# Centerra Gold Inc.
# Management's Discussion and Analysis ("MD&A")
# For the period ended June 30, 2012

The following discussion has been prepared as of August 1, 2012, and is intended to provide a review of the financial position and results of operations of Centerra Gold Inc. ("Centerra" or the "Company") for the three and six months ended June 30, 2012 in comparison with the corresponding periods ended June 30, 2011. This discussion should be read in conjunction with the unaudited interim condensed consolidated financial statements and the notes of the Company for the three and six months ended June 30, 2012. This MD&A should also be read in conjunction with the Company's audited annual consolidated financial statements for the three years ended December 31, 2011, the related MD&A, the Annual Information Form for the year ended December 31, 2011 (the "2011 Annual Information Form") and the condensed consolidated interim financial statements issued for the quarter ended June 30, 2012. The condensed interim financial statements of Centerra are prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board and the Company's accounting policies as described in note 3 of its annual consolidated financial statements for the year ending December 31, 2011. All dollar amounts are expressed in United States (U.S.) dollars, except as otherwise indicated. In addition, this discussion contains forward-looking information regarding Centerra's business and operations. See "Risk Factors" in the Company's 2011 Annual Information Form and "Caution Regarding Forward-Looking Information" in this discussion. The Company's 2011 Annual Report and 2011 Annual Information Form are available at www.centerragold.com and on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

**TABLE OF CONTENTS**





1 University Avenue, Suite 1500
Toronto, ON
M5J 2P1
tel 416-204-1953
fax 416-204-1954
www.centerragold.com

## Consolidated Financial Results

Centerra's consolidated financial results for the three and six months ended June 30, 2012 reflect the Company's 100% interests in the Kumtor and Boroo mines, and the Gatsuurt project.

## Highlights

| | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|---|---|---|---|---|---|---|
| **Financial and Operating Summary** | **2012** | 2011 | **% Change** | **2012** | 2011 | **% Change** |
| Revenue - $ millions | **89.7** | 243.8 | (63%) | **223.5** | 494.0 | (55%) |
| Cost of sales - $ millions (1) | **78.4** | 105.9 | (26%) | **163.1** | 167.7 | (3%) |
| Abnormal mining costs - $ millions | **13.5** | - | 100% | **32.8** | - | 100% |
| Other operating expenses | **22.9** | 0.5 | 4480% | **24.3** | 0.5 | 4760% |
| Net earnings (loss) - $ millions | **(54.6)** | 71.1 | (177%) | **(69.3)** | 207.7 | (133%) |
| Earnings (loss) per common share - $ basic and diluted | **(0.23)** | 0.30 | (177%) | **(0.28)** | 0.88 | (132%) |
| Cash provided by (used in) operations - $ millions | **(45.1)** | 123.3 | (137%) | **(34.9)** | 266.4 | (113%) |
| Capital expenditures - $ millions | **115.1** | 48.6 | 137% | **244.0** | 120.8 | 102% |
| Weighted average common shares outstanding - basic (thousands) | **236,370** | 236,021 | 0% | **236,370** | 235,951 | 0% |
| Weighted average common shares outstanding - diluted (thousands) | **236,370** | 236,353 | 0% | **236,370** | 236,281 | 0% |
| | | | | | | |
| Average gold spot price - $/oz | **1,609** | 1,506 | 7% | **1,651** | 1,445 | 14% |
| Average realized gold price - $/oz | **1,597** | 1,527 | 5% | **1,669** | 1,452 | 15% |
| | | | | | | |
| Gold sold – ounces | **56,201** | 159,642 | (65%) | **133,921** | 340,271 | (61%) |
| Cost of sales - $/oz sold (1) | **1,395** | 663 | 110% | **1,218** | 493 | 147% |
| | | | | | | |
| Gold produced – ounces | **52,482** | 155,166 | (66%) | **125,037** | 335,882 | (63%) |
| Total cash cost - $/oz produced(2) | **885** | 513 | 72% | **943** | 436 | 117% |
| Total production cost - $/oz produced(2) | **1,005** | 625 | 61% | **1,106** | 541 | 104% |

(1) Cost of sales includes depreciation, depletion and amortization related to operations.
(2) Total cash cost and total production cost per ounce produced are non-GAAP measures and are discussed under "Non-GAAP Measures".

