and Indicated Mineral Resources				
Kumtor ⁽⁴⁾⁽⁶⁾	4,799	0	(2,270)	2,529
Kumtor Stockwork Underground ⁽⁴⁾	0	0	121	121
Boroo ⁽⁴⁾	242	0	0	242
Gatsuurt ⁽⁴⁾⁽⁷⁾⁽¹¹⁾	426	0	0	426
Ulaan Bulag ⁽⁴⁾	73	0	0	73
ATO ⁽⁴⁾	824	0	(53)	771
Kara Beldyr ⁽⁴⁾	289	0	0	289
Öksüt ⁽⁴⁾	0	0	682	682
Total Measured & Indicated Resources	6,653	0	(1,520)	5,133
Gold Inferred Mineral Resources ⁽¹⁰⁾				
Kumtor Open Pit ⁽⁴⁾⁽⁶⁾	694	0	18	712
Kumtor Stockwork Underground ⁽⁴⁾	629	0	76	705
Kumtor SB Underground ⁽⁴⁾	1,760	0	(531)	1,229
Boroo ⁽⁴⁾	235	0	0	235
Gatsuurt ⁽⁴⁾⁽⁷⁾⁽¹¹⁾	491	0	0	491
Ulaan Bulag ⁽⁴⁾	13	0	0	13
ATO ⁽⁴⁾	26	0	(18)	8
Kara Beldyr ⁽⁴⁾	211	0	0	211
Öksüt ⁽⁴⁾	0	0	477	477
Total Inferred Resources	4,059	0	22	4,081

- (1) Reserves and resources as reported in Centerra's Annual Information Form filed in March 2012.
- (2) Corresponds to mill feed at Kumtor and mill feed or stacked ore on heap leach pad at Boroo.
- (3) Changes in reserves or resources, as applicable, are attributed to information provided by drilling and subsequent reclassification of reserves or resources, 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 of this MD&A are as follows: Kumtor 100%, Gatsuurt 100%, Boroo 100%, Ulaan Bulag 100%, ATO 100%, Öksüt 100% (including the acquisition of the remaining interest in January 2013) and Kara Beldyr 70%. Contained ounces are on a 100% basis in the table above at each property.
- (5) Kumtor open pit reserves include the Central Pit and the Southwest and Sarytor Deposits.
- (6) Kumtor open pit resources include the Central Pit, Southwest Deposit, Sarytor Deposit and Northeast Deposit.
- (7) Gatsuurt open pit reserves and resources include the Central Zone and Main Zone deposits.
- (8) Centerra reports reserves and resources separately. The amount of reported resources does not include those amounts identified as reserves. Mineral resources do not have demonstrated economic viability.
- (9) Numbers may not add up due to rounding.
- (10) Inferred mineral resources have a great amount of uncertainty as to their existence and as to whether they can be mined economically. It cannot be assumed that all or part of the inferred resources will ever be upgraded to a higher category.
- (11) In July 2009, the Mongolian Parliament enacted legislation that would prohibit mineral prospecting, exploration and mining in water basins and forest areas in the territory of Mongolia and provides for the revocation of mining and exploration licenses affecting such areas. The legislation exempts any "mineral deposit of strategic significance". If the legislation is not repealed or amended or if Gatsuurt is not designated as a "mineral deposit of strategic importance" that is exempt from this legislation, mineral reserves at Gatsuurt may have to be reclassified as mineral resources or eliminated entirely. See "Other Corporate Developments – Mongolia".

Developments in 2012 Affecting Operations

Kumtor operations:

- Production at Kumtor for 2012 was significantly impacted by the accelerated ice movement in the SB zone in the first quarter which required a change in the mine plan for the year. As a result, production planned for 2012 in cut-backs 12B and 14A of the SB zone had to be postponed to allow for the unloading of ice and waste to mitigate the accelerated ice movements (announced on March 27, 2012). The Company was able to partially mitigate the delay in reaching ore from cut-backs 12B and 14A by accelerating mining in the southwest portion of the Kumtor pit (cut-back 14B) such that ore from that area was reached in September 2012. Processing of ore obtained from cut-back 14B commenced on September 18, 2012. The mining costs to remove the ice and waste material in the high movement area and unload zone were recorded as abnormal as the activity was unrelated to production under the revised mine plan for 2012.
- Due to the delayed release of ore, Kumtor depleted its low grade stockpiled material on July 23, 2012 and consequently shut down its mill until September 18, 2012. During the seven week shutdown, planned and unplanned maintenance was performed across all sections of the mill.
- The Company announced on May 1, 2012 that it was conducting a technical and financial study considering the potential for expanding the limits of the ultimate pit.

On August 10, 2012, Kumtor suspended the development work on the underground project and placed the project on care and maintenance pending completion of a detailed technical and financial study on the potential for expanding the limits of the ultimate pit.

- Based on the positive results of the technical and financial study, the Board of Directors approved on November 7, 2012 the new reserves and resources and the new mine plan for Kumtor that included a much larger open pit and extended the mine life of Kumtor by 5 years (to 2026). The opportunity to expand the pit was created by exploration drilling between 2006 and September 2012 that more than doubled the strike length of the SB zone, the increase in the reserve gold price over the period which allowed a lower cut-off grade and the decision made on March 27, 2012 to mitigate the impact of the high movement areas by offloading the ice and waste in the upper portion of the southeast section of the pit wall thereby reducing the stripping ratio of an expanded pit.
- The expanded open pit mine plan incorporates 1.2 million ounces that were previously classified as inferred underground resources and also captures into reserves an additional 2.2 million ounces representing material between the cut-off grade for the open pit and the cut-off grade for the underground resource estimation.
- The expanded pit consumes a significant amount of the existing underground development infrastructure. As a result, the Company de-recognized the capitalized cost of the underground development and underground equipment and recorded a charge of \$180.7 million in the fourth quarter of 2012.

- Kumtor's gold production was further negatively impacted in the fourth quarter when the operations encountered an irregular till/bedrock contact while transitioning from waste to ore. This situation is not expected to occur again in the current mine plan (KS-13). Final production results at Kumtor were also impacted in the fourth quarter by lower than expected mill throughput and recovery as well as lower than expected mill head grades when processing ore from the newly discovered portion of the orebody.
- By the end of 2012, the Company received and commissioned twenty-five new CAT 789 haul trucks, four Hitachi shovels and four large capacity drills it had previously ordered to meet its production needs. An additional ten new CAT 789 haul trucks and one Hitachi shovel were placed on order at the end of 2012 to meet the life of mine equipment requirements. The equipment on order is scheduled to arrive during the first quarter of 2013.

The arrival of the new mining equipment has allowed the planned high wall unloading of the waste and ice to remain on schedule. The success of the unloading effort has had the desired effect of reducing the ice and waste in the high movement areas and slowing the historical advance rates. The colder seasonal weather has also contributed to the decreasing advance rates.

- In December 2012, a new two year collective bargaining agreement was signed at the Kumtor mine.

Boroo and Gatsuurt operations:

- Mining operations at Boroo resumed in January 2012 with stripping activities in Pit 6. At the end of the second quarter of 2012 ore was exposed at the bottom of Pit 6 and capitalization of the stripping costs ceased. During the last half of 2012 the Boroo mill blended Pit 6 ore and existing stockpiled material thereby achieving higher head grades but with lower recoveries than material processed in the same period of 2011. Pit 6 ores are more refractory in nature than other Boroo ores historically mined resulting in the lower recovery.
- Mining activities in Pit 6 were completed in September 2012 while milling of Pit 6 ore extended to January 2013.
- On September 19, 2012 Boroo received regulatory approval for its mine plan for the heap leach facility and shortly thereafter resumed heap leach operations. The operation achieved breakthrough of solution in mid-October and by the end of 2012 produced 7,486 ounces of gold from the heap leach facility.
- The Gatsuurt project remained under care and maintenance in 2012 due to continued delays in permitting resulting from the Water and Forest Law which prohibits mining and exploration activities in water basin and forested areas but provides an exemption for "strategic deposits". Further development of the project is subject to resolving matters with respect to the Water and Forest Law, and receiving all required approvals and regulatory commissioning from the Mongolian Government, which would allow the Gatsuurt project to move forward. See "Other Corporate Developments- Mongolia" and "Risk Factors".

Acquisition of Remaining Öksüt Interest:

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

Consolidated Financial and Operating Highlights

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

Financial Summary (\$ millions, except as noted)	Year Ended December 31,		
	2012	2011	2010
Revenue	\$ 661	\$ 1,020	\$ 850
Cost of sales	387	382	342
Abnormal mining costs	61	-	-
Mine standby costs	5	-	1
Regional office administration	21	21	21
Earnings from mine operations	187	617	485
Revenue-based taxes	75	132	99
Other operating expenses	35	15	8
Loss on de-recognition of underground assets	181	-	-
Exploration and business development	38	43	32
Corporate administration	27	45	52
Earnings (loss) from operations	(169)	382	294
Other (income) and expenses	-	(1)	1
Finance costs	4	4	2
Gain on sale of exploration project	-	-	(35)
Earnings (loss) before income taxes	(173)	379	327
Income tax expense	12	8	4
Net earnings (loss)	\$ (184)	\$ 371	\$ 322
Earnings (loss) per common share (basic and diluted) - \$/share	\$ (0.78)	\$ 1.57	\$ 1.37
Weighted average common shares outstanding - basic (thousands)	236,369	236,088	235,488
Weighted average common shares outstanding - diluted (thousands)	236,369	236,354	235,862
Total assets	\$ 1,554	\$ 1,689	\$ 1,400
Long-term provision for reclamation, dividends payable and deferred income taxes	\$ 58	\$ 56	\$ 31
Operating Summary			
Gold produced - ounces poured	387,076	642,380	678,941
Gold sold - ounces sold	390,533	650,258	687,706
Average realized price - \$/oz sold	\$ 1,692	\$ 1,569	\$ 1,236
Average gold spot market price - \$/oz ⁽¹⁾	\$ 1,669	\$ 1,572	\$ 1,225
Cost of sales - \$/oz sold ⁽²⁾	\$ 992	\$ 588	\$ 498
Operating cash costs - \$/oz produced ⁽²⁾	\$ 663	\$ 502	\$ 440
Total production costs - \$/oz produced ⁽²⁾	\$ 1,143	\$ 687	\$ 555
All-in cash costs (pre-tax) - \$/oz produced ^{(2) (3)}	\$ 1,882	\$ 929	\$ 838

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

⁽²⁾ Operating cash costs is comprised of mine operating costs such as mining, processing, regional office administration, royalties and production taxes (except at Kumtor where revenue-based taxes are excluded), but excludes depreciation, depletion and amortization, reclamation costs, capital investments, community investments, exploration expenses and corporate general and administration expenses. Operating cash costs, total production costs and all-in cash costs (pre-tax) per ounce produced, as well as cost of sales per ounce sold, are non-GAAP measures and are discussed under “Non-GAAP Measures”.

⁽³⁾ All-in cash costs (pre-tax) per ounce produced includes operating cash costs, sustaining and growth capital, corporate general and administrative expenses, global exploration expenses and community investments, but excludes revenue-based taxes at Kumtor and income taxes.

Results of Operations

2012 Compared to 2011

For the year ended December 31, 2012, the Company recorded a net loss of \$184.0 million or \$0.78 per share, compared to net earnings of \$370.9 million or \$1.57 per share in 2011. The 2012 results reflect a charge for the de-recognition of the underground assets at Kumtor of \$180.7 million and the negative impact on production of the acceleration of ice and waste in the high movement area above the SB zone which delayed the release of ore and required a re-design of the production plan for 2012 early in the year (see March 27, 2012 new release). The lower earnings at Kumtor for 2012 were partially offset by higher production and sales at Boroo, in part due to the resumption of activities of the heap leach operation in the fourth quarter. The earnings in 2012 were affected by 46% lower ounces produced and sold at Kumtor and higher spending on major sustainable community projects, partially offset by increased production and sales at Boroo and an 8% increase in the realized gold price.

Production:

Gold production for 2012 totaled 387,076 ounces compared to 642,380 ounces in the prior year. The decrease in ounces poured was mainly due to the revised mine plan at Kumtor, as a result of the accelerated ice and waste movements in the SB zone, which led to a 46% decrease in production at Kumtor year over year, partially offset by a 21% increase in production at Boroo, which was positively impacted by the start-up of the heap leach operation in November 2012.

Revenue:

Revenue for 2012 decreased to \$660.7 million compared to \$1,020.3 million in the same period of 2011 due to a 40% decrease in ounces sold partially offset by an 8% increase in the realized gold price. Gold sold was 390,533 ounces in 2012 compared to the 650,258 ounces reported in 2011. This reduction reflects lower gold production at Kumtor (-46%) mostly due to lower volumes as a result of the revised mine plan, as well as lower grades and lower recoveries from the blending of stockpiled ore and in-pit ore processed through the mill. Milling activities at Kumtor were temporarily suspended on July 23, 2012 upon depletion of the low grade stockpiles being processed while awaiting the release of ore from the pit. The mill resumed operation on September 28, 2012 with the release of ore from cut-back 14B. At Boroo, ounce production in 2012 was 21% higher, benefiting from the resumption of heap leach operations in November and from the higher throughput of higher grade Pit 6 material through the mill. The mill at Boroo operated in 2011 by processing stockpiled material from the pit along with higher grade material from the heap leach stockpiles. The average realized gold price for 2012 was \$1,692 per ounce compared to \$1,569 per ounce in the same period of 2011 reflecting higher spot prices for gold throughout the year.

Cost of sales:

Cost of sales was \$387.5 million in 2012 compared to \$382.3 million in 2011, reflecting the processing of lower grade, higher cost stockpiled material at Kumtor for the period to September 2012, higher operating costs for labour, diesel and other consumables and increased DD&A of \$43.8 million. Cost of sales in 2012 also includes a charge of \$7.2 million representing a metal reconciliation variance between the gold content estimated in the stockpiles and the gold actually recovered through processing at Kumtor. The comparative

period of 2011 costs of sales included a charge of \$5.8 million for the settlement resulting from an audit by the Kyrgyz Social Fund, relating to the calculation of the premium for work conducted at high altitude at the Kumtor project.

Depreciation, depletion, and amortization associated with production increased by 44% to \$142.6 million in 2012 from \$99.3 million in 2011 as a result of higher depreciation for the expanded mobile fleet at Kumtor and higher amortization of deferred stripping costs at both sites, partially offset by lower volumes.

Abnormal mining costs:

Abnormal mining costs of \$60.9 million were recorded by Kumtor in 2012 (nil for 2011) representing \$24.8 million for the cost of the ice and waste removal from the high movement unload zone and \$36.1 million of stripping costs. This stripping activity, when ore release had been deferred as a result of the revised mine plan, has resulted in a significant amount of mining costs which did not relate to the production of inventory in the period and were expensed immediately as abnormal mining costs.

Other operating expenses:

Other operating expenses for 2012 totaled \$34.3 million compared to \$15.5 million in 2011. The 2012 amount includes \$26.2 million spent on corporate social responsibility (“CSR”) programs and \$7.8 million for closure costs of the underground project at Kumtor. In 2012, CSR spending in the Kyrgyz Republic totaled \$24 million, of which \$21 million was a contribution to a national micro-credit financing program, and CSR spending in Mongolia totaled \$2.2 million including a continuing contribution by Boroo to the Ulaanbaatar maternity hospital of \$1.1 million. In 2011, \$11.5 million was spent on CSR programs in the Kyrgyz Republic, including a \$10 million contribution for the school reconstruction program, and \$1.1 million was spent in Mongolia on various CSR projects.

Loss on de-recognition of underground assets:

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

Exploration and business development:

Exploration and business development expenditures in 2012 totaled \$38.5 million, of which exploration spending was \$37.9 million (2011 total \$42.9 million, including \$39.6 million of exploration). Exploration expenditures in 2012 decreased slightly from 2011 due to the suspension of regional exploration programs in Kyrgyzstan and the closure of the Reno office and cessation of the US exploration program in mid-2012.

Exploration expenditures at Kumtor in 2012 totaled \$11.3 million (\$12.7 million in 2011), and included programs of surface drilling from the Central Pit and underground drilling from Declines 1 and 2. The Central Pit drilling program was directed toward infilling and expanding the upper portions of the SB Zone below the KS-12 pit. This drilling will continue in 2013 when platforms are available for drilling in the Central Pit. In the underground, a program of infill and exploration drilling was completed in the Stockwork Zone, upgrading a portion of the deposit to measured and indicated resources and expanding the inferred resource. Exploration drilling from Declines 1 and 2 was directed at infilling portions of the southwest extension of

the SB Zone and exploring portions of the SB Zone inaccessible from platforms in the Central Pit. Other work on the Kumtor mine concession included several exploration holes at the Sarytor deposit. Plans for continued exploration on the Karasay and Koendy exploration license were curtailed following a decision by the Agency for Subsoil and Natural Resources to not renew either license.