## Three-Months Ended June 30, 2012 Compared with the Three-Months Ended June 30, 2011

### Gold Production and Revenue

Revenue in the second quarter of 2012 decreased to $89.7 million from $243.8 million in the same period last year mainly as a result of lower ounces sold. Ounces sold for the period totalled 56,201 compared to 159,642 in the second quarter of 2011 while gold production for the quarter was 52,482 ounces compared to 155,166 ounces. The decreased gold production in the current quarter reflects the decision made by the Company on March 27, 2012 (refer to the Company's news release issued March 27, 2012) to delay mining activities at Kumtor in the southeast portion of the pit where access


1 University Avenue, Suite 1500
Toronto, ON
M5J 2P1
tel 416-204-1953
fax 416-204-1954
www.centerragold.com

to the SB zone is impeded by increased ice and waste movement which renders mining in that area unsafe. As a result, the planned mining of ore in cut-back 12B was halted and waste stripping on cut-back 14A, which was scheduled to access ore in the latter part of 2012 was delayed, forcing the re-sequencing of the mine plan in order to deal with the unload of ice and waste. Therefore very little ore was mined in the second quarter of 2012, resulting in the Kumtor mill processing stockpiled material with lower ore mill head grades and recoveries. The original production schedule for the second quarter of 2012 called for ore to be mined from cut-back 12B at similar levels as the comparative quarter of 2011, and for the 2012 year production to be more heavily weighted to the fourth quarter. In 2011 production was evenly distributed throughout the year.

Mining operations at Boroo resumed in January 2012 with pre-stripping activities in Pit 6 which continued in the second quarter. At the end of second quarter 2012 ore was exposed at the bottom of Pit 6 and capitalization of the pre-striping costs ceased. The Boroo mill continued to process stockpiled pit and heap leach material with lower head grades and recoveries than material processed in the second quarter of 2011. Heap leach operations at Boroo were idle during the second quarter of both years pending final permitting and regulatory commissioning by the government authorities. See “Mine Operations – Kumtor” and “Mine Operations – Boroo and Gatsuurt”.

Centerra realized an average gold price of $1,597 per ounce for the second quarter of 2012, an increase from the $1,527 per ounce realized in the same quarter of 2011. Since Centerra’s gold production is not hedged the average realized gold price in the quarter reflects the spot gold price, which averaged $1,609 per ounce for the second quarter of 2012 ($1,506 per ounce for the same period in 2011).

## Cost of Sales

In the second quarter of 2012 consolidated cost of sales, which includes non-cash depreciation, depletion and amortization (“DD&A”) associated with the ounces sold and excludes abnormal mining costs (described below), was $78.4 million, a decrease of $27.5 million or 26% compared to the same quarter of 2011.

Cost of sales at Kumtor of $62.1 million was $30.8 million or 33% lower than the comparative quarter of 2011 due to fewer ounces sold which is a result of the decision taken at the end of the first quarter of 2012 as previously discussed. This resulted in a year over year significant decrease in gold ounces sold at Kumtor (72% lower) and a resulting lower cost of sales. Operating cash costs[(1)] (before the capitalization of pre-stripping and the expensing of the unload of ice and waste) at Kumtor were higher in the second quarter of 2012 mainly for labour, diesel and tires, reflecting the impact on consumption from an expanded mobile fleet.

Cost of sales at Boroo at $16.3 million was higher in the second quarter of 2012 by $3.3 million as compared to the same quarter of 2011, due to higher ounces sold and higher operating costs.

[(1)] “Operating cash costs” are cash costs directly related to the production of gold bullion and include mining, milling, site administration and other related costs (including refining costs and royalties).

1 University Avenue, Suite 1500
Toronto, ON
M5J 2P1
tel 416-204-1953
fax 416-204-1954
www.centerragold.com

Depreciation, depletion, and amortization associated with production for the second quarter of 2012 decreased by almost $8 million compared to the same period last year, due to processing significantly lower ounces. In addition, depreciation for the second quarter of 2012 was lower than the comparative quarter of 2011 as the expanded mining fleet activities at Kumtor focused on stripping waste from the southwest portion of the Kumtor pit (cut-back 14B), which is mainly capitalized, and on removing ice in the unload zones which is recorded as an abnormal mining cost.

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

Kumtor also increased cost of sales by $7.2 million in the second quarter of 2012 representing a metal reconciliation variance between the gold content estimated in the stock piles and the gold actually recovered through processing. The second quarter 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 compensation for work conducted at high altitude at the Kumtor project.

Cost of sales per ounce sold increased to $1,395 in the second quarter of 2012 from $663 for the same period in 2011, reflecting the lower ounces sold, lower production from the processing of lower grade ores and higher operating costs at Kumtor for labour, diesel and other consumables. Cost of sales per ounce sold is a non-GAAP measure and is discussed under “Non-GAAP Measures”.

The Company’s total cash cost per ounce produced was $885, up from $513 in the second quarter of 2011. This increase is primarily due to lower production as a result of lower grades and recoveries from the processing of stockpiled materials at Kumtor. Total cash cost per ounce produced is a non-GAAP measure and is discussed under “Non-GAAP Measures”. See “Mine Operations – Kumtor” and “Mine Operations – Boroo and Gatsuurt”.

## Abnormal Mining Costs

The Company recorded an amount of $13.5 million of abnormal mining costs in the second quarter of 2012 resulting from the increased unloading of ice and waste material in the high movement area and the impact of the revised mine plan at its Kumtor operation. There were no abnormal mining costs recorded in the comparative quarter of 2011.

The Company has, in the past, successfully contained the flow of ice and waste into the pit, treating this as a normal cost of operation. However, the increased level of mining of ice and waste necessary to maintain safe access to the pit resulted in a decision on March 27, 2012 to stop mining cut-back 12B where ore for the quarter was to be released and revise the mine plan. Under this new plan no ore was released from the pit during the second quarter of 2012 while pre-stripping activities were moved to the southwest portion of the pit (cut-back 14B). This pre-stripping activity added costs totalling $9.6 million, which were in excess of what the Company believes it can realize after further processing and eventual sale of the gold. Under the circumstances, the Company does not consider these costs to be a cost of sale and has recorded them as abnormal costs for the period.

In addition, the decision to address the safety issue caused by the acceleration of ice and waste material in the high movement area above the SB Zone will require significant effort and cost over the balance of 2012 and part of 2013 to provide safe access to mine the southeast section of the pit and start releasing the delayed ore.  The cost of removal of this ice and waste material from the high movement area during the second quarter of 2012 was $3.9 million, expensed to abnormal mining costs.  See also "Mine Operations – Kumtor -Three-Months Ended June 30, 2012 Compared with the Three-Months Ended June 30, 2011 – Abnormal Mining Costs".

## Other operating expenses

Other operating expenses for the second quarter of 2012 totalled $22.9 million and included $21.0 million contributed by Kumtor into a national micro-credit financing program, as a result of an agreement signed by Kumtor and the Kyrgyz Government on April 23, 2012.  This funding is part of an existing government program whose objective is to provide financing for small sustainable development projects throughout the Kyrgyz Republic.  See "Other Corporate Developments-Kyrgyz Republic – National Micro-Credit Financing Program".  In Mongolia, Boroo increased its commitment to fund the maternity hospital in Ulaanbaatar during the second quarter of 2012 and accrued a further $1.1 million, bringing its overall commitment to its maximum approved level of $7.5 million (or 10 billion tugriks).  Other spending on ongoing social development programs in the various countries where the Company operates totalled $0.7 million in the second quarter of 2012, compared to $0.5 million in the same quarter of 2011.

## Exploration

Exploration costs in the second quarter of 2012 decreased to $9.1 million from $11.3 million in the same quarter of 2011 mainly reflecting decreased drilling activity in in Turkey at the Öksüt joint venture project, and in Mongolia at the Altan Tsagaan Ovoo ("ATO") property, while the Company focused its efforts on the completion of the Mongolian Reserve and Resource Report.

## Corporate Administration

Corporate administration costs for the second quarter of 2012 were $1.9 million compared to $12.5 million in the same quarter of 2011.  The decrease during the second quarter of 2012 is primarily due to the impact on share-based compensation expense from the 54.1% drop in the Company's share price which reduces the estimated amount owed to employees.  Share-based compensation is, in part, referenced to the Company's share price and also referenced to the performance of the Company's stock which under-performed the gold index during this period.  This compares to an 8% decrease in the Company's share price during the second quarter of 2011.

# Taxes

## Revenue-based Tax Expense

Under the Restated Investment Agreement between Centerra, Kumtor Gold Company CJSC (“KGC”), Kumtor Operating Company CJSC (“KOC”) and the Government of the Kyrgyz Republic dated as of June 6, 2009, Kumtor pays taxes on revenue, at a rate of 13% of gross revenue, with an additional contribution of 1% of gross revenue payable to the Issyk-Kul Oblast Development Fund. These revenue-based taxes totalled $9.0 million for the second quarter of 2012 compared to $31.0 million for the comparative quarter of 2011, reflecting the significant decrease in ounces sold in the Kyrgyz Republic, partially offset by the higher average realized price in the second quarter 2012 as compared to the same quarter in 2011.

On May 28, 2012, a tax advance agreement was signed by Kumtor and the Kyrgyz Government, after which $30 million of future revenue-based taxes were advanced. This interest-free advance will be applied against future revenue-based taxes otherwise payable during 2012 (starting in November 2012) and 2013, under a formal repayment schedule with $10 million to be offset in 2012 and the remaining $20 million to be offset in 2013. See “Other Corporate Developments – Kyrgyz Republic – Tax Advance Agreement”.