In Mongolia, 2012 exploration expenditures totaled \$10 million compared to \$11.4 million in 2011. The Mineral Resource Authority of Mongolia (“MRAM”) accepted a Reserves and Resources report for the ATO deposit in June 2012, and a mining license was granted in late August 2012. Exploration activity at ATO included step-out drilling around the deposit in the second half of 2012 and testing of nearby prospects. Drilling results closed off portions of the pipe-like bodies at ATO and identified several new zones on the eastern flanks of the system. The drilling results, together with results from metallurgical test work, were used to update the ATO resource. Elsewhere in Mongolia, drilling was also conducted on the Uul Bayan license south of ATO and on the Ulaan Bulag mining license in the Boroo mining district.

Expenditures in Russia were \$5.9 million in 2012 (\$5.1 million in 2011) and included drilling programs on the Kara Beldyr and Dvoynoy Joint Ventures. At Kara Beldyr, drilling focused on expanding and infilling the Camp Zone, a 600 metre-long zone of auriferous, dike-filled structures, and testing other exploration targets on the license. At the Dvoynoy Joint Venture in the Amur region, two drilling campaigns were completed testing several gold targets on the property. Initial results from one of the targets are positive and will be the subject of additional drilling in 2013.

In Turkey, \$6.4 million was spent on exploration in 2012 (\$4.3 million in 2011). Exploration spending increased in 2012 as drilling accelerated on the Öksüt Joint Venture project. Work at Öksüt included both step-out and infill drilling at the Ortacam North deposit, a deeply-oxidized high-sulphidation gold system discovered in 2011. Centerra increased its ownership in Öksüt to 70% in October and, in December, signed an agreement with Stratex to purchase the remaining 30% not held by Centerra for \$20 million and a 1% royalty capped at \$20 million. The purchase of the remaining 30% closed in January 2013. Results from the 2012 drilling campaign were used to calculate an initial oxide resource for Öksüt.

Elsewhere, the Company initiated exploration on the Laogouxi Joint Venture in Heilongjiang Province, China and received a two-year renewal on the exploration license. The Company also finalized an agreement covering the Umlekan license in the Amur region, Russia. Umlekan adjoins the Dvoynoy Joint Venture and includes several drill ready gold and gold-copper targets. Generative exploration programs continued in Russia, Central Asia, Europe and China.

Corporate administration:

Corporate administration costs in 2012 were \$27 million, a reduction of \$17.9 million from the same period in 2011, reflecting a lower charge for share-based compensation primarily as a result of the lower price of Centerra’s shares.

Taxes:

Centerra reported \$74.7 million in 2012 for revenue-based taxes at Kumtor compared to \$131.8 million in 2011, and \$11.7 million in 2012 for income taxes at Boroo compared to \$8.1 million in 2011.

The decrease in the revenue-based tax expense reflects the lower volumes sold in 2012 at Kumtor. The increase of \$3.6 million in Boroo's income tax expense is a result of the higher volumes and higher earnings achieved in 2012.

Revenue-based tax is governed by the Restated Investment Agreement signed with the Kyrgyz Government on June 6, 2009. The agreement assessed tax on Kumtor at a rate of 13% of gross revenue, plus a monthly contribution of 1% of gross revenue to the Issyk-Kul Oblast Development Fund. Income tax expense at Boroo is calculated based on a Stability Agreement with the Government of Mongolia where an income tax rate of 25% is assessed on taxable income over 3 billion Mongolian Tugriks (MNT) (approximately \$2.2 million at the 2012 year-end exchange rate) and a tax rate of 10% applicable to taxable income up to that amount.

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

Net Loss:

The net loss for 2012 was \$184.0 million or \$0.78 per share compared to net earnings of \$370.9 million or \$1.57 per share in 2011, reflecting the de-recognition of Kumtor's underground assets and lower earnings at Kumtor from the revised mining plan.

Unit Operating Costs:***i) Cost of sales per ounce sold:***

Cost of sales per ounce sold in 2012, which includes the impact of DD&A, increased to \$992 per ounce sold compared to \$588 per ounce sold in 2011. The majority of the gold production in 2012 was from low-grade ore stockpiles resulting in lower production, reduced sales and an increased cost per ounce sold. Due to the delay in accessing ore, Kumtor also processed higher cost material from stockpiles for the first nine months of 2012. Cost of sales per ounce sold is discussed under "Non-GAAP Measures".

ii) Operating cash costs per ounce produced:

Operating cash cost per ounce produced for 2012 increased to \$663 compared to \$502 per ounce in 2011 (operating cash cost per ounce produced is a non-GAAP measure and is discussed under "Non-GAAP Measures"). The increase in 2012 reflects the impact of lower production levels due to lower grades and recoveries from the processing of stockpiled materials at Kumtor and higher operating costs at Kumtor and at Boroo.

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

All-in cash costs – Consolidated ⁽¹⁾

	Year Ended December	
	2012	2011
<i>\$ millions, unless otherwise specified (unaudited)</i>		
Operating cash costs	256.6	322.4
Capitalized stripping and ice unload - cash ⁽¹⁾	152.7	39.4
Operating cash costs and capitalized stripping	409.3	361.8
Sustaining capital (cash)	43.5	34.6
Growth capital (cash)	177.2	99.9
Operating cash costs including capital ⁽¹⁾	630.0	496.3
Corporate and other cash costs ⁽²⁾	98.5	100.4
All-in Cash Costs (pre-tax) ⁽¹⁾	728.5	596.7
Ounces poured	387,076	642,380
All-in Cash Costs (pre-tax) - per ounce produced	1,882	929

(1) *All-in cash costs (pre-tax), capitalized stripping and ice unload –cash, sustaining and growth capital (excluding stripping) and corporate and other cash costs are non-GAAP Measures and are discussed under “Non-GAAP Measures”.*

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

Centerra’s all-in cash costs (pre-tax) per ounce produced for 2012 was \$1,882, and includes all cash costs related to gold production, except for revenue-based taxes in the Kyrgyz Republic. This compares to pre-tax all-in cash costs of \$929 per ounce produced in 2011. The increase is due to a combination of higher operating costs and lower production at Kumtor in 2012. The cash costs for capitalized stripping and ice and waste unloading costs incurred in 2012 amounted to \$152.7 million or \$394 per ounce compared to \$39.4 million of capitalized stripping cash costs (\$61 per ounce) incurred in 2011. In addition, the capital expenditures excluding capitalized stripping cash costs increased from \$134.5 million (\$209 per ounce) to \$220.7 million (\$570 per ounce) as the Kumtor mine expanded its mining fleet during 2012. All-in cash cost per ounce produced is a non-GAAP measure and is discussed under “Non-GAAP Measures”.

Cash generation and Capital Investments

\$ millions	Year ended	
	December 31,	
	2012	2011
Cash provided by (used in) operating activities	134.7	434.9
Cash provided by (used in) investing activities	(48.6)	(473.5)
Cash provided by (used in) financing activities	52.5	(96.6)
Increase (decrease) in cash	138.6	(135.2)
Capital spent & accrued (Kumtor)	399.9	180.7
Capital spent & accrued (Boroo & Gatsuurt)	10.2	6.6
Capital spent & accrued (Consolidated)	410.6	187.9

Cash Flow:

Cash provided from operations for 2012 totaled \$134.7 million compared to \$434.9 million in 2011, primarily as a result of significantly lower earnings at Kumtor in 2012 and the prepayment of \$30 million of revenue based taxes in the Kyrgyz Republic in 2012.

Working capital, which consists of amounts receivable, gold inventory, supplies inventory, prepaid expenses net of accounts payable and accrued liabilities, decreased in 2012 by \$2 million compared to an increase of \$44 million in 2011.

Cash used in investing activities totaled \$48.6 million in 2012 compared to \$473.5 million in the prior year. Investing activities in 2012 primarily include investments in capital projects, offset by proceeds from the sale of short-term investments. In 2011, cash was used for investment in capital projects and the purchase of short-term investments. Investments in capital projects were \$366.4 million in 2012 compared to \$175.1 million in 2011, represents higher spending on growth projects mainly for capitalized stripping at both operations and for the additions to the fleet at Kumtor. Spending for sustaining capital was also higher at both operations. Investments in growth capital for 2012 totaled \$322.9 million (\$140.5 million in 2011), while \$43.5 million was invested in sustaining capital (\$34.6 million in 2011). A net amount of \$324.7 million in short-term financial instruments were sold in 2012, whereas a net amount of \$290.4 million of short-term investments were purchased in 2011.

Cash provided from financing activities in 2012 was \$52.5 million (cash used of \$96.6 million in 2011), including the borrowing of \$76 million from Centerra's credit facility and proceeds from shares issued on the exercise of stock options, partially offset by a lower dividend payment of \$22.2 million (dividends of \$99.3 million in 2011 included a special dividend of \$74.5 million) and the payment of fees related to the new borrowing.

Net cash and short-term investments at December 31, 2012 decreased to \$382.1 million from \$568.2 million at the prior year end.

Capital:

Capital expenditures (spent and accrued) in 2012 were \$410.6 million as compared to \$187.9 million in the prior year. Sustaining capital in 2012 was \$43.5 million (including \$40.8 million at Kumtor and \$2.1 million at Boroo), compared to \$34.6 million in 2011 (including \$32.2 million at Kumtor and \$1.8 million at Boroo). Growth capital was \$367.1 million in 2012, compared to \$153.3 million the prior year, primarily reflecting \$359.0 million of spending at Kumtor mainly on fleet expansion (\$117 million), the stripping of cut-back 14B and 14A (\$179.8 million) and on underground development of phase I and II (\$30.0 million) and spending at Boroo of \$7.7 million in 2012 mainly to strip Pit 6 prior to reaching ore.

Credit and Liquidity:

On August 8, 2012, the Company drew \$76 million under its \$150 million revolving credit facility with the European Bank for Reconstruction and Development (EBRD), leaving a balance of \$74 million undrawn at December 31, 2012. The drawn amount is due to be repaid on August 8, 2013, or at the Company's discretion repayment of the loaned funds could be extended until February 2014.

Foreign Exchange:

The Company receives its revenues through the sale of gold in U.S. dollars. The Company has operations in the Kyrgyz Republic and Mongolia, and its corporate head office is in Toronto, Canada. During 2012, the Company incurred combined costs (including capital) totaling roughly \$908 million. Approximately \$367 million of this (40%) was in currencies other than the U.S. dollar. The percentage of Centerra's non-U.S. dollar costs, by currency was, on average, as follows: 39% in Kyrgyz soms, 27% in Canadian dollars, 17% in Mongolian tugriks, 12% in Euros, and approximately 5% in Russian Rubles, Australian dollars, Turkish Lira, British pounds, Chinese Yuan, Japanese and Swiss Franc combined. In 2012, the average value of the currencies of the Kyrgyz Republic, and the Japanese Yen appreciated against the U.S. dollar by approximately 1.6%, and 3.8% respectively, from their value at December 31, 2011. The Mongolian Tugrik, British Pound, Canadian dollar, Australian dollar, Turkish Lira and the Russian Ruble increased in value against the U.S. dollar by 2.5%, 1.9%, 2.1%, 1.4%, 4.8% and the 3.4%, respectively. On average, the value of the Euro, Chinese Yuan, and the Swiss Franc remained virtually flat compared to their value at December 31, 2011 with appreciation of 0.8%, 0.2%, and a decline of 0.1%, respectively, against the U.S. dollar. The net impact of these movements in 2012, after taking into account currencies held at the beginning of the year, was to increase annual costs by \$0.8 million (increase of \$6.2 million in 2011).

Gold Hedging and Off-Balance Sheet Arrangements:

The Company had no gold hedges in place as of December 31, 2012. Centerra currently intends that its future gold production will remain unhedged.

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

Results of Operating Segments

Kumtor Mine

The Kumtor open pit mine, located in the Kyrgyz Republic, is the largest gold mine in Central Asia operated by a Western-based gold producer. It has been in production since 1997 and has produced over 8.7 million ounces of gold to December 31, 2012. Kumtor experienced six recordable injuries and one level II environmental incident in 2012.

Kumtor Operating Results	Year Ended December 31			
	2012	2011	Change	% Change
Tonnes mined - 000s	147,610	150,605	(2,995)	(2%)
Tonnes ore mined - 000s	4,955	6,020	(1,065)	(18%)
Average mining grade - g/t ⁽¹⁾	2.95	3.49	(0.54)	(15%)
Tonnes milled - 000s	4,756	5,815	(1,059)	(18%)
Average mill head grade - g/t ⁽¹⁾	2.79	3.79	(1.00)	(26%)
Recovery - %	75.6	80.8	(5.2)	(6%)
Gold produced – ounces	315,238	583,156	(267,918)	(46%)

(1) g/t means grams per tonne.

Overview of Operating Results - 2012 Versus 2011

Due to the accelerated ice movements and resulting revised mine plan, Kumtor mined very little ore and processed material from historical low grade stockpiles during the first nine months of 2012, until it reached ore in September in cut-back 14B.

Total tonnes mined for 2012 were 147.6 million tonnes compared to 150.6 million tonnes in the comparative period of 2011, a decrease of 2% due to the increased mining of lower density ice and a ten day work stoppage in February 2012 with subsequent delays in re-starting the equipment due to the extremely cold weather. The bank cubic meters (BCM's) of all ore, waste and ice moved in 2012 increased by 15% due to the increased capacity of the expanded fleet compared to the same period of 2011.

Kumtor produced 315,238 ounces of gold in 2012 compared to 583,156 ounces of gold in 2011. The company processed ore from low grade stockpiles for the first nine months of the year resulting in significantly lower ounces produced in 2012. In comparison, in 2011 Kumtor processed the higher grade benches of cut-back 12A and the then newly accessed cut-back 12B. The comparative period of 2011 was positively impacted by higher throughput, higher consistent feed grades and higher recovery. The mill head grades averaged 2.79 g/t with a recovery of 75.6% in 2012 versus 3.79 g/t and a recovery of 80.8% in 2011. Tonnes processed through the mill in 2012 were 4.76 million, 18% lower than the comparative year as a result of lower mill operating time due to both the seven week shutdown of the processing plant and the labour dispute and related ten day work stoppage that occurred during the first quarter of 2012.

Kumtor Cost Performance	Year Ended December 31			
	2012	2011	Change	% Change
Operating cash costs (\$ millions):				
Mining - including capitalized stripping and abnormal mining costs	222.4	197.3	25.1	13%
Mining - excluding capitalized stripping and abnormal mining costs ⁽¹⁾	75.5	157.8	(82.3)	(52%)
Milling	58.2	63.5	(5.3)	(8%)
Site support	53.3	47.3	6.0	13%
Bishkek administration	15.5	15.4	0.2	1%
Mine stand-by costs	4.6	-	4.6	100%
Management fees and other	0.3	0.6	(0.3)	(47%)
Refining fees	1.9	2.9	(1.1)	(36%)
By-product credits	(2.9)	(6.2)	3.3	(54%)
Operating cash costs	206.5	281.3	(74.8)	(27%)
Non-cash DD&A costs	164.1	110.9	53.2	48%
Total production costs	370.5	392.2	(21.7)	(6%)
Unit operating costs				
Mining costs (\$/t mined material)	1.51	1.31	0	15%
Milling costs (\$/t milled material)	12.24	10.92	1	12%
Operating cash costs (\$/t milled material)	43.41	48.38	(5)	(10%)
Operating cash costs (\$/oz produced) ⁽²⁾	655	482	173	36%
Total production costs (\$/oz produced) ⁽²⁾	1,175	673	503	75%
All-in cash costs - pre-tax (\$/oz produced) ^{(2) (3)}	1,808	768	1,040	135%

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

(2) Operating cash costs, total production costs and all-in cash costs (pre-tax) per ounce produced are non-GAAP Measures and are discussed under "Non-GAAP Measures".

(3) All-in cash costs (pre-tax) per ounce produced is calculated and discussed on page 25.

Operating cash costs at Kumtor (see "Non-GAAP Measures") in 2012 decreased by \$74.8 million to \$206.5 million, excluding the capitalization of stripping activities and the expensing of unloading activities (increased by \$32.6 million including capitalization and unloading expense), compared to \$281.3 million in 2011.

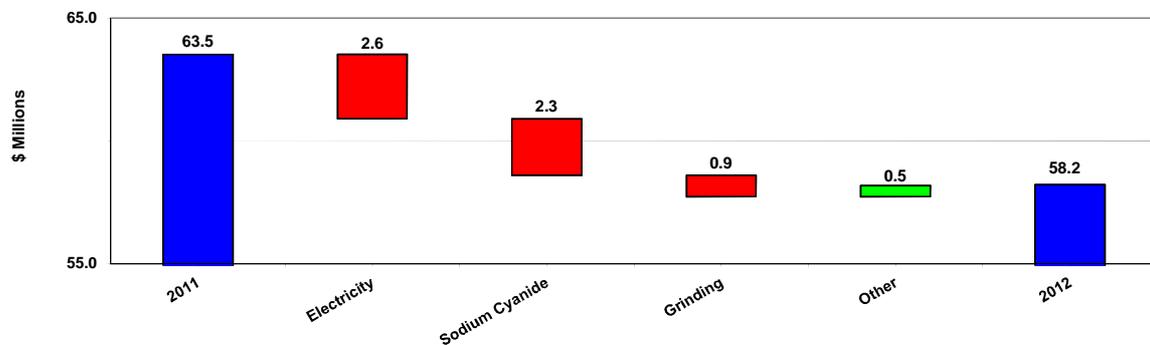
The movements in the major components of operating cash costs (mining, milling and site support) are explained as follows:

Mining Costs – Kumtor, including capitalized stripping and abnormal mining costs (2012 compared to 2011):



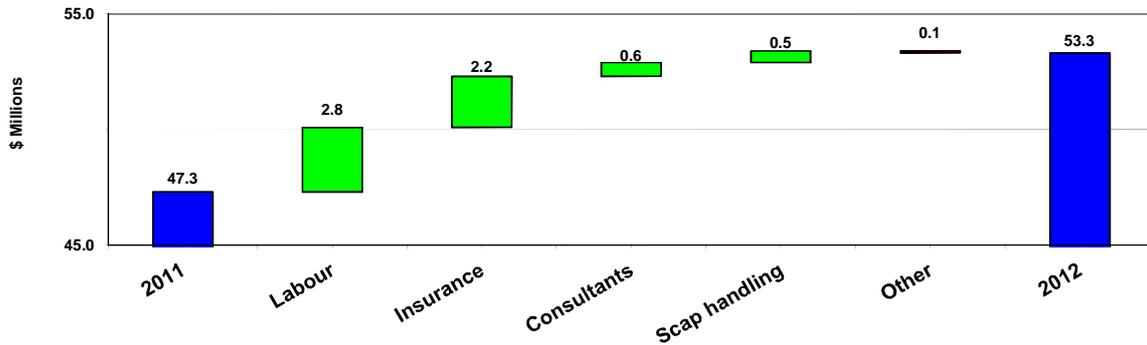
The increased cost of mining activities is primarily related to the increased consumption requirements of the expanded CAT 789 fleet for consumables such as diesel, tires and increased maintenance work. Diesel costs increased by \$13.0 million, which also included an increase in fuel prices (increased from US\$0.76 per litre to US\$0.81 per litre). Labour costs were higher due to increases in the social fund payments related to the high altitude coefficient as well as inflation adjustments. Explosives and blasting accessories increased due to increased mining volumes and higher prices for ammonium nitrate.

Milling Costs– Kumtor (2012 compared to 2011):



Milling costs were lower in 2012 due to the lower amount of material processed as a result of the illegal ten day work stoppage in February and the seven week shutdown from July 23 to September 18 due to the mill running out of stockpiled ore to process. This resulted in a lower consumption of sodium cyanide, electricity and grinding balls saving approximately \$5.8 million. This was partially offset by increases in other costs including national labour and higher maintenance costs during the mill shutdown period.

Site support costs – Kumtor (2012 compared to 2011):



Site support costs increased due primarily to higher national labour costs predominantly from higher social fund payments for the high altitude coefficient (\$2.8 million) and increased insurance costs (\$2.2 million).

Kumtor Unit operating costs

Operating cash cost per ounce – Kumtor:

For 2012, operating cash cost per ounce produced was \$655 per ounce compared to \$482 per ounce in 2011, as a result of 46% lower production due to the seven week mill shutdown and lower grades and recovery from the stockpiled material processed in 2012. This was partially offset by decreased operating costs resulting from a higher allocation of mining costs to capitalized stripping and abnormal ice unloading activities as the mining equipment was deployed to address the ice movement and to expedite stripping to ore under the new mine plan. Operating cash cost per ounce produced is a non-GAAP measure and is discussed under “Non-GAAP Measures”.

All-in cash costs – Kumtor:

<i>(unaudited)</i>	Year Ended December 31			
	2012		2011	
	\$ millions	(\$ per ounce produced)	\$ millions	(\$ per ounce produced)
All-in Cash Costs - pre-tax ⁽¹⁾:				
Operating cash costs	206.5	\$655	281.3	\$482
Capitalized stripping and ice unload - cash ⁽¹⁾	146.4	\$464	39.4	\$68
Operating cash costs and capitalized stripping	352.9	\$1,119	320.7	\$550
Sustaining capital (cash)	40.8	\$129	32.2	\$55
Growth capital (cash)	176.4	\$560	95.0	\$163
Operating cash costs including capital ⁽¹⁾	570.1	\$1,808	447.9	\$768
Corporate and other cash costs ⁽²⁾	-	-	-	-
All-in Cash Costs - pre-tax ⁽¹⁾	570.1	\$1,808	447.9	\$768

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

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

Kumtor’s all-in cash cost per ounce produced for 2012 is \$1,808 and includes all cash costs related to gold production, except for revenue-based taxes in the Kyrgyz Republic. The same all-in cost measure for 2011 was \$768 per ounce produced. The increase in all-in costs is due to a combination of higher capital and operating costs and the 46% decrease in production at Kumtor year-over-year. The cash costs for capitalized stripping and ice unload activities incurred in 2012 amounted to \$146.4 million or \$464 per ounce compared to \$39.4 million of capitalized stripping cash costs (\$68 per ounce) incurred in 2011. In addition, the capital expenditures excluding capitalized stripping cash costs increased from \$127.2 million (\$218 per ounce) to \$217.2 million (\$689 per ounce) as the Kumtor mine expanded its mining fleet during 2012, including the purchase and commissioning of twenty five CAT 789 haul trucks.

Boroo and Gatsuurt

The Boroo open pit mine, located in Mongolia, was the first hard rock gold mine in Mongolia. It has produced approximately 1.66 million ounces of gold since it began operation in 2004. Boroo had no recordable injuries and no reportable environmental incidents in 2012.

Boroo Mine

	Year Ended December 31			
	2012	2011	Change	% Change
Boroo Operating Results				
Total tonnes mined - 000s	6,338	-	6,338	100%
Average mining grade (non heap leach material) - g/t ⁽²⁾	2.00	-	2.00	100%
Tonnes mined heap leach - 000s	143	-	143	100%
Tonnes ore mined direct mill feed - 000s	907	-	907	100%
Tonnes ore milled - 000s	2,382	2,340	42	2%
Average mill head grade - g/t ⁽¹⁾⁽²⁾	1.32	1.11	0.21	19%
Recovery - % ⁽¹⁾	64.0%	68.9%	(5%)	(7%)
Gold produced – mill (ounces)	64,352	57,778	6,574	11%
Gold produced – heap leach (ounces)	7,486	1,446	6,040	418%
Total gold produced (ounces)	71,838	59,224	12,614	21%

(1) Excludes heap leach ore.

(2) g/t means grams per tonne.

Overview of Operating Results - 2012 Versus 2011

Boroo produced 71,838 ounces of gold in 2012 as compared to 59,224 ounces of gold in 2011. During 2012, the milling operation achieved higher throughput and processed higher ore grades mainly from Pit 6. The higher throughput and higher grades were partially offset by lower recoveries. The ore grade averaged 1.32 g/t with a recovery of 64% in 2012, compared to 1.11 g/t with a recovery of 68.9% in 2011.

	Year Ended December 31			
	2012	2011	Change	% Change
Boroo Cost Performance				
Operating cash costs (\$ millions):				
Mining - including capitalized stripping	12.1	2.1	10.0	486%
Mining - excluding capitalized stripping	5.8	2.1	3.7	182%
Milling	22.4	21.0	1.3	6%
Leaching	2.1	0.3	1.9	697%
Site support	8.3	7.7	0.6	8%
Ulaanbaatar administration	5.5	6.0	(0.5)	(8%)
Mine stand-by costs	0.0	0.2	(0.2)	(100%)
Production taxes and royalties	6.1	3.9	2.2	55%
Refining fees	0.3	0.2	0.0	8%
By-product credits	(0.4)	(0.3)	(0.1)	46%
Other	0.1	(0.0)	0.2	100%
Operating cash costs	50.2	41.1	9.1	22%
Non-cash DD&A costs	21.6	8.0	13.7	172%
Total production costs	71.8	49.0	22.8	46%
Unit operating costs				
Mining costs (\$/t mined material)	1.96	-	1.96	100%
Milling costs (\$/t milled material)	9.39	8.99	0.40	4%
Operating cash costs (\$/t milled material)	21.07	17.54	3.52	20%
Operating cash costs (\$/oz produced) ⁽¹⁾	699	694	5	1%
Total production costs (\$/oz produced) ⁽¹⁾	999	828	171	21%
All-in cash costs - pre-tax (\$/oz produced) ⁽¹⁾⁽²⁾	820	800	20	3%

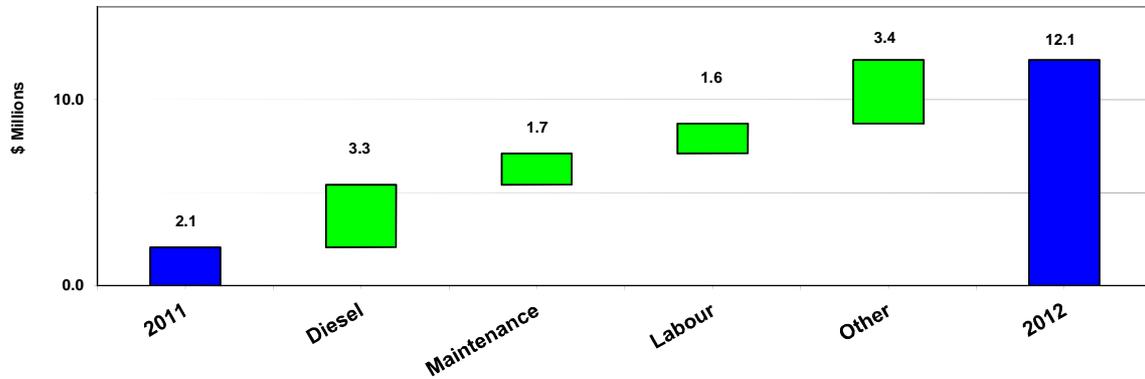
(1) Operating cash costs, total production costs and all-in cash costs (pre-tax) per ounce produced are non-GAAP Measures and are discussed under “Non-GAAP Measures”.

(2) All-in cash costs (pre-tax) per ounce produced is calculated and discussed on page 30.

Operating cash costs at Boroo (see “Non-GAAP Measures”) increased by \$9.1 million in 2012 excluding the capitalization of stripping costs at Pit 6 (\$15.4 million including capitalization) compared to 2011.

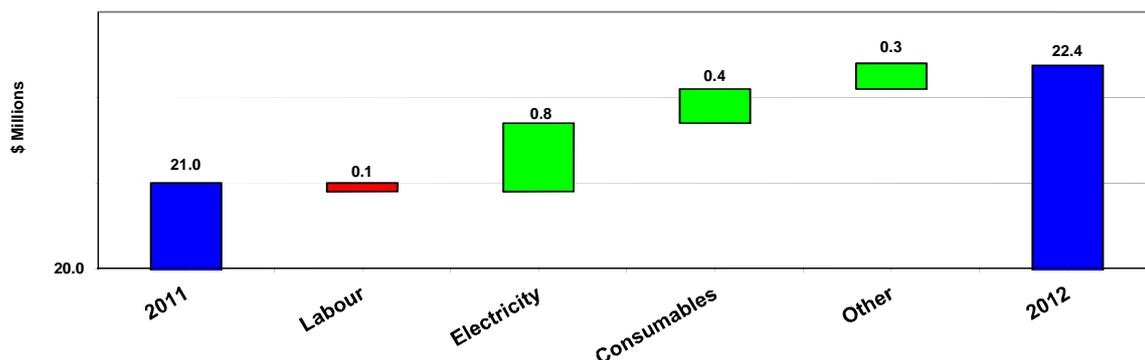
The movements in the major components of operating cash costs (mining, milling and administration) are explained as follows:

Mining Costs – Boroo including capitalized stripping (2012 compared to 2011):



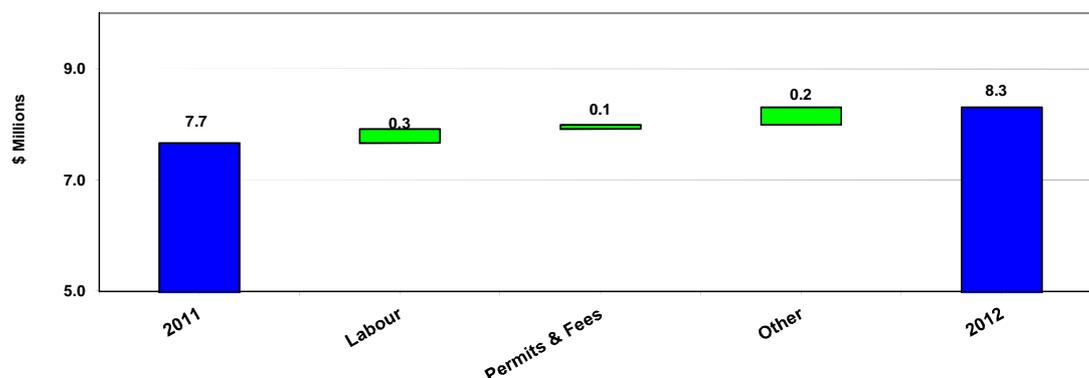
Mining costs for 2012 including capitalized stripping costs were \$12.1 million, \$10.0 million higher than the prior year. Boroo capitalized \$6.3 million of mining costs to stripping costs for Pit 6 in 2012. The increase in mining costs is a result of the resumption of Pit 6 mining operations beginning in January 2012 and ending in September 2012. Diesel costs and equipment maintenance costs increased by \$3.3 million and \$1.7 million respectively, and reflect higher consumption of fuel and maintenance materials. Labour costs were \$1.6 million higher due to the temporary re-hire of mining personnel in 2012 for Pit 6 mining. Other mining cost increases include higher costs for consumables, drilling, and tires. The mining costs incurred during 2011 represented ongoing activities for site supervision, road maintenance work and maintenance on equipment used on the tailings dam construction and in reclamation activities.

Milling costs – Boroo (2012 compared to 2011):



Milling costs for 2012 were higher than in 2011 due to 2% increase in the mill throughput and higher unit costs incurred for major consumables such as grinding media and electricity. In addition, there was a higher consumption of reagents, grinding media and electricity in 2012 as the mill was available throughout the year, compared to the prior year when equipment problems led to mill downtime in May 2011.

Site support costs – Boroo (2012 compared to 2011):



Site administration costs for 2012 increased due mainly to higher payroll related costs and camp catering costs incurred as a result of the resumption of mining activities in Pit 6 in 2012.

Boroo regional administration costs in 2012 were \$5.5 million, \$0.5 million or 8% lower than in 2011. This is mainly due to lower payroll related costs.

Other operating costs:

Heap leach

Costs for heap leaching activities in 2012 were \$2.1 million as Boroo resumed the heap leaching operation in October 2012. There were no heap leaching activities in 2011.

Royalties

Production taxes and royalties increased in 2012 to \$6.1 million compared to \$3.9 million in 2011 primarily due higher revenues.

Boroo Unit operating costs

Operating cash costs per ounce – Boroo:

Operating cash costs per ounce produced in 2012 was \$699 compared to \$694 per ounce for 2011. The increase in the unit cash cost of \$5 per ounce is a result of higher operating costs partially offset by a 21% increase in the ounce production. Total operating cash costs per ounce produced is a non-GAAP measure and is discussed under “Non-GAAP Measures”.

All-in cash costs - Boroo

<i>(unaudited)</i>	Year Ended December 31			
	2012		2011	
	<u>\$ millions</u>	<u>(\$ per ounce produced)</u>	<u>\$ millions</u>	<u>(\$ per ounce produced)</u>
All-in Cash Costs - pre-tax ⁽¹⁾:				
Operating cash costs	50.2	\$699	41.1	\$694
Capitalized stripping - cash ⁽¹⁾	6.3	\$87	0.0	\$0
Operating cash costs and capitalized stripping	56.5	\$786	41.1	\$694
Sustaining capital (cash)	2.1	\$30	1.8	\$30
Growth capital (cash)	0.3	\$4	4.5	\$76
Operating cash costs including capital ⁽¹⁾	58.9	820	47.4	800.4
Corporate and other cash costs ⁽²⁾	-	-	-	-
All-in Cash Costs - pre-tax ⁽¹⁾	58.9	\$820	47.4	\$800

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

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

Boroo’s all-in cash costs (pre-tax) per ounce produced for 2012 was \$820 and includes all costs directly related to gold production except for income tax paid in Mongolia. The same all-in cash costs (pre-tax) measure for 2011 was \$800 per ounce produced. The increase in all-in cash costs is due to higher costs partially offset by the 21% increase in production at Boroo year-over-year. The costs for capitalized stripping incurred in 2012 amounted to \$6.3 million or \$87 per ounce compared to no capitalized stripping costs in 2011. The increase in operating and stripping cash costs was partially offset by lower capital expenditures, which decreased from \$6.3 million (\$106 per ounce) in 2011 to \$2.4 million (\$34 per ounce) as the Boroo mine is nearing the end of its mine life.