## Income Tax Expense

Income tax expense for the three-months ended June 30, 2012 totalled $2.6 million compared to $4.6 million for the three-months ended June 30, 2011. The decrease in the current quarter of 2012 compared to the same period of 2011 reflects a $1.4 million reduction in the tax impact from currency movements between the Mongolian tugrik and the U.S. dollar and a $0.8 million reduction in the tax impact of items that are not deductible for income tax purposes. These taxes were recorded in the Mongolian segment, primarily by Boroo. The income tax rate for Boroo is 25% of taxable income in excess of 3 billion Tugriks (about $2.2 million as at the balance sheet date), and 10% for income up to that amount.

# Net Loss

Net loss for the second quarter of 2012 was $54.6 million, or $0.23 per share, compared to net earnings of $71.1 million or $0.30 per share for the same period in 2011, reflecting significantly lower ounces sold and produced at Kumtor, special contributions for social development programs in the Kyrgyz Republic and Mongolia of $22.1 million, a charge of $13.5 million at Kumtor for continuing abnormal mining costs, a charge of $7.2 million for a metal reconciliation adjustment at Kumtor, partially offset by higher realized gold prices and higher sales volumes at Boroo.

# Capital Expenditures

Capital expenditures spent and accrued of $115.1 million in the second quarter of 2012 included $12.2 million of sustaining capital and $102.9 million invested in growth capital. Kumtor spent and accrued $11.2 million on sustaining capital and $98.8 million on growth capital, mainly for the capitalization of pre-stripping activities ($64.1 million), the purchase of haul trucks, shovels and drills ($17.6 million), the underground development of phase I and II ($12.0 million) and various other projects ($5.1 million). Boroo spent and accrued $0.8 million on sustaining capital and $4.0 million on growth capital, mainly for the capitalization of pre-stripping activities in Pit 6. Capital expenditures in the comparative quarter of 2011 totalled $48.6 million, consisting of $8.4 million of sustaining capital and $40.2 million of growth capital.

## Cash Flow

Cash used by operations was $45.1 million for the second quarter of 2012 compared to $123.3 million provided by operations in the same quarter of 2011, primarily reflecting lower earnings as a result of lower volumes.

Cash provided from investing activities in the second quarter of 2012 was $28.8 million reflecting the net redemption of $122.2 million of short-term investments, a decrease in other assets of $2.9 million, mainly for advances on capital purchases, partially offset by the purchase of capital equipment of $96.2 million. Capital additions include $11.2 million spent on sustaining capital projects and $84.1 million invested in growth projects. Expenditures in growth projects were mainly for Kumtor's capital equipment purchases, pre-stripping activities and underground development project, while sustaining capital was $11.2 million at Kumtor and $0.8 million at Boroo. Cash used in investing activities in the second quarter of 2011 was $110.9 million, representing the purchase of short-term investments of $57.1 million and the spending on capital projects of $48.5 million.

Cash used in financing activities in the second quarter of 2012 was $9.5 million, which primarily included the payment in June 2012 of a regular quarterly dividend to Centerra's shareholders of Cdn $0.04 per share, totalling US$9.2 million. Cash used in financing activities in the second quarter of 2011 was $98.7 million, which included the payment of a dividend to Centerra's shareholders of US$99.3 million, which included a special dividend of Cdn$0.30 per share and an annual dividend of Cdn$0.10 per share, partially offset by $1.2 million of proceeds from the issuance of common shares on the exercise of stock options.

## <u>Six-Months Ended June 30, 2012 Compared with the Six-Months Ended June 30, 2011</u>

### Gold Production and Revenue

Revenue for the first six months of 2012 was $223.5 million, a decrease of $270.5 million, or 55%, compared to $494.0 million in revenue in the same period of 2011. The significant shortfall was due to lower production levels at Kumtor, partially offset by an increase in the average realized price of gold. Gold production of 125,037 ounces in the first six months of 2012 was 63% lower than the 335,882 ounces reported in the same period of 2011. Production at Kumtor decreased to 102,014 ounces from 303,244 ounces due to the revised mine plan announced in the first quarter of 2012 which, as a result of accelerated ice and waste movement, has delayed the release of ore from the SB zone and forced the Company to process of lower grade and lower recovery stockpiled material through the mill. Boroo recorded lower production in the first six months of 2012 (23,023 ounces compared with 32,639 ounces from the same period last year) due to the processing of lower grade ores from stockpiled pit material and material originally intended for the heap leach. Mining


1 University Avenue, Suite 1500
Toronto, ON
M5J 2P1
tel 416-204-1953
fax 416-204-1954
www.centerragold.com

operations at Boroo recommenced in January 2012 with the pre-stripping of material in Pit 6 which was completed at the end of June. The heap leach process at Boroo remained idle throughput the period waiting for the final regulatory permitting by the Mongolian authorities. See “Mine Operations – Kumtor” and “Mine Operations – Boroo and Gatsuurt”.