Gatsuurt Project

As at December 31, 2012, proven and probable reserves for the Gatsuurt Project remain unchanged 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 kilometres haulage road to the Boroo processing plant for gold extraction, and the production of doré bars for sale. The mined waste will be stored at the Gatsuurt site in areas designated for that purpose.

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

The Company anticipates overall gold recovery of 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, \$33.3 million has been expended on pre-production site construction and initial engineering of the proposed flotation and bio-oxidation facility. The Gatsuurt Project site infrastructure and basic engineering for the flotation and bio-oxidation facility are substantially complete. Completed site infrastructure includes a 55 kilometres haul road to the Boroo mill, a services and administration building, a construction camp, pads for ore and waste stockpiles, and a fueling station. Going forward, all detailed engineering development and construction activities at Gatsuurt have been suspended 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".

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. 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 – 2012 compared to 2011

Financial Summary (\$ millions, except as noted) - <i>Unaudited</i>	Three Months Ended December 31,			
	2012	2011	Change	% Change
Revenue	\$ 368.5	\$ 248.0	\$ 120.5	49%
Cost of sales	165.2	104.1	61.1	59%
Abnormal mining costs	8.9	-	8.9	100%
Regional office administration	5.6	5.8	(0.2)	-3%
Earnings from mine operations	188.7	138.1	50.7	37%
Revenue-based taxes	44.5	33.6	10.9	33%
Other operating expenses	4.8	3.6	1.2	33%
Loss on de-recognition of underground assets	180.7	-	180.7	100%
Exploration and business development	11.5	11.1	0.4	4%
Corporate administration	8.8	10.3	(1.5)	-14%
Earnings (loss) from operations	(61.5)	79.6	(141.1)	-177%
Other (income) and expenses	(0.1)	(1.3)	1.2	-96%
Finance costs	1.3	0.5	0.7	142%
Earnings (loss) before income taxes	(62.7)	80.3	(143.1)	-178%
Income tax expense	5.2	0.9	4.3	486%
Net earnings (loss)	\$ (68.0)	\$ 79.4	\$ (147.4)	-186%
Operating Summary				
Gold produced - ounces poured	219,316	151,562	67,754	45%
Gold sold – ounces sold	215,361	146,704	68,657	47%
Average realized price – \$/oz sold	\$ 1,711	\$ 1,690	21	1%
Average gold spot market price – \$/oz ⁽¹⁾	\$ 1,721	\$ 1,688	33	2%
Cost of sales - \$/oz sold ⁽²⁾	\$ 767	\$ 709	58	8%
Operating cash costs – \$/oz produced ⁽²⁾	\$ 360	\$ 603	(243)	-40%
Total production cost – \$/oz produced ⁽²⁾	\$ 998	\$ 820	178	22%
All-in cash costs (pre-tax) – \$/oz produced ⁽²⁾	\$ 839	\$ 934	(95)	-10%

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

⁽²⁾ Operating cash costs is comprised of mine operating costs such as mining, processing, regional office administration, royalties and production taxes (except at Kumtor where revenue-based taxes are excluded), but excludes depreciation, depletion and, amortization, reclamation costs, capital investments, community investments, exploration expenses and corporate general and administration expenses. Operating cash costs, total production costs and all-in cash costs (pre-tax) per ounce produced, as well as cost of sales per ounce sold, are non-GAAP measures and are discussed under “Non-GAAP Measures”.

Overview

In the fourth quarter of 2012, the Company recorded a net loss of \$68.0 million (\$0.29 loss per common share) after the charge for the underground de-recognition. This compares to net earnings of \$79.4 million (\$0.34 per common share) over the same period of 2011. The Company recorded a charge of \$180.7 million in the fourth quarter of 2012 for the de-recognition of its underground assets at Kumtor.

- Gold production for the fourth quarter of 2012 was 219,316 ounces compared to 151,562 ounces in the same quarter of 2011. The increased gold production in the current quarter reflects 37% higher production at Kumtor as higher throughput was achieved in the mine and mill in the fourth quarter at Kumtor, processing higher grades with lower recoveries following the exposing of ore in cut-back 14B at the end of September. Boroo achieved significantly higher production (+132%) in the fourth quarter of 2012 compared to the same period of 2011, processing higher grades with slightly lower recoveries through the

mill and pouring gold from its heap leach operations which resumed activities in October 2012 after receiving all required permits.

- Revenues in the fourth quarter of 2012 increased by \$120.5 million to \$368.5 million from \$248 million in the same period last year mainly as a result of 47% higher ounces sold. Ounces sold for the fourth quarter of 2012 totaled 215,361 compared to 146,704 in the fourth quarter of 2011, reflecting the increased production at both sites. The average gold price realized in the fourth quarter of 2012 was \$1,711 per ounce, an increase from \$1,690 per ounce realized in the same quarter of 2011.
- Cost of sales for the fourth quarter of 2012 was \$165.2 million compared to \$104.1 million in the same quarter of 2011. The increase reflects the higher ounces sold at both sites and higher operating costs due to price increases for diesel, volume increases due to the increased use of consumables for the expanded fleet at Kumtor and the start-up of the heap leach operation at Boroo.

DD&A included in costs of sales for the fourth quarter of 2012 of \$91.2 million increased by \$60.7 million compared to the same period last year, due in part to the processing and sale of significantly higher ounces in the fourth quarter of 2012. In addition, depreciation expense for the fourth quarter of 2012 was higher than the comparative quarter reflecting the increased depreciation from the expanded mining fleet and achieving higher throughput mining cut-back 14B in the last quarter of 2012 compared to the same quarter of 2011 where lower volumes were mined in cut-back 14A.

- Abnormal mining costs at Kumtor of \$8.9 million were recorded in the fourth quarter of 2012 representing the ice and waste removal from the high movement unload zone. The expansion of the open pit at Kumtor, announced in early November 2012, was made possible in part by the work undertaken to unload ice and waste from the high movement area. As a result, from the date of the announcement the continuing cost to unload the high movement area is now capitalized and will be amortized as additional cost of the ore produced from the area. Stripping activity in cut-back 14B ceased to be classified as abnormal once ore was exposed in August 2012. Thereafter the stripping costs were recorded as normal course inventory and cost of production.
- Other operating expenses for the fourth quarter of 2012 totaled \$4.8 million compared to \$3.6 million in the same quarter of 2011. Costs in the current quarter of 2012 include \$2.9 million for the closure of the underground development project at Kumtor and \$1.9 million for ongoing sustainable development projects in both countries where we operate.
- A charge of \$180.7 million was recorded in the fourth quarter of 2012 to reflect the de-recognition of the underground assets at Kumtor. This results from the decision in early November to expand the open pit at Kumtor and as a result consume a major portion of the underground infrastructure.
- Exploration expenditures for the fourth quarter of 2012 were \$11.5 million compared to \$11.7 million in the same quarter of 2011 mainly reflecting increased drilling activity at the ATO property and the Dvoynoy Joint Venture in Russia during the current period. Exploration activity at Kumtor focused on drilling of the SB Zone from the Central Pit and underground exploration drilling of the Southwest Extension and SB Zones from

Declines #1 and #2. Underground drilling ceased in late November of 2012 following the Company's decision to expand the Kumtor Central Pit and terminate the planned underground development program.

- Corporate administration costs for the fourth quarter of 2012 were \$8.8 million, a reduction of \$1.5 million from the same period in 2011, reflecting a lower charge for share-based compensation primarily as a result of the lower market price of Centerra's common shares.
- Cash provided by operations was \$208.2 million in the fourth quarter of 2012 compared to \$60.3 million in the same period of 2011. The increase over 2011 reflects higher earnings from higher production and ounces sold, higher realized prices and a reduction in working capital levels, partially offset by higher operating costs.

Investing activities in the fourth quarter of 2012 totaled \$126 million, including the purchase of \$46 million of short-term investments in government securities and commercial paper and investments of \$83 million in sustaining and growth capital spent at Centerra's operations. The comparative in 2011 of \$137 million includes the purchase of \$107 million in short-term investments in government securities and commercial paper and investments of \$30 million of sustaining and growth capital at Centerra's operations. Cash used in financing activities in the fourth quarter of 2012 includes a dividend payment of \$6.6 million.

- Capital expenditures (spent and accrued) in the fourth quarter of 2012 were \$85.0 million as compared to \$30 million in the same period of 2011. Sustaining capital in the fourth quarter of 2012 of \$11.1 million (including \$10.5 million at Kumtor and \$0.4 million at Boroo), compared to \$9 million in 2011 (including \$7.8 million at Kumtor and \$0.9 million at Boroo). Growth capital of \$73.9 million in the fourth quarter of 2012 (\$30 million in the same quarter of 2011), reflects \$73.4 million of spending at Kumtor mainly on fleet expansion (\$23.1 million) and the stripping of cut-back 14A (\$36.8 million) and spending at Boroo of \$0.3 million.
- Cost of sales per ounce sold for the fourth quarter of 2012, which includes the impact of DD&A, increased to \$767 per ounce compared to \$709 per ounce for the same period in 2011. The decrease on a per ounce basis reflects the higher production achieved from higher throughput at Kumtor, the higher grades at both sites and the start-up of the heap leach operation at Boroo, partially offset by higher operating costs and lower recoveries at Boroo.
- Operating cash costs per ounce produced was \$360 in the fourth quarter of 2012 compared to \$603 in the comparative quarter of 2011. The decrease in the 2012 period results mainly from significantly higher production at both sites, partially offset by higher operating costs. Operating cash costs per ounce produced is a non-GAAP measure and is discussed under "Non-GAAP Measures".
- All-in cash costs per ounce produced were \$839 in the fourth quarter of 2012 compared to \$934 in the same quarter of 2011. The decrease reflects the higher production at both sites in the 2012 quarter, partially offset by increased costs associated with the larger truck fleet. All-in cash costs per ounce produced are a non-GAAP measure and is discussed under "Non-GAAP Measures".

Quarterly Results – Last Eight Quarters

Over the last eight quarters, Centerra's results reflect the impact of rising gold prices as well as increasing costs. Of note, production and sales in 2012 have been impacted by the accelerated ice movement at Kumtor which necessitated a change in the mine plan and a delay in the release of gold from the pit. Non-cash costs have also progressively increased over 2011 and into 2012 as depreciation at Kumtor grew with its expanded mining fleet and the amortization of capitalized stripping. Cost of sales in the second and third quarters of 2011 included a charge for the settlement of the Kyrgyz Social Fund audit totaling \$14.1 million and an increase to labour costs in the fourth quarter of 2011 resulting from the revised social fund calculation which now includes the high altitude premium. Other operating charges in the second quarter of 2012 for social development programs include \$21 million spent by Kumtor on a national micro-credit financing program and \$1.1 million accrued by Boroo to increase its funding of a maternity hospital in Ulaanbaatar. Similarly Kumtor spent in the third quarter of 2011 \$10 million for special funding of a school improvement program in the Kyrgyz Republic and Boroo committed to funding and accrued for the construction of a maternity hospital totaling \$6.4 million in the fourth quarter of 2010. The fourth quarter of 2011 includes other charges of \$2.5 million for the resolution of a claim by the Mongolian authorities in relation to the sterilization of alluvial reserves at the Boroo property. The quarterly financial results for the last eight quarters are shown below:

Key results by quarter

<i>\$ millions, except per share data Quarterly Data Unaudited</i>	2012				2011			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	368	69	90	134	248	278	244	250
Net earnings (loss)	(68)	(47)	(55)	(15)	79	84	71	137
Earnings (loss) per share (basic and diluted)	(0.29)	(0.20)	(0.23)	(0.06)	0.34	0.35	0.30	0.58

Balance Sheet

Inventory

Total inventory at December 31, 2012 of \$299 million (\$292 million at December 31, 2011) includes gold inventory of \$124 million (\$136 million in 2011) and supplies inventory of \$175 million (\$156 million in 2011). The increase in 2012 reflects the higher parts requirements from the expanded capital fleet at Kumtor and lower gold inventory due to timing of shipments.

Property, Plant and Equipment

The aggregate book value of property, plant and equipment at December 31, 2012 of \$589 million, compares to \$590 million at the end of 2011 and is allocated as follows: Kyrgyz \$482 million, Mongolia \$106 million and corporate entities \$1 million. The small consolidated net increase in 2012 includes additions of \$356 million from the major growth projects at Kumtor (fleet expansion of \$146 million and capitalized stripping of \$210 million), maintenance capital spending at both sites, offset by the depreciation and amortization charges of \$242 million and the de-recognition of Kumtor's underground equipment of \$167 million.

Goodwill

During the year ended December 31, 2012, the Company undertook its normal annual review of the \$129.7 million of goodwill recorded by the Kyrgyz reporting unit. As a result, management concluded that current circumstances did not indicate that the carrying value of the unit exceeded its fair value.

Asset Retirement Obligations

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

The Company has estimated the net present value of the total asset retirement obligations to be \$54.6 million as at December 31, 2012 (December 31, 2011 - \$55.6 million). These payments are expected to commence over the next 1 to 15 years. The Company used a risk-free rate of 2.0% at Kumtor and 1.3% at Boroo to calculate the present value of the asset retirement obligations.

There were no new updates to the closure costs estimates at either site in 2012. The next regular update to the closure costs estimates at Kumtor is scheduled later in 2013, at which time the asset retirement obligation for Kumtor will be updated for the new closure cost estimates and for the extension in its mine life resulting from the recently announced open pit expansion. The last closure cost update at Boroo was completed in 2011 and its asset retirement obligation was updated at that time.

The Company's future undiscounted decommissioning and reclamation costs have been estimated to be \$61.6 million before salvage value.

Share capital

As of February 20, 2013, Centerra had 236,376,011 shares outstanding and options to acquire 1,674,194 common shares outstanding under its stock option plan with exercise prices ranging between Cdn\$4.81 and Cdn\$22.28 per share, with expiry dates ranging between 2014 and 2020.

Contractual Obligations

The following table summarizes Centerra's contractual obligations, including payments due for the next five years and thereafter, as of December 31, 2012.

\$ 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 ⁽¹⁾	\$ 25.7	\$ 2.2	\$ 7.4	\$ 5.0	\$ 11.1
Capital equipment ⁽²⁾	28.8	28.8	-	-	-
Operational supplies	69.1	69.1	-	-	-
Lease of premises	0.4	0.1	0.3	-	-
Boroo					
Capital projects & operational supplies	0.4	0.4			
Lease of premises	0.4	0.1	0.3		
Corporate					
Loan repayment (principal & interest)	77.4	77.4			
Lease of premises ⁽³⁾	1.8	0.4	0.9	0.5	
Total contractual obligations	\$ 204.0	\$ 178.5	\$ 8.9	\$ 5.5	\$ 11.1

(1) Centerra's future decommissioning and reclamation costs for the Kumtor mine are estimated to be \$37.0 million. The estimated future cost of closure, reclamation and decommissioning of the project are used as the basis for calculating the amount to be deposited in the Reclamation Trust Fund (\$25.7 million). This restricted cash is funded by sales revenue, annually in arrears and on December 31, 2012 the balance in the fund was \$11.3 million (2011 - \$9.1 million), with the remaining \$25.76 million to be funded over the life of the mine.

(2) Agreements as at December 31, 2012 to purchase capital equipment.

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

Non-GAAP Measures

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

Operating cash costs include mine operating costs such as mining, processing, site and regional office administration, royalties and operating taxes (except at Kumtor where revenue-based taxes are excluded), but exclude depreciation, depletion and amortization, reclamation costs, capital investments and exploration expenses. Certain amounts of stock-based compensation at the corporate level have been excluded. Total production costs includes total operating cash cost plus depreciation, depletion and amortization attributable to production. All-in cash costs includes operating cash costs, plus capitalized stripping and total sustaining and growth capital spent and accrued.

Operating cash costs per ounce produced, total production costs per ounce produced, all-in cash costs per ounce produced and cost of sales per ounce sold have been included because certain investors use this information to assess performance and also to determine the ability of Centerra to generate cash flow for use in investing and other activities. The inclusion of operating cash cost per ounce produced, total production cost per ounce produced, all-in cash costs per ounce produced and cost of sales per ounce sold may enable investors to better understand year-over-year changes in production costs, which in turn affect profitability and cash flow.

Reporting measure going forward

Centerra has initiated an “all-in cash cost” reporting methodology for its gold production. Having first reported along these lines with the announcement of the revised life-of-mine plan for Kumtor in November 2012, the Company believes an all-in cash cost measure more fully reflects the actual cash cost of producing gold than the former Gold Institute total cash cost measure. The new measure does have limitations as an analytical tool as it may be distorted in periods where significant capital investments are being made to expand for future growth or where significant cash mining costs are being expended on stripping to benefit future periods. This new measure should therefore not be considered in isolation, or as a substitute for, analysis of our results as reported under GAAP.

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

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

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

<i>(unaudited)</i> (\$ millions, unless otherwise specified)	Year ended		Fourth Quarter ended	
	December 31,		December 31,	
	2012	2011	2012	2011
<i>Centerra:</i>				
Cost of sales, as reported	\$ 387.5	\$ 382.3	\$ 165.2	\$ 104.1
Less: Non-cash component	142.2	98.4	91.1	30.3
Cost of sales, cash component	\$ 245.3	\$ 283.9	\$ 74.1	\$ 73.8
Adjust for: Refining fees & by-product credits	(1.2)	(3.3)	(0.7)	(0.3)
Regional office administration	21.0	21.3	5.6	5.9
Mining Standby Costs	4.6	0.2	-	-
Non-operating costs	32.6	(14.1)	15.2	-
Inventory movement	(45.7)	34.4	(15.3)	11.9
Operating cash cost	\$ 256.7	\$ 322.4	\$ 78.9	\$ 91.3
Depreciation, depletion, amortization and accretion	142.6	99.3	91.2	30.5
Inventory movement - non-cash	43.0	19.5	48.7	2.5
Total production cost	\$ 442.3	\$ 441.1	\$ 218.8	\$ 124.3
Ounces poured (000)	387.1	642.4	219.3	151.6
Operating cash cost per ounce produced	\$ 663	\$ 502	\$ 360	\$ 603
Total production cost per ounce produced	\$ 1,143	\$ 687	\$ 998	\$ 820
<i>Kumtor:</i>				
Cost of sales, as reported	\$ 311.1	\$ 332.6	\$ 137.3	\$ 96.9
Less: Non-cash component	121.1	88.3	80.1	29.1
Cost of sales, cash component	\$ 190.0	\$ 244.3	\$ 57.2	\$ 67.7
Adjust for: Refining fees & by-product credits	(1.0)	(3.3)	(0.6)	(0.3)
Regional office administration	15.5	15.3	4.2	4.1
Mining Standby Costs	4.6	-	-	-
Non-operating costs	32.6	(14.1)	15.2	-
Inventory movement	(35.2)	39.1	(11.4)	8.9
Operating cash cost	\$ 206.5	\$ 281.3	\$ 64.6	\$ 80.4
Depreciation, depletion, amortization and accretion	121.4	88.9	80.1	29.2
Inventory movement - non-cash	42.6	22.0	48.8	2.5
Total production cost	\$ 370.5	\$ 392.2	\$ 193.5	\$ 112.1
Ounces poured (000)	315.2	583.2	189.4	138.7
Operating cash cost per ounce produced	\$ 655	\$ 482	\$ 341	\$ 580
Total production cost per ounce produced	\$ 960	\$ 673	\$ 491	\$ 808
<i>Boroo:</i>				
Cost of sales, as reported	\$ 76.4	\$ 49.7	\$ 27.9	\$ 7.2
Less: Non-cash component	21.1	10.1	11.0	1.1
Cost of sales, cash component	\$ 55.3	\$ 39.6	\$ 16.9	\$ 6.1
Adjust for: Refining fees & by-product credits	(0.2)	(0.1)	(0.1)	-
Regional office administration	5.5	6.0	1.5	1.8
Mining Standby Costs		0.2		-
Non-operating costs		-		-
Inventory movement	(10.5)	(4.7)	(4.0)	3.0
Operating cash cost	\$ 50.2	\$ 41.1	\$ 14.3	\$ 10.9
Depreciation, depletion, amortization and accretion	21.2	10.4	11.1	1.3
Inventory movement - non-cash	0.4	(2.5)	(0.1)	-
Total production cost	\$ 71.8	\$ 49.0	\$ 25.3	\$ 12.2
Ounces poured (000)	71.8	59.2	29.9	12.9
Operating cash cost per ounce produced	\$ 699	\$ 694	\$ 479	\$ 849
Total production cost per ounce produced	\$ 1,033	\$ 828	\$ 793	\$ 951

Total capital and capitalized stripping presented in the All-in cash cost calculation can be reconciled as follows:

Year - 2012	Kumtor	Boroo	All other	Consolidated
<i>(\$ millions, unaudited)</i>				
Capitalized stripping –cash	129.3	6.3	-	135.6
Sustaining capital - cash	40.8	2.1	0.6	43.5
Growth capital - cash	176.4	0.3	0.5	177.2
Net increase in accruals included in additions to PP&E	10.1	-	-	10.1
Total - Additions to PP&E	356.6	8.7	1.1	366.4⁽¹⁾
Year - 2011	Kumtor	Boroo	All other	Consolidated
In \$ millions				
Capitalized stripping – cash	39.4	-	-	39.4
Sustaining capital – cash	32.2	1.8	0.6	34.6
Growth capital - cash	95.0	4.5	0.4	99.9
Net increase in accruals included in additions to PP&E	1.3	-	-	1.3
Total - Additions to PP&E	167.9	6.3	1.0	175.2⁽¹⁾

Fourth Quarter - 2012	Kumtor	Boroo	All other	Consolidated
<i>(\$ millions, unaudited)</i>				
Capitalized stripping –cash	26.1	-	-	26.1
Sustaining capital - cash	10.5	0.4	0.2	11.1
Growth capital - cash	36.6	0.3	0.2	37.1
Increase in accruals included in additions to PP&E	9.1	-	-	9.1
Total - Additions to PP&E	82.3	0.7	0.4	83.4⁽¹⁾
Fourth Quarter - 2011	Kumtor	Boroo	All other	Consolidated
In \$ millions				
Capitalized stripping – cash	6.0	-	-	6.0
Sustaining capital – cash	7.8	0.9	0.3	9.0
Growth capital - cash	12.4	0.3	-	12.7
Increase in accruals included in additions to PP&E	2.1	-	-	2.1
Total - Additions to PP&E	28.3	1.2	0.3	29.8⁽¹⁾

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

Corporate and other cash costs presented in the All-in cash cost calculation can be reconciled as follows:

<i>(Unaudited)</i>	Fourth Quarter		Year	
	2012	2011	2012	2011
(\$ millions)				
Other operating expenses	\$ 4.8	\$ 3.7	\$ 34.3	\$ 15.5
Exploration and business development	11.6	11.1	38.5	42.9
Corporate administration	8.8	10.3	27.0	44.9
Subtotal ⁽¹⁾	\$ 25.2	\$ 25.1	\$ 99.8	\$ 103.3
Adjust for:				
Non-operating charge - claim settlement and other	-	(2.5)	0.1	(2.5)
Depreciation and amortization	(0.6)	(0.1)	(1.4)	(0.4)
Total Corporate and other cash costs	\$ 24.6	\$ 22.5	\$ 98.5	\$ 100.4

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

Related Party Transactions

Kyrgyzaltyn JSC

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

The table below summarizes the management fees and concession payments paid and accrued by Kumtor Gold Company (“KGC”), a subsidiary of the Company, to Kyrgyzaltyn and the amounts paid and accrued by Kyrgyzaltyn to KGC according to the terms of a Restated Gold and Silver Sales Agreement between KGC, Kyrgyzaltyn and the Government of the Kyrgyz Republic dated June 6, 2009.

<i>(\$ thousands)</i>	Year ended December 31	
	2012	2011
Management fees paid by KGC to Kyrgyzaltyn	315	599
Gross gold and silver sales from KGC to Kyrgyzaltyn	535,437	944,020
Deduct: refinery and financing charges	(1,883)	(2,947)
Net sales revenue received by KGC from Kyrgyzaltyn	533,554	941,073

Gold produced by the Kumtor mine is purchased at the mine site by Kyrgyzaltyn for processing at its refinery in the Kyrgyz Republic pursuant to a Restated Gold and Silver Sale Agreement. Amounts receivable from Kyrgyzaltyn arise from the sale of gold to Kyrgyzaltyn. Kyrgyzaltyn is required to pay for gold delivered within 12 days from the date of shipment. Default interest is accrued on any unpaid balance after the permitted payment period of 12 days.

The obligations of Kyrgyzaltyn are partially secured by a pledge of 2,850,000 shares of Centerra owned by Kyrgyzaltyn. Based on movements in Centerra's share price, and the value of individual or unsettled gold shipments over the course of 2012, the maximum exposure (reflecting the shortfall in the value of the security as compared to the value of any unsettled shipments during the year) was approximately \$56.7 million, compared to \$44.8 million in 2011.

As at December 31, 2012, \$48.3 million was outstanding under the Sales Agreement (December 31, 2011 - \$47.4 million).

Related party balances

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

(Thousands of US\$)	December 31 2012	December 31 2011
Prepaid expenses	\$ -	\$ 143
Amounts receivable	48,325	47,366
Total related party assets	\$ 48,325	\$ 47,509
Dividend payable (net of withholding taxes)	\$ 5,949	\$ -
Total related party liabilities	\$ 5,949	\$ -

Dividend

(Thousands of US\$)	2012	2011
Dividends declared to Kyrgyzaltyn	\$5,949	\$ 29,412

Dividend payable and restricted cash held in trust

Pursuant to an Ontario court decision dated September 5, 2012, Kyrgyzaltyn's portion of the Centerra dividend declared on August 1, 2012 and November 7, 2012 of \$6.2 million net of withholding taxes of \$0.3 million (\$5.9 million net) is held in trust to the credit of the Sistem court proceedings.

Other Corporate Developments

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

Kyrgyz Republic

Since the Company's most recent quarterly news release dated November 7, 2012, there have been several developments with respect to the state commission established by the Kyrgyz Government for the purpose of inspecting and reviewing Kumtor's compliance with Kyrgyz

operational and environmental laws and regulations and community standards (the “State Commission”). In particular, the following developments have occurred, each of which will be discussed below in greater detail: (a) The State Commission released its final report (the “State Commission Report”) on December 25, 2012; (b) Kumtor received five claims from the State Inspectorate Office for Environmental and Technical Safety under the Government of the Kyrgyz Republic (“SIETS”) for an aggregate of \$152 million for alleged environmental violations, which was previously disclosed in a news release of the Company on December 14, 2012; (c) The Kyrgyz Republic Government received the State Commission Report on January 24, 2013 and created a working group to hold discussions with Centerra on revising the terms under which the Kumtor Project operates; and (d) the Kyrgyz Republic Parliament received the State Commission Report on February 20, 2013 and is considering a draft Parliamentary resolution. Such draft Parliamentary resolution calls on the Government to hold negotiations with Centerra with a view to revising the Kumtor Project Agreements (as defined below) in the interest of the Kyrgyz Republic and recommends that, if mutually advantageous terms cannot be agreed, the Government take a number of steps including, without limitation, the repeal of the 2009 laws approving the Kumtor Project Agreements and the termination of the Kumtor Project Agreements; and (e) the Kyrgyz Republic Social Fund (the “Social Fund”) has appealed to the Supreme Court a lower court ruling that dismissed the Social Fund’s request to invalidate documentary acts (assessments) of the Social Fund against Kumtor for the years 2004 to 2009.

The Company addresses each of the developments below in detail. Reference should also be made to the historical information contained in the Company’s news release dated November 7, 2012 regarding the State Commission and the related Parliamentary Commission which was formed in early 2012. The Company believes that the agreements entered into in 2009 governing the Kumtor Project (the “Kumtor Project Agreements”) are legal, valid and enforceable obligations. The Kumtor Project Agreements were reviewed and approved by the Kyrgyz Republic Government and the Kyrgyz Republic Parliament, and were the subject of a positive decision of the Kyrgyz Republic Constitutional Court and a legal opinion by the Kyrgyz Republic Ministry of Justice. The Company continues to be in discussions with the Government regarding the State Commission Report, with the objective of resolving these outstanding concerns through constructive dialogue. However, there can be no assurances that the Company will be able to successfully resolve any or all of these matters currently affecting the Kumtor Project. There can also be no assurance that the Kyrgyz Republic Government and/or Parliament will not take actions that are inconsistent with the Kyrgyz Republic’s obligations under the Kumtor Project Agreements or cancel government decrees, orders or licenses under which Kumtor currently operates. Any such actions could have a material adverse impact on the Company’s future cash flows, earnings, results of operations and financial condition. See “Material Assumptions & Risks” and “Cautionary Note Regarding Forward-looking Information” below. For further information on risk factors relevant to Centerra and its operations, please see “Risk Factors” in the most recently filed MD&A and in the Company’s most recently filed Annual Information Form.

State Commission Activities

(A) State Commission Report

In December 2012, the State Commission issued its final report (the “State Commission Report”), following five months of study and several visits to the Kumtor mine site, and over 120 written requests for information on a wide variety of matters going back to 1993 when the

original agreement regarding the Kumtor Project was executed. The State Commission was comprised of three working groups with responsibility for environmental and technical matters, legal matters (including a review of all prior and current agreements relating to the Kumtor Project), and social-economic matters (including a review of financial, taxation, procurement and employment-related matters).

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

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

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

The Company received the final copy of the State Commission Report on January 18, 2013. The Company believes that the conclusions and claims in the State Commission Report are exaggerated or without merit. While the Company has responded in detail in writing to such conclusions and claims, it also makes the following general responses:

- (i) The Company operates in accordance with Kyrgyz and international standards, and this has been proven over the years in systematic audits by Kyrgyz and international experts. In particular, in August 2012, the Safety, Health and Environment Committee of the Board of Directors of Centerra engaged an independent internationally recognized consultant to carry out a due diligence review of Kumtor's performance on

safety, health and environmental matters. The report issued in October 2012 concluded that “no major or materially significant environmental issues were identified”.

- (ii) The Kumtor Project Agreements provide for a full regime of all payments to the Kyrgyz Government including a comprehensive revenue-based tax and specified fees and payments for other matters including environmental charges. The Kumtor Project Agreements were negotiated at arm’s length, and reviewed and approved by the Kyrgyz Government and its Parliament. The agreements were the subject of a positive decision by the Kyrgyz Constitutional Court and a legal opinion of the Kyrgyz Republic Ministry of Justice. The Company believes these agreements are legal, valid and enforceable obligations of the parties.
 - (iii) Centerra, Kumtor and the Kyrgyz Government, among other parties, entered into a release agreement (the Release Agreement) on June 6, 2009, as part of Kumtor Project Agreements. The Release Agreement provides that parties agreed to release each other from any claims, including any legal, tax and fiscal matters, in respect of any matter arising or existing prior to June 6, 2009, whether such matters were known or unknown as of June 6, 2009, subject to certain exemptions which are not applicable in the circumstances. Accordingly, the conclusions and recommendations relating to alleged wrong doings prior to June 6, 2009, including matters relating to the 1993 Master Agreement and the 2003 Restructuring Agreement, have been released by all parties.
- (B) Kumtor Has Received Claims from Kyrgyz Authorities for Alleged Environmental Violations

As previously disclosed, Kumtor received in mid-December 2012, five claims from the SIETS for alleged environmental violations. The claims are for an aggregate amount of approximately \$152 million, including (i) a claim for approximately \$142 million for alleged damages in relation to the placement on waste dumps of waste rock (unprocessed rock) from mining operations for the period from 2000 to 2011; (ii) a claim for approximately \$4 million for use of water resources from Petrov Lake for the period of 2000 to 2011; and (iii) a claim for approximately \$2.3 million for alleged damages caused to land resources, including in some cases from the time of initial construction of the Kumtor facilities in 1995. One Claim for \$2.8 million for waste placed in the tailings management facilities and for emissions for 2009-2011 was withdrawn after discussions with the applicable Kyrgyz regulatory authorities, although there are no assurances that further claims will not be issued on this matter. The claims reference the review of the Kumtor Project carried out by the environmental and technical working group of the State Commission. Kumtor disagrees with these claims and has responded to them in detail in writing to the relevant authority. While the Company believes that such claims are exaggerated or without merit, there can be no assurances that these claims will be successfully resolved in favour of the Company or that further claims will not be issued.

(C) Government Decree #34

The Kyrgyz Government received the State Commission Report on January 24, 2013 and issued a decree, Decree of the Kyrgyz Government dated January 24, 2013, #34 (“Decree #34”), accepting the State Commission Report and sending it to the Kyrgyz Parliament.

Pursuant to Decree 34, the Kyrgyz Government also established a working group to hold discussions on the revisions of terms governing the Kumtor Project, particularly on revisions to the tax regime and other matters identified in the State Commission Report.