The average realized gold price for the first six months of 2012 was $1,669 per ounce compared to $1,452 per ounce in the same period of 2011 reflecting higher spot prices for gold.

**Cost of Sales**

Cost of sales in the first half of 2012, which includes non-cash DD&A associated with the ounces sold and excludes abnormal mining costs (described below), was $163.1 million, compared to $167.7 million in the same period of 2011. The year over year decrease is primarily due to lower ounces sold at Kumtor, partially offset by higher operating costs at Kumtor for labour, diesel and other consumables and the impact of the revised mine plan at Kumtor where ore will be released from the pit later in 2012, thereby requiring the processing of higher cost stockpiled material through the mill. Kumtor also increased cost of sales by $7.2 million in the second quarter of 2012 representing a metal reconciliation variance between the estimated gold content in the stockpiles and the gold actually recovered through processing. Cost of sales at Boroo are higher in the first six months of 2012 due mainly to higher ounces sold compared to the same period of 2011.

Depreciation, depletion, and amortization associated with production for the first six months of 2012 decreased to $37.6 million from $40.1 million in the comparative period of 2011. The reduction reflects the lower ounces sold and processed at Kumtor and the charge to capital and abnormal mining costs for work performed by the expanded mine fleet for pre-stripping activities and the removal of ice and waste from the high movement areas above the southeast portion of the Kumtor pit.

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

The Company’s total cash cost per ounce produced for the six months ended June 30, 2012 was $943 compared to $436 in the same period in 2011. The increase is primarily a result of lower production as well as the processing of higher cost stockpiled material with lower grades and recovery at Kumtor, partially offset by higher capitalization for pre-stripping and the charge to abnormal mining costs for the unload of ice and waste at Kumtor, which is excluded from the calculation. Total cash cost per ounce produced is a non-GAAP measure and is discussed under “Non-GAAP Measures”.

## Abnormal Mining Costs

The Company recorded an amount of $32.8 million of abnormal mining costs in the first six months of 2012 resulting from the increased unloading of ice and waste material in the high movement area and the impact of the revised mine plan at its Kumtor operation. There were no abnormal mining costs recorded in the comparative period of 2011.

The new mine plan has delayed the release of ore from the pit while pre-stripping activities continue in the southwest portion of the SB zone. This pre-stripping activity for the first half of 2012 added costs totalling $28.4 million, which were in excess of what the Company believes it can realize after further processing and eventual sale of the gold. The Company does not consider these costs to be a cost of sale and has therefore expensed these mining costs as abnormal costs for the period.

The work to remove ice and waste from the high movement area above the southeast portion of the Kumtor pit since the March 27, 2012 decision (see March 27, 2012 news release) totalled $4.4 million. This work which will continue over the balance of 2012 and into 2013 is intended to provide safe access to mine the southeast section of the pit and was charged directly to abnormal mining costs. See also “Mine Operations – Kumtor - Six-Months Ended June 30, 2012 Compared with the Six-Months Ended June 30, 2011 – Abnormal Mining Costs”.

### Mine Standby Costs

Kumtor incurred standby costs of $4.6 million in the first six months of 2012 as a result of the temporary suspension of operations due to a ten day illegal strike in February 2012 initiated by unionized employees.

### Other operating expenses

Other operating expenses for the first six months of 2012 totalled $24.3 million and include $21.0 million contributed by Kumtor into a national micro-credit financing program, an increase of $1.1 million in Boroo’s contribution to the funding of a maternity hospital in Ulaanbaatar and $2.2 million of other spending on ongoing social development programs in the various countries where the Company operates. The Company spent $0.5 million on ongoing social development programs in the comparative period of 2011.

### Exploration

Exploration costs in the first half of 2012 decreased to $16.9 million from $18.7 million in the same period of 2011 as a result of reduced drilling activities at the Kumtor property and in Mongolia at the ATO property while the Company focused its efforts on the completion of the Mongolian Reserve and Resource Report and on the Company’s joint venture projects.

## Taxes

### Revenue-based Tax

Under the Restated Investment Agreement, taxes on revenue at Kumtor are charged at a rate of 13% of gross revenue, with an additional contribution of 1% of gross revenue to the Issyk-Kul Oblast Development Fund. Revenue-based tax decreased to $24.0 million for the first half of 2012 from $63.2 million for the comparative period of 2011, reflecting a decrease in revenue from gold sales in the Kyrgyz Republic, partially offset by higher average realized price in the first half of 2012 as compared to the same period in 2011.

### Income Tax Expense

An income tax expense for the six-month period ended June 30, 2012 in the amount of $4.1 million was recorded compared to an amount of $4.7 million for the six-month period ended June 30, 2011.