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

(D) Parliamentary Review and Draft Resolution

On February 20, 2013, the Parliament of the Kyrgyz Republic debated the State Commission Report and discussed a draft resolution (the "Draft Resolution") that endorses the Report and calls on the Government to hold negotiations with Centerra with a view to revising the Kumtor Project Agreements in the interests of the Kyrgyz Republic. The Company understands that the Draft Resolution further recommends that if mutually advantageous terms cannot be agreed the Government should take a number of steps including the following:

- (i) annul the legislation enacted by Parliament in 2009 approving the Kumtor Project Agreements;
- (ii) terminate the Kumtor Project Agreements, including the Restated Investment Agreement and Restated Concession Agreement dated June 6, 2009;
- (iii) initiate legal proceedings with a view to implementing a Government decree of July 5, 2012 "On Cancellation of the Government's Decree on granting land plots to Kumtor Gold Company CJSC dated as of March 25, 2010. (Such March 25, 2010 decree granted Kumtor certain surface rights in relation to the project. See Centerra's news release dated July 6, 2012.);
- (iv) review Government decisions issued between 1992 and 2012 which granted areas for carrying out exploration, mining operations and construction of facilities for the Kumtor Project; and
- (v) develop and submit amendments to laws on biosphere territories and prevention of damage to glaciers.

In addition, the Draft Resolution advises the Government to:

- (i) ensure that the Kumtor mine remains in continuous operation;
- (ii) require Kumtor to develop additional designs for reclamation and determine relevant financial resources required to implement such designs; and
- (iii) ensure that the recommendations of the State Commission (the Report) and Draft Resolution are fulfilled.

The Draft Resolution also recommends that the Government review allegations that Kumtor has understated reserves of silver, tellurium and other elements.

The Draft Resolution calls for the Government to report on the fulfillment of the recommendations contained in the State Commission Report and the Parliamentary resolution by June 1, 2013. While it is not certain that Parliament will pass the Draft Resolution in its

current form, Centerra is reviewing the provisions of the Draft Resolution and will respond to any final Parliamentary resolution accordingly. However, as already stated in this news release, Centerra continues to be confident in the continued validity of the Kumtor Project Agreements, which provide for disputes concerning the project to be resolved by international arbitration.

Kyrgyz Republic Social Fund Dispute

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

For a further discussion regarding the Social Fund claim and the dispute for the 2010 taxation year regarding the payment of Social Fund contributions on the high altitude coefficient, please see the Company's Annual Information Form for 2011. There are no assurances that the Company and Kumtor will be able to resolve the outstanding matters relating to the Social Fund without any material impact on the Company's future cash flows, earnings, results of operations and financial condition.

Other

The Company is aware of certain statements made by the Kyrgyz Minister of Health and published on the Ministry's website indicating that Centerra has committed to certain donations related to the improvement of cardiology, cardiac surgery and hemodialysis care in the Kyrgyz Republic. While the Company is reviewing the appropriateness of this donation along with other possible donations in the Kyrgyz Republic, the Company has not yet made a determination thereon.

Mongolia

Gatsuurt and the Impact of the Mongolian Water and Forest Law

Further to information disclosed in Centerra's MD&A for the third quarter 2009 and Centerra's Annual Information Form for 2011, the Mongolian Parliament enacted in July 2009 the Mongolian Law to Prohibit Mineral Exploration and Mining Operations at River Headwaters, Protected Zones of Water Reservoirs and Forested Areas (the "Water and Forest Law") which prohibits mineral prospecting, exploration and mining in water basins and forestry areas in Mongolia. The law provides for a specific exemption for "mineral deposits of strategic importance", which exempts the Boroo hard rock deposit from the application of the law. Centerra's Gatsuurt licenses are currently not exempt. Under the Mineral Laws of Mongolia, Parliament on its own initiative or, on the recommendation of the Mongolian Government, may designate a mineral deposit as strategic. Such designation could result in Mongolia receiving up to a 34% interest in the applicable project.

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

As at December 31, 2012, the Company had net assets recorded amounting to approximately \$37 million related to the investment in Gatsuurt and approximately \$28 million remaining capitalized for the Boroo mill facility and other surface structures which are expected to be utilized for the processing of ore from Gatsuurt. Although the Company expects to exploit the Gatsuurt deposit, should this not be the case, the Company would be required to write-off these amounts. A revocation of the Company's mineral licenses, including the Gatsuurt mineral license, or the reclassification of mineral reserves or the write-off of assets could have an adverse impact on Centerra's future cash flows, earnings, results of operations or financial condition. For a further discussion relating to the Water and Forest Law, please see the Company's Annual Information Form for 2011.

The Boroo Heap Leach

Boroo received regulatory approval for the mine plan for the heap leach facility in September 2012. As a result, Boroo recommenced heap leach operations in the fourth quarter of 2012.

Corporate

Enforcement Notice by Sistem:

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

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

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

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

For a full discussion of risk factors that can have a material effect on the profitability, future cash flow, earnings, results of operations, stated mineral reserves and financial condition of the Company, please see “Caution Regarding Forward-looking Information”. For information regarding risk factors relevant to Centerra and its operations, please see “Risk Factors” in this document and the Company’s most recently filed Annual Information Form.

Critical Accounting Estimates

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

i. *Share-based Compensation*

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

ii. *Asset retirement obligation*

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

iii. *Ore reserve estimation*

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

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

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

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

v. *Impairment of long-term assets*

The Company reviews and tests the carrying amounts of long-term assets and intangible assets with definite lives when an indicator of impairment is considered to exist. The Company considers both external and internal sources of information in assessing whether there are any indications that long-term assets and goodwill are

impaired. When an indicator of impairment is identified or for goodwill annually at the anniversary date, an impairment test is performed by comparing the carrying amount of the asset or cash-generating unit to their recoverable amount, which is calculated as the higher of an asset's or cash-generating unit's value-in-use or fair value less costs to sell. The estimated recoverable amount is calculated normally based upon a discounted cash flow analysis, which requires management to make a number of significant assumptions including assumptions relating to future operating plans, gold prices, discount rates, exchange rates and future growth rates. While management believes that estimates of future cash flows are reasonable, different assumptions regarding such cash flows could materially affect the recoverable value of the long-term asset or CGU. Changes in these estimates which decrease the estimated recoverable value of the asset or CGU could affect the carrying amounts of assets and result in an impairment charge.

vi. *Deferred income taxes*

The Company operates in a number of tax jurisdictions and is, therefore, required to estimate its income taxes in each of these tax jurisdictions in preparing its financial statements. In calculating the income taxes, consideration is given to factors such as tax rates in the different jurisdictions, non-deductible expenses, valuation allowances, changes in tax law and management's expectations of future results. The Company estimates deferred income taxes based on temporary differences between the income and losses reported in its financial statements and its taxable income and losses as determined under the applicable tax laws. The tax effect of these temporary differences is recorded as deferred tax assets or liabilities in the financial statements. If it is not more likely than not that the deferred tax assets will be utilized, a valuation allowance is provided for. The calculation of income taxes requires the use of judgment and estimates. If these judgments and estimates prove to be inaccurate, future earnings may be materially impacted.

vii. *Inventories of stockpiles ore, in-circuit and Gold doré*

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

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

viii. Litigation and contingency

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

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

Changes in Accounting Policies

Future changes in accounting policies

Recently issued but not adopted accounting guidance are as follows:

IFRS 7 *Financial Instruments – Disclosures* (“IFRS 7”) was amended by the IASB in October 2010 and provides guidance on identifying transfers of financial assets and continuing involvement in transferred assets for disclosure purposes. The amendments introduce new disclosure requirements for transfers of financial assets including disclosures for financial assets that are not derecognized in their entirety, and for financial assets that are derecognized in their entirety but for which continuing involvement is retained. The Company intends to adopt IFRS 7 in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect IFRS 7 to have a material impact on its financial statements.

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

This standard is effective for the Company's annual year end beginning January 1, 2015 (as amended from January 1, 2013 by the IASB in December 2011). The Company will evaluate the impact of the change to its consolidated financial statements based on the characteristics of its financial instruments at the time of adoption.

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

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

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

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

IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine. The new interpretation clarifies when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods. It considers when and how to account separately for benefits arising from the stripping activity and how to measure these benefits both initially and subsequently. It prescribes that the costs of the stripping activity be accounted for in accordance with the principles of IAS 2 *Inventories* to the extent that the benefit from the stripping activity is realized in the form of inventory produced. On the other hand, the costs of the stripping activity which provides a benefit in the form of improved access to ore in future periods is recognized as a non-current 'stripping activity asset' when specified criteria are met. The Company intends to adopt IFRIC 20 in its financial statements for the annual period beginning on January 1, 2013. The impact of these changes on the Company’s financial statements is currently under review in preparation for the first quarter 2013 financial reporting.

Disclosure Controls and Procedures and Internal Control Over Financial Reporting

As of December 31, 2012, 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.

The Company's first Corporate Responsibility Report for its 2010 reporting year is available on the Company's website at www.centerragold.com.

2013 Outlook

Centerra's 2013 gold production and unit costs are forecast as follows:

	2013 Production Forecast (ounces of gold)	2013 Operating Cash Costs⁽¹⁾ (\$ per ounce produced)	2013 All-in Cash Costs⁽²⁾ (\$ per ounce produced)
Kumtor	550,000 – 600,000	\$342 – 373	\$853 – 931
Boroo	55,000 – 60,000	\$1,055 – 1,151	\$1,225 – 1,336
Consolidated	605,000 – 660,000	\$406 – 443	\$1,067 – 1,164

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

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

2013 Production:

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

In 2013, approximately 50% of Kumtor's gold production is expected to occur in the fourth quarter creating a potential variability to Kumtor's 2013 production guidance. Centerra estimates that the Kumtor mine will produce between 550,000 and 600,000 ounces in 2013. Ore production in the fourth quarter is planned to come from the high-grade SB Zone ore that has several years of production history. The high-grade ore from the SB Zone is only available for mining at the end of the third quarter when it is exposed by Cut Back 15.

At the Boroo mine, gold production is forecast to be approximately 55,000 to 60,000 ounces, which includes about 24,000 ounces from heap leaching and 36,000 ounces from processing mill stockpiles. The Boroo mill is expected to process ore stockpiles during the year with an average grade of 0.82 g/t. The 2013 forecast assumes no mining activities at Boroo and Gatsuurt, and no gold production from Gatsuurt.

All-in Unit Cash Costs:

Centerra's 2013 all-in unit cash production costs per ounce are forecast as follows:

	Kumtor	Boroo	Consolidated
	(\$ per ounce produced)	(\$ per ounce produced)	(\$ per ounce produced)
Operating cash costs ¹	\$342 – 373	\$1,055 – 1,151	\$406 – 443
Capitalized stripping costs - cash	354 – 386	-	322 – 351
Operating cash and stripping costs	\$696 – 759	\$1,055 – 1,151	\$728 – 794
Sustaining capital (cash)	105 – 115	170 – 185	113 – 124
Growth capital (cash)	52 – 57	-	49 – 53
Operating cash costs including capital	\$853 – 931	\$1,225 – 1,336	\$890 – 971
Corporate and other cash costs ²	-	-	177 – 193
All-in cash costs –(pre-tax)¹	\$853 – 931	\$1,225 – 1,336	\$1,067 – 1,164
Revenue-based tax and income tax	\$234 – 255	\$130 – 142	\$224 – 245
Total All-in cash costs including taxes¹	\$1,087 – 1,186	\$1,355 – 1,478	\$1,291 – 1,409

1. Operating cash costs, all-in cash costs (pre-tax) and total all-in cash costs including taxes per ounce produced are non-GAAP measures and are discussed under "Non-GAAP Measures".
2. Corporate and other cash costs per ounce produced include corporate general and administrative expenses, global exploration expenses, and community investments.

2013 Exploration Expenditures:

Exploration expenditures of \$45 million are planned for 2013, which is unchanged from the budgeted expenditures for 2012. The 2013 program will continue the successful exploration work below and west of the Central Pit at the Kumtor mine and includes drilling on the adjacent Sarytor and Northeast satellite deposits. Planned exploration expenditures on the

Kumtor concession are expected to be about \$13.5 million.

In Mongolia, approximately \$7 million is allocated for exploration programs that will focus on expanding the mineral resource at the Altan Tsagaan Ovoo (“ATO”) project and evaluating targets in the greater ATO district.

Exploration spending in Turkey will increase to approximately \$8 million as work focuses on expanding and upgrading the Öksüt gold deposit resource, advancing on-going metallurgical test work and initiating detailed environmental and technical project studies.

In 2013, drilling programs will continue in Russia on the Kara Beldyr and Dvoinoy Joint Ventures and commence on the new Umlekan Joint Venture adjoining Dvoinoy. Expenditures for the projects in Russia are expected to be, in the aggregate, approximately \$6 million.

The China 2013 exploration program of \$2 million includes the drilling of targets developed on the Laogouxi Joint Venture project and generating new projects in several prospective areas. Generative programs will continue in Central Asia, Russia, China, Turkey and several new regions to increase the pipeline of projects that the Company is developing to meet the longer term growth targets of Centerra.

2013 Capital Expenditures

Centerra’s capital expenditures for 2013, excluding capitalized stripping, are estimated to be \$107 million, including \$75 million of sustaining capital and \$32 million of growth capital.

Capital expenditures (excluding capitalized stripping) include:

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

Kumtor

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

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

Capitalized stripping costs related to the development of the open pit are expected to be \$212 million (cash) in 2013.

Mongolia (Boroo and Gatsuurt)

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

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

2013 Corporate Administration and Community Investment

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

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

2013 Depreciation, Depletion and Amortization

Depreciation, depletion and amortization expenses included in costs of sales expense for 2013 are forecast to be approximately \$218 million. Changes in DD&A are a result of increases or decreases to certain of the Company's capital assets. Refer to the Company's 2012 Audited Financial Statements note 10 for further details on the related capital assets.

<i>(In millions)</i>	2013 DD&A Forecast (Unaudited)	2012 DD&A Actual	2011 DD&A Actual
Kumtor			
Mine equipment	\$95	\$ 87	\$ 69
Less DD&A capitalized to stripping costs ⁽¹⁾	(77)	(59)	(14)
Capital stripping costs amortized	291	117	32
Other mining assets	1	1	5
Mill assets	6	4	8
Administration assets and other	12	3	10
Inventory movement (non-cash depreciation)	(127)	(32)	(22)
Subtotal for Kumtor	\$ 201	\$ 121	\$ 88
Boroo			
Mine equipment	\$ 1	\$ 1	\$ 2
Less DD&A capitalized to stripping costs	-	(1)	-
Stripping costs amortized	2	9	-
Mine development and other mining assets	1	1	1
Mill assets	6	4	1
Administration assets and other	6	8	3
Inventory movement (non-cash depreciation)	1	(1)	4
Subtotal for Boroo	\$ 17	\$ 21	\$ 10
Consolidated Total	\$ 218	\$ 142	\$ 99

(1) Use of the Company's mining fleet for stripping activities results in a portion of the depreciation related to the mine fleet to be allocated to capitalized stripping costs. In 2012, \$2 million of depreciation was expensed as mine standby costs, \$7 million of depreciation was expensed as abnormal ice unload costs, and \$51 million of depreciation was allocated to capitalized stripping costs.

Kumtor

At Kumtor, the forecast for 2013 DD&A expensed as part of costs of sales is \$201 million. The increase over the three years reflects a significant expansion of the mining fleet in order to achieve higher throughput levels of materials moved and the increased stripping of waste required to access the deposit. The amortization of capitalized stripping costs is the largest component of depreciation expense in 2013 totaling \$291 million. The mine equipment assets are depreciated on a straight-line basis over their estimated useful lives. The depreciation expense related to mine equipment engaged in a stripping campaign is capitalized as stripping costs (\$77 million forecasted to be capitalized as stripping costs in 2013).

During 2013 Kumtor will be mining the remaining ore from cut-backs 14A and 14B and begin stripping campaigns on cut-backs 15, 16 and 17. The costs to remove waste and ice within the various cut-backs include mining operating costs such as labour, diesel and maintenance costs, as well as the depreciation expense for the mine equipment used in the stripping campaign. Labour and consumables costs (such as diesel costs) have been steadily increasing over the last several years due to both increases in price and demand with the expanding operation at Kumtor. These costs are capitalized as stripping costs and amortized over the ounces contained in the ore body exposed by the stripping campaign.

Based on the sequencing of production at Kumtor for 2013, ore from cut-backs 14A, 14B and 15 will be mined resulting in the amortization through cost of sales of \$291 million in capitalized pre-stripping costs. As Kumtor completes mining of the ore from cut-backs 14A and 14B, it will amortize the remaining unamortized capitalized stripping costs of \$101 million related to those cut-backs. The forecast assumes that the stripping campaign for cut-back 15 is completed in the third quarter of 2013 providing access to the ore in the third and fourth quarters. As the ore in cut-back 15 is mined in the third and fourth quarters, the amortization expense for 2013 for the capitalized stripping costs related to cut-back 15 is forecast at \$190 million.