1 University Avenue, Suite 1500
Toronto, ON
M5J 2P1
tel 416-204-1953
fax 416-204-1954
www.centerragold.com

The decrease in in the first half of 2012 compared to the same period of 2011 includes a $0.7 million reduction in the tax impact from currency movements between the Mongolian tugrik and the U.S. dollar. The income tax expense in the current period of 2012 and in the comparable period in 2011 was recorded in the Mongolian segment, primarily by Boroo. The income tax rate for Boroo is 25% of taxable income in excess of 3 billion Tugriks (about $2.2 million as at the balance sheet date), and 10% for taxable income up to that amount.

**Net Loss**

Net loss in the first six months of 2012 were $69.3 million, or $0.29 per share, compared to net earnings of $207.7 million, or $0.88 per share, for the same period in 2011, primarily reflecting lower sales and production at Kumtor, charges for abnormal mining costs of $32.8 million and contributions for social development programs of $22.1 million in the first six months of 2012.

## Capital Expenditures

Capital expenditures spent and accrued of $244.0 million in the first half of 2012 included $18.2 million of sustaining capital and $225.8 million invested in growth capital mainly for the purchase of new haul trucks, new shovels and new drills at Kumtor ($94.9 million), the capitalization of pre-stripping activities at Kumtor ($94.3 million) and the underground development ($21.9 million). Capital expenditures in the comparative period of 2011 totalled $120.8 million, consisting of $15.2 million of sustaining capital and $105.6 million of growth capital.

**Cash Flow**

Cash flow used in operations for the first six months of 2012 was $34.9 million compared to $266.4 million provided by operations in the same period of 2011 resulting mainly from reduced production and sales in the first six months of 2012. Cash provided by investing activities totalled $116.6 million in the first six months of 2012 compared to $242.1 million used in investing activities in the prior year. Spending in 2012 includes net redemption of short-term investments of $342.4 million (increase of $126.1 million in 2011), spending on capital projects of $218.2 million ($110.1 million in 2011) and the increase in other assets of $7.5 million, mainly for advances on capital purchases. The spending on capital projects relates mainly to Kumtor's expansion of its mobile fleet, the capitalization of pre-stripping activities and the underground project.

Cash and cash equivalents and short-term investments were $297.7 million at June 30, 2012, compared to cash and cash equivalents and short-term investments of $568.2 million at December 31, 2011. The Company believes it has sufficient cash to carry out its operational business plan for 2012.

## Credit and Liquidity

As at June 30, 2012, the Company had an undrawn revolving credit facility available of $150.0 million.

At June 30, 2012 the Company has entered into contracts to purchase capital equipment and operational supplies totalling $54.2 million (Kumtor $54.0 million, Boroo $0.2 million). The


1 University Avenue, Suite 1500
Toronto, ON
M5J 2P1
tel 416-204-1953
fax 416-204-1954
www.centerragold.com

commitment at Kumtor is primarily for the purchase of mobile equipment for future expansion. These contracts are expected to be settled over the next twelve months.

A significant factor in determining profitability and cash flow from the Company's operations is the price of gold. The spot market gold price based on the London PM fix was $1,599 per ounce on June 30, 2012. For the second quarter of 2012, the gold price averaged $1,609 per ounce compared to $1,445 per ounce for the same period in 2011.

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. The Company's functional and reporting currency is the U.S. dollar. During the six-month period ending June 30, 2012, approximately $193.2 million of operating and capital costs were incurred by Centerra in currencies other than U.S. dollars, including a dividend distribution from retained earnings, out of a total of $543.7 million in cash outlays. For the first six months of 2012, the percentage of Centerra's non-U.S. dollar costs, by currency, was on average, as follows: 38% in Kyrgyz soms, 33% in Canadian dollars, 14% in Mongolian tugriks, 12% in Euro and 3% in other currencies. For the period from December 31, 2011 to June 30, 2012, the average value of each currency against the US dollar resulted in the following: the Kyrgyz som depreciated by 1.3%, whilst the Canadian dollar appreciated by 1.5%, the Mongolian tugrik appreciated by 4.1% and the Euro appreciated by 0.1%. The estimated net impact of these movements over the six-month period to June 30, 2012 has been to increase costs as measured in U.S. dollars by approximately $0.8 million.

## Share capital and share options

As of July 31, 2012, Centerra had 236,376,011 common shares issued and outstanding. In addition, at the same date, the Company had 1,046,809 share options outstanding under its share option plan with exercise prices between Cdn$4.81 and Cdn$22.28 per share, and with expiry dates between 2016 and 2020.

## Mine Operations

Centerra owns 100% of the Kumtor and Boroo mines and therefore all operating and financial results are on a 100% basis.

| | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|---|---|---|---|---|---|---|
| **Kumtor Operating Results** | **2012** | 2011 | **% Change** | **2012** | 2011 | **% Change** |
| Gold sold – ounces | **40,228** | 144,687 | (72%) | **102,425** | 310,832 | (67%) |
| Revenue - $ millions | **64.0** | 221.2 | (71%) | **171.8** | 451.1 | (62%) |
| Average realized gold price – $/oz | **1,592** | 1,529 | 4% | **1,677** | 1,451 | 16% |
| Cost of sales - $ millions (1) | **62.1** | 92.9 | (33%) | **130.6** | 141.2 | (8%) |
| Cost of sales - $/oz sold (1) | **1,544** | 642 | 140% | **1,275** | 454 | 181% |
| Abnormal mining costs - $ millions | **13.5** | - | 100% | **32.8** | - | 100% |
| Tonnes mined - 000s | **42,736** | 38,271 | 12% | **73,482** | 74,779 | (2%) |
| Tonnes ore mined – 000s | **16** | 1,448 | (99%) | **79** | 2,036 | (96%) |
| Average mining grade - g/t (2) | **1.18** | 2.68 | (56%) | **1.30** | 3.97 | (67%) |
| Tonnes milled - 000s | **1,376** | 1,545 | (11%) | **2,627** | 2,936 | (11%) |
| Average mill head grade - g/t (2) | **1.33** | 3.27 | (59%) | **1.64** | 3.68 | (55%) |
| Recovery - % | **71.2** | 82.6 | (14%) | **72.0** | 82.6 | (13%) |
| Gold produced – ounces | **41,307** | 139,077 | (70%) | **102,014** | 303,244 | (66%) |
| Total cash cost - $/oz produced (3) | **876** | 507 | 73% | **950** | 418 | 128% |
| Total production cost - $/oz produced (3) | **985** | 615 | 60% | **1,114** | 517 | 116% |
| | | | | | | |
| Capital expenditures - $ millions | **110.0** | 46.0 | 139% | **235.0** | 117.9 | 99% |
| **Boroo Operating Results** | | | | | | |
| Gold sold – ounces | **15,973** | 14,955 | 7% | **31,496** | 29,439 | 7% |
| Revenue - $ millions | **25.7** | 22.6 | 14% | **51.7** | 42.9 | 21% |
| Average realized gold price - $/oz | **1,610** | 1,513 | 6% | **1,643** | 1,457 | 13% |
| Cost of sales - $ millions (1) | **16.3** | 13.0 | 25% | **33.6** | 26.5 | 27% |
| Cost of sales - $/oz sold (1) | **1,018** | 869 | 17% | **1,065** | 900 | 18% |
| Total Tonnes mined - 000s | **2,453** | - | 100% | **4,374** | - | 100% |
| Average mining grade (non heap leach material) - g/t (2) | **1.05** | - | 100% | **1.05** | - | 100% |
| Tonnes mined heap leach – 000s | **22** | - | 100% | **22** | - | 100% |
| Tonnes ore mined direct mill feed -000's | - | - | 100% | - | - | 100% |
| Tonnes ore milled - 000s | **635** | 510 | 25% | **1,222** | 1,106 | 10% |
| Average mill head grade - g/t (2) | **0.86** | 1.35 | (36%) | **0.82** | 1.35 | (39%) |
| Recovery - % | **69.0** | 70.3 | (2%) | **73.7** | 65.5 | 13% |
| Gold produced – ounces | **11,175** | 16,089 | (31%) | **23,023** | 32,639 | (29%) |
| Total cash cost - $/oz produced (3) | **916** | 568 | 61% | **911** | 607 | 50% |
| Total production cost - $/oz produced (3) | **1,079** | 707 | 53% | **1,069** | 756 | 41% |
| | | | | | | |
| Capital expenditures - $ millions (Boroo) | **4.9** | 2.4 | 99% | **8.6** | 2.5 | 250% |
| Capital expenditures - $ millions (Gatsuurt) | **0.09** | 0.12 | (26%) | **0.19** | 0.25 | (23%) |

(1) Cost of sales includes depreciation, depletion and amortization related to operations.
(2) g/t means grams of gold per tonne.
(3) Total cash cost and total production cost per ounce produced are non-GAAP Measures and are discussed under "Non-GAAP Measures".


1 University Avenue, Suite 1500
Toronto, ON
M5J 2P1
tel 416-204-1953
fax 416-204-1954
www.centerragold.com

## Kumtor

The Kumtor open pit mine, located in the Kyrgyz Republic, is the largest gold mine in Central Asia operated by a Western-based producer. It has been operating since 1997 and has produced about 8.5 million ounces of gold. During the first half of 2012, Kumtor experienced four recordable injuries and no reportable environmental incidents.