Boroo

At Boroo, the forecast for 2013 DD&A expensed as part of costs of sales is \$17 million, compared to \$21 million in 2012 and \$10 million in 2011. The decrease in 2013 reflects the completion of mining activities in Pit 6 in 2012. The largest components of depreciation expense are related to depreciation of the mill, the administration buildings and other assets forecasted at \$6 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 in 2009.

The corporate income tax rate for Centerra's Mongolian subsidiary, BGC is 25% for taxable income over 3 billion Mongolian tugriks (approximately \$2.2 million at the 2012 year-end foreign exchange rate) with a tax rate of 10% for taxable income up to that amount. These tax rates will continue to apply until the expiry of the Boroo Stability Agreement in July 2013, after which Boroo's operations will be subject to a prevailing income tax rate of 25%. Royalty fees will increase from 5% under Boroo's Stability Agreement to the current graduated royalty fee structure which would charge the maximum of 10% based on current gold prices.

Sensitivities:

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

	Change	Impact on			
		(\$ millions)			
		Costs	Revenues	Cash flow	Earnings before income tax
Gold Price	\$50/oz	5.1	32.5	27.4	27.4
Diesel Fuel ⁽¹⁾	10%	8.2	-	8.2	8.2
Kyrgyz som ⁽²⁾	1 som	2.8	-	2.8	2.8
Mongolian tugrik ⁽²⁾	25 tugrik	1.3	-	1.3	1.3
Canadian dollar ⁽²⁾	10 cents	3.2	-	3.2	3.2

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

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

Material Assumptions & Risks:

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

- a gold price of \$1,700 per ounce,
- exchange rates:
 - \$1USD:\$0.99 CAD
 - \$1USD:47.0 Kyrgyz som
 - \$1USD:1,375 Mongolian tugriks
 - \$1USD:0.78 Euro
- diesel fuel price assumption:
 - \$0.80/litre at Kumtor
 - \$1.18/litre at Boroo

The assumed diesel price of \$0.80/litre at Kumtor assumes that no Russian export duty will be paid on the fuel exports from Russia to the Kyrgyz Republic. Diesel fuel is sourced from separate Russian suppliers for both sites and only loosely correlates with world oil prices. The diesel fuel price assumptions were made when the price of oil was approximately \$87 per barrel.

Other material assumptions include the following:

- any recurrence of political or civil unrest in the Kyrgyz Republic will not impact operations, including movement of people, supplies and gold shipments to and from the Kumtor mine. No assurances can be given by the Company in this regard,

- the activities of the State Commission, referred to under the heading “Other Corporate Developments – Kyrgyz Republic - State Commission Activities” do not have an impact on operations or financial results. No assurances can be given by the Company in this regard,
- the Government and the Parliament of the Kyrgyz Republic taking no action in connection with the matters referred to under the heading “Other Corporate Developments – Kyrgyz Republic State Commission Activities” that has an impact on operations or financial results. This includes the Parliament adopting the Draft Resolution referred to therein, and the Government (or a working group formed by the Government) seeking to negotiate the Kumtor Project Agreements, and taking the steps referred to in the Parliamentary Draft Resolution if such negotiations are not successful, including repealing laws passed in 2009 approving the Kumtor Project Agreements and terminating the Kumtor Project Agreements. No assurances can be given by the Company in this regard,
- the previously disclosed environmental claims received from the Kyrgyz regulatory authorities in the amount of \$152 million, in aggregate, and any further claims that may result from the State Commission, are resolved without material impact on Centerra’s operations or financial results. No assurances can be given by the Company in this regard,
- grades and recoveries at Kumtor will remain consistent with the life-of-mine plan to achieve the forecast gold production,
- the Company is able to manage the risks associated with the increased height of the pit walls at Kumtor over the life-of-mine,
- the design of the new and expanded waste dumps (contemplated by the new KS-13 life-of-mine plan) at Kumtor adequately address the risks associated with size and stability,
- the dewatering program at Kumtor continues to produce the expected results and the water management system works as planned,
- the Company is able to satisfactorily manage the ice movement and to unload the ice and waste in the southeast portion of the Kumtor pit,
- prices of key consumables are not significantly higher than prices assumed in planning,
- no unplanned delays in or interruption of scheduled production from our mines, including due to civil unrest, natural phenomena, regulatory or political disputes, equipment breakdown or other developmental and operational risks,
- the Mongolian legislation which prohibits mineral prospecting, exploration and mining in water basins and forest areas in Mongolia (the “Water and Forest Law”) will be amended or repealed to allow Gatsuert to proceed as planned, (see Company’s most recently filed AIF),
- the royalty paid by Boroo increases to 10% after the Boroo stability agreement expires in July 2013 and the current 25% income tax rate remains unchanged, and
- all necessary permits, licenses and approvals are received in a timely manner.

Production and cost forecasts and capital estimates are forward-looking information and are based on key assumptions and subject to material risk factors. If any event arising from these risks occurs, the Company’s business, prospects, financial condition, results of operations or cash flows and the market price of Centerra’s shares could be adversely affected. Additional risks and uncertainties not currently known to the Company, or that are currently deemed immaterial, may also materially and adversely affect the Company’s business operations, prospects, financial condition, results of operations or cash flows and the market price of Centerra’s shares. See the section entitled “Risk Factors” in this discussion and also the Risk

Factors listed in the Company's most recently filed Annual Information Form (the "2011 Annual Information Form"), available on SEDAR at www.sedar.com and see also the discussion below under the heading "Caution Regarding Forward-looking Information".

Qualified Person & QA/QC

All exploration information and related scientific and technical information in this MD&A were prepared in accordance with the standards of the Canadian Institute of Mining, Metallurgy and Petroleum and National Instrument 43-101 – *Standards of Disclosure for Mineral Projects* ("NI 43-101") and were prepared, reviewed, verified and compiled by Centerra's geological and mining staff under the supervision of David Groves, Certified Professional Geologist, Centerra's Vice President, Global Exploration, who is the qualified person for the purpose of NI 43-101. Sample preparation, analytical techniques, laboratories used and quality assurance-quality control protocols used during the exploration drilling programs are done consistent with industry standards and independent certified assay labs are used with the exception of the Kumtor project as described in its technical report filed on December 20th, 2012, with an effective date of September 30, 2012 (the "Kumtor Technical Report").

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

The Kumtor deposit is described in Centerra's most recently filed AIF and a technical report dated December 20, 2012 prepared in accordance with NI 43-101. The technical report has been filed on SEDAR at www.sedar.com. The 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 are described in the technical report.

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

The Gatsuurt deposit is described in the Company's most recently filed AIF and in a technical report dated May 9, 2006 prepared in accordance with NI 43-101. The technical report has

been filed on SEDAR at www.sedar.com. The technical report describes the exploration history, geology and style of gold mineralization at the Gatsuurt deposit. Sample preparation, analytical techniques, laboratories used and quality assurance-quality control protocols used during the drilling programs at the Gatsuurt project are the same as, or similar to, those described in the technical report.

Risk Factors

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

Political and Regulatory

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 mineral 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. 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 certificate of temporary land use in relation to its concession area around the Kumtor project, which was issued in 2010 and then purported to have been cancelled in 2012, and permits and concessions to begin mining activities at Gatsuurt), changes in laws or government regulations or shifts in political attitudes beyond Centerra's control.

The Company does not currently have political risk insurance covering its investments in the Kyrgyz Republic nor in Mongolia. The political risk insurance policy that covered the Company's investments in the Kyrgyz Republic expired in November, 2012. From time to time, Centerra assesses the costs and benefits of maintaining such insurance. Recent increases in the political risk in the Kyrgyz Republic combined with adverse insurance market conditions for political risk insurance for this region resulted in conditions whereby continuing political risk insurance coverage was not feasible. There can be no assurance that political risk 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 any insurance that it may obtain in the future. Any such 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.

Resource nationalism could adversely impact Centerra's business

As governments continue to struggle with deficits and concerns over the effects of depressed economies, the continuing strength in commodity prices has resulted in companies in the mining and metals sector being targeted to raise government revenue. Governments are continually assessing the fiscal terms of the economic rent for mining companies to exploit resources in their countries. Numerous countries, including the Kyrgyz Republic and Mongolia, have in the past introduced changes to their respective mining regimes that reflect increased government control or participation in the mining sector, including, but not limited to, changes of law affecting foreign ownership, mandatory government participation, taxation and royalties, working conditions, exchange rates, exchange controls, exploration licensing, export and import duties, repatriation of income or return of capital, environmental protection, as well as requirements for employment of local staff or contractors or other benefits to be provided to local residents.

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.

The Kumtor project has, in the past year, been threatened with nationalization. During 2012, a Parliamentary Commission proposed to the Kyrgyz Parliament a Draft Decree which called for the cancellation of the current Kumtor project agreements and the creation of a new state-owned Kyrgyz Republic entity to assume control over Kumtor. If the Draft Decree had been approved and given full effect by the Kyrgyz Government, it would have, in substance, resulted in the nationalization of Kumtor. In late June 2012, the Kyrgyz Parliament met to consider the Parliamentary Report from the Parliamentary Commission, but voted against the Draft Decree and instead adopted an alternative resolution (2117-V). See below for further discussion on Resolution 2117-V. Although the Draft Decree was not adopted by the Kyrgyz Parliament, there can be no assurance that subsequent resolutions will be brought before, or adopted by, the Kyrgyz Parliament to nationalize Kumtor.

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

Mining operations and exploration activities are subject to extensive laws and regulations, both in the countries where mining operations and exploration 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 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 and its ability to achieve operating and development targets.

The Kyrgyz Government and Parliament may take actions in connection with the State Commission Report

On February 15, 2012, the Kyrgyz Parliament established an interim Parliamentary Commission to inspect and review: (i) Kumtor's compliance with Kyrgyz operational and environmental laws, as well as community standards, and (ii) state regulation over the Kumtor project's activities.

The Parliamentary Commission issued a Parliamentary Report on June 18, 2012 and made a number of assertions regarding the operation of the Kumtor project, including:

- challenging the legal validity of the project agreements that govern the Kumtor project (the "Kumtor Project Agreements");
- alleging non-compliance by Kumtor with Kyrgyz environmental and other laws, particularly at Kumtor's tailings facility, the Davidov glacier and the Sarychat-Ertash State Reserve which is in the vicinity of the Kumtor project. The Parliamentary Commission alleges that the violations have resulted in substantial monetary damages; and
- alleging inefficient or improper management of Kumtor, particularly with respect to customs practices, tax and Social Fund payments, operational decisions, procurement practices and mill efficiencies (gold recoveries), the latter of which is alleged by the Parliamentary Commission to result in very substantial losses.

The Kyrgyz Parliament met in late June 2012 to consider the Parliamentary Report and adopted Resolution 2117-V, which took note of the Parliamentary Report and declared the current Kumtor Project Agreements to be contrary to the interests of the Kyrgyz Republic. Resolution 2117-V also: (i) called for the formation of a state commission to "assess the

environmental, industrial and social damage” caused by the Kumtor project and to initiate the renegotiation of the current Kumtor Project Agreements “in order to protect economic and environmental interests”; (ii) called for the cancellation of various government decrees and orders, including Government Decree #168 dated March 25, 2010 which provided land use rights over the surface of the Kumtor concession area; and (iii) recommended that the State Agency for Geology and Mineral Resources cancel certain licenses granted to Kumtor, including the exploration license for the Koendy licensed area.

In response to Resolution 2117-V, the Kyrgyz Government established a state commission (the State Commission) for the purpose of reviewing the Parliamentary Report as well as inspecting and reviewing Kumtor’s compliance with Kyrgyz operational and environmental laws and community standards. The State Commission is comprised of three working groups with responsibility for environmental and mining matters, legal matters (including a review of all prior and current agreements relating to the Kumtor project) and socio-economic matters (including a review of financial, taxation, procurement and employment related issues). Since its formation on July 3, 2012, the State Commission’s working groups have visited the Kumtor mine site and made numerous requests for information on a wide variety of matters. The State Commission was provided with an extension until mid-November 2012 to complete its review and produce a report.

In December 2012, the State Commission issued its final report (the “State Commission Report”), which included a large number of allegations in regard to prior transactions relating to the Kumtor Project and the Kumtor Project’s operations and management, including

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

The State Commission Report recommends that the Kyrgyz Government open negotiations under which the Kumtor Project is governed, including requiring Kumtor to accept the current tax regime and pay higher environmental charges; changes in the management of Kumtor and Centerra including greater representation by Kyrgyzaltyn on the Centerra board of directors and greater representation of Kyrgyz citizens in management of the Kumtor Project; and recommendations for additional charges and fees to be paid by the Kumtor Project including for land use, and for those items raised by SIETS. See “Other Corporate Developments – Kyrgyz Republic – State Commission Activities – Kumtor Has Received Claims from Kyrgyz Authorities for Alleged Environmental Violations”.

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

On February 20, 2013, the Parliament of the Kyrgyz Republic debated the State Commission Report and discussed a draft resolution (the “Draft Resolution”) that endorses the State Commission Report and calls on the Government to hold negotiations with Centerra with a view to revising the Kumtor Project Agreements in the interests of the Kyrgyz Republic. The Company understands that the Draft Resolution further recommends that if mutually advantageous terms cannot be agreed, the Government should take a number of steps including the following:

- (i) annul the legislation enacted by Parliament in 2009 approving the Kumtor Project Agreements;
- (ii) terminate the Kumtor Project Agreements, including the Restated Investment Agreement and Restated Concession Agreement dated June 6, 2009;
- (iii) initiate legal proceedings with a view to implementing a Government decree of July 5, 2012 “On Cancellation of the Government’s Decree on granting land plots to Kumtor Gold Company CJSC dated as of March 25, 2010. (Such March 25, 2010 decree granted Kumtor certain surface rights in relation to the project. See Centerra’s news release dated July 6, 2012.);
- (iv) review Government decisions issued between 1992 and 2012 which granted areas for carrying out exploration, mining operations and construction of facilities for the Kumtor Project; and
- (v) develop and submit amendments to laws on biosphere territories and prevention of damage to glaciers.

The Draft Resolution also recommends that the Government review allegations that Kumtor has understated reserves of silver, tellurium and other elements.

The Draft Resolution calls for the Government to report on the fulfillment of the recommendations contained in the State Commission Report and the Parliamentary resolution by June 1, 2013. While it is not certain that Parliament will pass the Draft Resolution in its current form, Centerra is reviewing the provisions of the Draft Resolution and will respond to any final Parliamentary resolution accordingly.

While Centerra believes that the findings of the State Commission Report are without merit and that the Kumtor Project Agreements between Centerra and the Kyrgyz Republic are legal, valid and enforceable obligations, there can be no assurance that the Company will be able to successfully resolve any or all of these matters currently affecting the Kumtor Project. There can also be no assurances that the Kyrgyz Republic Government and/or Parliament will not take actions that are inconsistent with the Kyrgyz Republic obligations under the Kumtor Project Agreements or cancel government decrees, orders or licenses under which Kumtor currently operates. Any such actions could have a material adverse impact on the Company’s future cash flows, earnings, results of operations and financial condition.

See “Other Corporate Developments – Kyrgyz Republic – State Commission Activities” for additional information regarding the State Commission.

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

As contemplated in Resolution 2117-V, on July 5, 2012 the Kyrgyz Government cancelled Government Decree #168, which provided Kumtor with land use rights over the surface of the Kumtor concession area for the duration of the Restated Concession Agreement. A related land use certificate issued by the local land office was also cancelled.

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

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

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

In July 2009, the Mongolian Parliament passed the Water and Forest Law, which would have the effect of revoking any issued 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 including the ARO licenses are currently not so exempt.

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

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

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

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

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

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 \$900 per ounce. For any increase of \$100 to the price of gold, there is a corresponding 1% increase to the royalty fee. Accordingly, at \$900 per ounce, the royalty fee increases to 6%, at \$1,000 per ounce, the royalty increases to 7%, at \$1,100 per ounce, the royalty increases to 8%, and at \$1,200, the royalty increases to 9%. The highest royalty fee rate is 10% when the price of gold is \$1,300 per ounce and above. The graduated royalty became effective as of January 1, 2011 for all mining projects in Mongolia. 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 direct the Mongolian Government to enter into negotiations to have the graduated royalty structure apply to business entities that have already entered into a stability agreement and/or an investment agreement. This would include the Company's Boroo project 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 (which remains in effect until July 2013) affords Boroo protection against the new laws described above (until July 2013), but Centerra's Gatsuurt project and its ATO deposit do not have any such benefits.

Centerra was previously in discussions with the Government of Mongolia to obtain an investment agreement for the development and mining of the Gatsuurt project which would stabilize the tax regime applicable to Gatsuurt, and including whether such new mineral laws will apply to Gatsuurt. However, in April 2010, the MMRE indicated to 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 if the Water and Forest Law matters were 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.

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 mineral reserves and financial conditions.

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

On June 12, 2009, the main operating licenses at the Company's Boroo project were suspended by the MRAM following extensive inspections of the Boroo mine operation conducted by the SSIA. In its report, the SSIA expressed its view that a number of deficiencies existed at the Boroo project. After discussions with both the MRAM and the SSIA, the suspension of the operating licenses was lifted on July 27, 2009. Despite the lifting of the suspension, several issues arising from the inspections continue to be discussed by Centerra and the Mongolian regulatory authorities. In January 2012, these issues were resolved and Centerra paid a settlement of approximately \$2.6 million in response to claims for compensation received by the SSIA.

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

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

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

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 project, and in Mongolia, where it operates the Boroo project, and has a 100% interest in the both the Gatsuurt, ATO and Ulaan Bulag exploration and development properties. Local regulatory regimes in the Kyrgyz Republic and Mongolia may be influenced by increased local community concern in respect of the environmental footprint of mining operations as well as concerns over the management of water resources.

If the environmental laws and regulations relating to 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.

See "Other Corporate Developments – Kyrgyz Republic - State Commission Activities" for recent environmental claims in respect of the Kumtor Project.

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

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

Mining activities at Gatsuurt is subject to Centerra obtaining from the Government of Mongolia the necessary permits and commissions. There are no assurances that the Mongolian Government will grant such permits and commissions to 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, 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.

OPERATIONAL

Centerra may experience further ground movements at the Kumtor project

On July 8, 2002, a highwall ground movement at the Kumtor project resulted in the death of one of 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 highwall in the Central pit. Deformation cracks in the waste rock above the till focused attention on wall instability seated in the glacial till between the waste dumps and the underlying bedrock. Drilling has indicated that further push backs of the Central pit will encounter unfrozen, water saturated till. The outer face of the till is frozen and hence the water behind the slope face is pressurized. 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.

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 mineral 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 mineral 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 project

Continued movement of waste and ice from the South East Ice Wall into the Kumtor Central pit above the high grade SB Zone section requires the mining of ice and waste to maintain Centerra's planned production of ore. While management has developed a plan to manage this movement (which plans have seen positive results in 2011 and in 2012), there is no guarantee that these efforts will avert further negative impact on the Company's expected production, costs and earnings.

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

Although extensive efforts are being employed by Centerra to manage further waste and ice movements, there is no guarantee that such efforts will be successful or that further waste and ice movements will not adversely affect operations at the Kumtor project. Future movements could result in a significant interruption of operations or impede access to ore deposits. Centerra may also experience a loss of mineral reserves or a material increase in costs if it is necessary to redesign the open pit and surrounding infrastructure as a result of waste and ice movements. The consequences of further 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 mineral 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's future exploration and development activities may not be successful

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

Centerra's ability to sustain or increase present levels of gold production is dependent on the successful acquisition or discovery and development of new orebodies and/or expansion of existing mining operations. The economic feasibility of development projects is based upon many factors, including the accuracy of mineral reserve estimates; metallurgical recoveries; capital and operating costs; government regulations relating to prices, taxes, royalties, land

tenure, land use, importing and exporting and environmental protection; and gold prices, which are highly volatile. Development projects are also subject to the successful completion of feasibility studies, issuance of necessary governmental permits and availability of adequate financing.

Development projects have no operating history upon which to base estimates of future cash flow. Estimates of proven and probable mineral reserves and cash operating costs are, to a large extent, based upon detailed geological and engineering analysis. 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.

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;
- supply chain disruptions;
- 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.

Centerra may not be adequately insured for certain risks

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

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 may experience mechanical breakdowns

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

In the past, Centerra has experienced such mechanical breakdowns. In February 2008, an unplanned shutdown of the ball mill at Kumtor was required to temporarily repair the ring gear which had failed. The repair was completed in late March 2008 and the ball mill returned to full operation. A new gear was ordered from the original supplier of the mill. In order to limit the impact which a shut-down would have 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 breakdown of the girth gear with the failure of two teeth. A spare girth gear was installed immediately. A replacement for the damaged quadrant of the girth gear was manufactured and returned to Kumtor stock in October 2010.

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

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

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

The Kumtor tailings dam design is currently approved by the Kyrgyz authorities to elevation 3,670.5 metres. The dam crest is presently at elevation 3,664 metres. Kumtor is required to apply and obtain permits from the Kyrgyz Government from time to time to address interim raising and construction activities. The next tailings dam raising is scheduled for 2013.

In addition, the currently permitted tailings management facility does not have sufficient capacity to store the entire approximate 93 million tonnes of ore to be processed in the current

life-of-mine plan. The capacity shortfall of approximately 50 million tonnes of ore or 33 million cubic metres of tailings will require further raising of the existing tailings dam beyond the 3,670.5 elevation, or the construction of an additional tailings facility to be completed prior to 2020.

While 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 project may occur, which may have an adverse impact on Centerra's future cash flows, earnings, results of operations or financial condition.

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's mineral reserves may not be replaced

The Kumtor and Boroo projects are currently Centerra's only sources of gold production. Based on the current life-of-mine plan, Kumtor will be depleted by 2023, with milling operations concluding in 2026. At Boroo, mining ceased as of the end of November 2010, and at the current reserve gold price assumption of US\$1,350 per ounce, the Boroo operation can continue to feed the mill from stockpiles for approximately 2 more years and operate and recover gold from the heap leach through 2014.

If Centerra's existing mineral reserves (including mineral reserves at the Gatsuert 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 Kumtor, as well as to develop and mine the Gatsuert and ATO deposits in Mongolia, there can be no assurance that these programs will be successful.

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

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

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

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

The areas surrounding both Centerra's Kumtor project and Boroo project 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, each of Kumtor and Boroo use 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 project has been restricted on several occasions by illegal roadblocks.

Centerra's operations may be impacted by supply chain disruptions

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

Illegal mining has occurred and may continue to occur, on Centerra's Mongolian properties

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 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 faces substantial decommissioning and reclamation costs

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'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. Further, the uncertainty surrounding Centerra's ability to develop the Gatsuurt deposit and prolong operations in Mongolia has increased the risk of personnel departures. This risk is heightened by the increased presence of new companies in the country seeking qualified personnel.

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 mineral 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.

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. 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. This may be particularly the case when we are not operating the joint venture. 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.

FINANCIAL

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 production costs of any of Centerra's mining operations for a sustained period, losses would be sustained, and, under certain circumstances, there may be a curtailment or suspension of some or all of 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 mineral reserves and resources. These factors could have an adverse impact on Centerra's future cash flows, earnings, results of operations, stated mineral reserves and financial condition.

Centerra's mineral reserve and resource estimates may be imprecise

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

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

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

If Centerra's mineral 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 mineral reserve estimates; the accuracy of assumptions regarding ground conditions and physical characteristics of ores, such as hardness and presence or absence of particular metallurgical characteristics; 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.

Centerra's estimates on production and costs are, where applicable, based on historical costs and productivity experience. Despite this, actual production and costs may vary from estimates for a variety of reasons, including actual ore mined varying from estimates of grade, tonnage, dilution and metallurgical and other characteristics; short-term operating factors relating to the ore reserves, such as the need for sequential development of orebodies and the processing of new or different ore grades; risks and hazards associated with mining; natural phenomena, such as inclement weather conditions, floods, earthquakes, pit wall failures and cave-ins; and unexpected labour shortages or strikes, and civil action. 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.

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

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 to the extent required to repay those borrowings.

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 in the future.

Volatile gold markets and/or capital markets, reduced global financial liquidity, and increased restrictions on capital reserves of financial institutions, may make it difficult or impossible for 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. 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.

Global financial conditions

The financial crisis which began in the latter part of 2007 has resulted in global financial conditions which are characterized by continued high volatility, and financial institutions are still recovering from significant losses. Access to public financing and bank credit has been negatively impacted by both the rapid decline in value of sub-prime mortgages and the resulting liquidity crisis as financial institutions saw their balance sheet impaired. Notwithstanding some improvement in the financial health of major financial institutions, 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. These factors may also increase the Company's exposure to financial counterparty risk. If such increased levels of volatility and market turmoil continue, or if more extensive disruptions of the global financial markets occur, 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, Canadian dollars, Euros and other currencies. Fluctuations in exchange rates between the U.S. dollar and other currencies may give rise to foreign exchange currency exposures, both favourable and unfavourable, which may materially impact Centerra's future financial results. Although Centerra from time to time enters into short-term forward contracts to purchase Canadian dollars and Euros, 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 instruments. 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 heightened risk in holding some of these investments. There can be no guarantee that further market disruptions affecting various short-term investments or the potential failure of financial institutions will not have a negative effect on the liquidity of investments made by the Company.

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 in Canada; 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 its 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.

ENVIRONMENT, HEALTH AND SAFETY

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 activities, 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.

The Kumtor project is subject to significant claims of environmental damage

In December 2012, Centerra received five claims from SEITS, the State Inspectorate Office for Environmental and Technical Safety under the Government of the Kyrgyz Republic, relating to alleged environmental damages at the Kumtor project. The claims are for an aggregate amount of approximately \$152 million and include:

- a claim for approximately \$142 million for alleged damages in relation to the placement on waste dumps of waste rock from mining operations (2000 to date)
- a claim for approximately \$4 million for use of water resources for the period of 2000 to date
- a claim for approximately \$2.8 million for waste placed in the tailings management facility and for emissions for 2009-2011, which claim has since been withdrawn; and
- a claim for approximately \$2.3 million for alleged damages caused to land resources at the time of initial construction of Kumtor.

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

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

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

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

Should sodium cyanide escape from the leach pad and collection infrastructure at Boroo, otherwise be detected in the downstream surface and ground water points, or be spilled during

transport, Centerra may become subject to liability for remediation costs, which could be significant and may not be insured against. In addition, production could be delayed or halted to allow for remediation, resulting in a reduction or loss of cash flow for the Company. While Centerra takes appropriate steps to prevent discharges and spills of sodium cyanide and other hazardous materials into the ground water, surface water and the downstream environment, there is inherent risk in the operation of leach pads and there can be no assurance that a release of hazardous materials will not occur.

LEGAL AND OTHER

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 the proceeding commenced by Sistem, 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 categories of damage, such liability may be material to the Company and may materially adversely affect its ability to continue operations.

In the proceeding commenced by Sistem, for example, Sistem is seeking to collect approximately US\$11.1 million (plus interest) owed to it by the Kyrgyz Republic, by looking to enforce against the shares of Centerra held by Kyrgyzaltyn. See “Other Corporate Developments – Corporate Matters”.

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 July 5, 2012, the Kyrgyz Government cancelled Government Decree #168, which provided Kumtor with land use (surface) rights over the Kumtor Concession Area for the duration of the Restated Concession Agreement. At the same time, the related land use certificate issued by the local land office was also cancelled. Based on advice from Kyrgyz legal counsel, Centerra believes that the purported cancellation of our land use rights is in violation of the Kyrgyz Republic Land Code, because the Land Code provides that land rights can only be terminated by court decision and on the listed grounds set out in the Land Code. To the extent that the land use rights are considered invalid (which we do not accept), the Company would seek to enforce its rights under the Restated Investment Agreement to obtain the reissuance of its land use rights, which are guaranteed pursuant to the Restated Investment Agreement.

On December 6, 2006, Gatsuurt LLC commenced arbitration before the Mongolian National Arbitration Court (“MNAC”) alleging non-compliance by 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.

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.

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

Centerra's largest shareholder is Kyrgyzaltyn, which is a state-owned entity, 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, through its ownership and control of Kyrgyzaltyn, will not use its influence to materially change the direction of the Company. This concentration of ownership may have the effect of delaying or preventing a change in control of Centerra, which may deprive 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.

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 successful resolution of matters in the Kyrgyz Republic relating to the State Commission Report, including discussions with the Government working group formed to open negotiations on the Kumtor Project Agreements, the Kyrgyz Republic Parliament consideration of the Draft Resolution referred to under the heading “Other Corporate Developments – Kyrgyz Republic – State Commission Activities – Parliament Review and Draft Resolution”, the resolution of environmental claims for the aggregate amount of \$152 million; statements made under the heading, “Gold Industry, Key Economics and Recent Market Uncertainty” regarding expectations in the gold industry, investor demand, and global financial markets; statements made under the heading “Outlook for 2013”, including the Company’s future production, estimates of cash operating costs and all-in unit cash costs, exploration expenditures and the success thereof, capital expenditures; mining plans at each of the Company’s operations; the continued success with the management of the ice, waste and water movements at Kumtor; the outcome of discussions with the new Mongolian government on the way forward for the Company’s Gatsuurt deposit, the impact of the Water and Forest Law on the Company’s Mongolian activities; the Company’s business and political environment and business prospects; and the timing and development of new deposits.

Forward-looking information is necessarily based upon a number of estimates and assumptions that, while considered reasonable by Centerra, are inherently subject to significant political, business, economic and competitive uncertainties and contingencies. Known and unknown factors could cause actual results to differ materially from those projected in the forward looking information. Material assumptions used to forecast production and costs include those described under the heading “2013 Outlook”. Factors that could cause actual results or events to differ materially from current expectations include, among other things: (A) political and regulatory risks, including the political risks associated with the Company’s principal operations in the Kyrgyz Republic and Mongolia, resource nationalism, the impact of changes in, or to the more aggressive enforcement of, laws, regulations and government practices in the jurisdictions in which the Company operates, the impact of any actions taken by the Kyrgyz Republic Government and Parliament as a result of the Kyrgyz State Commission on Kumtor, any impact on the purported cancellation of Kumtor’s land use rights at the Kumtor Project, the effect of the Water and Forest Law on the Company’s operations in Mongolia, the effect of the 2006 Mongolian Minerals Law on the Company’s Mongolian operations, the effect of the November 2010 amendments to the 2006 Mongolian Minerals Law on the royalties payable in connection with the Company’s Mongolian operations, the impact of continued scrutiny from Mongolian regulatory authorities on the Company’s Boroo project, the impact of changes to, or the increased enforcement of, environmental laws and regulations relating to the Company’s operations, the Company’s ability to successfully negotiate an investment agreement for the

Gatsuurt project to complete the development of the mine and the Company's ability to obtain all necessary permits and commissions needed to commence mining activity at the Gatsuurt project; (B) risk related to operational matters, including the waste and ice movement at the Kumtor Project and the Company's continued ability to successfully manage it, the occurrence of further ground movements at the Kumtor Project, the success of the Company's future exploration and development activities, including the financial and political risks inherent in carrying out exploration activities, the adequacy of the Company's insurance to mitigate operational risks, mechanical breakdowns, the Company's ability to obtain the necessary permits and authorizations to raise the tailings dam at the Kumtor Project to the required height, the Company's ability to replace its mineral reserves, the occurrence of any labour unrest or disturbance and the ability of the Company to successfully re-negotiate collective agreements when required, seismic activity in the vicinity of the Company's operations in the Kyrgyz Republic and Mongolia, long lead times required for equipment and supplies given the remote location of the Company's properties, reliance on a limited number of suppliers for certain consumables, equipment and components, illegal mining on the Company's Mongolian properties, the Company's ability to accurately predict decommissioning and reclamation costs, the Company's ability to attract and retain qualified personnel, competition for mineral acquisition opportunities, and risks associated with the conduct of joint ventures; (c) risks relating to financial matters including the sensitivity of the Company's business to the volatility of gold prices, the imprecision of the Company's mineral reserves and resources estimates and the assumptions they rely on, the accuracy of the Company's production and cost estimates, the impact of restrictive covenants in the Company's revolving credit facility which may, among other things, restrict the Company from pursuing certain business activities, the Company's ability to obtain future financing, the impact of global financial conditions, the impact of currency fluctuations, the effect of market conditions on the Company's short-term investments, the Company's ability to make payments including any payments of principal and interest on the Company's debt facilities depends on the cash flow of its subsidiaries; and (d) risks related to environmental and safety matters, including the ability to continue obtaining necessary operating and environmental permits, licenses and approvals, the impact of the significant environmental claims made in December 2012 relating to the Kumtor Project, inherent risks associated with using sodium cyanide in the mining operations; legal and other factors such as litigation, defects in title in connection with the Company's properties, the Company's ability to enforce its legal rights, risks associated with having a significant shareholder, and possible director conflicts of interest. There may be other factors that cause results, assumptions, performance, achievements, prospects or opportunities in future periods not to be as anticipated, estimated or intended. See "Risk Factors" in the Company's most recently filed AIF available on SEDAR at www.sedar.com.

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

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. Interred 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 20, 2013. Centerra assumes no obligation to update or revise forward looking information to reflect changes in assumptions, changes in circumstances or any other events affecting such forward looking information, except as required by applicable law.