The focus at Kumtor for the second quarter of 2012 was to accelerate the mining in the southwest portion of the Kumtor pit (cut-back 14B) to access, by September 2012, the new ore reserves (previously announced on February 9, 2012) and to unload the ice and waste material from the high movement area to provide access to the southeast section of the pit. This has resulted in a delayed release of ore from cut-backs 12B and 14A. During the second quarter, Kumtor predominately milled low grade stockpiled material.

Kumtor commenced receiving twenty-five new CAT 789 haul trucks, four Hitachi shovels and four large capacity Sandvik drills to meet the life of mine requirements and phase out the older, less efficient equipment. At the end of the second quarter of 2012, the Company had commissioned all four large capacity drills and eleven of the CAT 789 trucks. The first Hitachi shovel is on site and has been commissioned.

The underground development at Kumtor continued in the second quarter of 2012 with a total advance of 536 metres. During the second quarter 2012, Decline 1 advanced 92 metres while Decline 2 advanced 444 metres. Year-to-date total development advance is 1,010 metres. The two declines joined on June 30, 2012 and flow through ventilation has been established. As at June 30, 2012, the Company has capitalized approximately $180 million for the underground development, delineation drilling and associated underground equipment.

Exploration drilling continued in the second quarter of 2012 along with the delineation drilling of the Stockwork Zone resource. Underground exploration drilling will continue in 2012 from Decline 1.

## Kumtor Ice Movement

The upper portion of the southeast section of the pit wall above the SB Zone at Kumtor consists primarily of re-handled waste and ice. This material is active, with considerable seasonal fluctuations in the movement rates. The higher rates of movement have typically been observed in the warmer summer months. The rate of movement is not consistent and material may accelerate and decelerate on a daily basis. In March 2012, an unusual acceleration in the high movement area was experienced.

The original mining plan for the first half of 2012 included stripping of waste material in cut-back 12B (scheduled to provide ore from March to October), pre-stripping of cut-back 14A and the continued normal mining of the ice and waste in the southeast section of the pit to allow safe access to ore in cut-back 12B in the latter part of March.

However, virtually no ore was mined in cut-back 12B during the first half as the unanticipated acceleration of ice and waste, exacerbated by the work stoppage in February, resulted in loss of safe access to cut-backs 12B and 14A.

On March 27, 2012, the Company announced that this increased ice movement in the southeast section of the pit would delay scheduled access to the high-grade SB Zone, thereby reducing its production guidance for the year by approximately one third. Production at Kumtor is dependent on successfully maintaining the mining rates of the waste and ice in the southeast section of the pit to gain access to the higher grade ore in the SB zone. The recent substantial acceleration of ice and waste movement now requires that cut-back 14A be delayed to allow for redeployment of equipment to unload the ice and waste in the southeast section of the pit. This will delay mining of cut-back 14A from late 2012 to late 2013, resulting in the deferral of the associated ounces. The removal of this substantial amount of ice and waste began at the end of the first quarter and will continue for the balance of 2012 and into the first half of 2013.

To partially mitigate the impact of the ice and waste movement and the resulting delay in cut-back 14A, the Company has accelerated its mining in the southwest portion of the Kumtor pit (cut-back 14B) and expects to access ore in September 2012 that was included as part of the new reserves (announced February 9, 2012). This area is not below the high movement area and the Company believes it is therefore safe to access. Accordingly, during the second quarter of 2012 ice and waste unload in the high movement area and pre-stripping activities in cut-back 14B continued, with no significant amount of ore released from the pit.

A work stoppage at any time during the year could have a significant impact on this timing. See "Caution Regarding Forward-Looking Information".

## <u>Three-Months Ended June 30, 2012 Compared with the Three-Months Ended June 30, 2011</u>

### Revenue and Gold Production

Revenue for the second quarter of 2012 decreased to $64.0 million from $221.2 million in the comparative quarter of 2011, primarily as a result of lower sales volumes (40,228 ounces in the second quarter of 2012 compared to 144,687 ounces in the second quarter of 2011) that was partially offset by an increased average realized gold price at $1,592 per ounce compared to $1,529 per ounce in the same quarter of 2011. Kumtor mined very little ore and processed material from stockpiles during the second quarter of 2012.

During the quarter Kumtor mined waste from cut-back 14B and continued to unload the ice and waste material from the high movement area. Total tonnes mined for the second quarter of 2012 were 42.7 million tonnes compared to 38.3 million tonnes in the comparative quarter of 2011, an increase of 12% due to the increased capacity of the expanded mining fleet.

Kumtor produced 41,307 ounces of gold for the second quarter of 2012 compared to 139,077 ounces of gold in the comparative quarter of 2011. The focus at Kumtor for the second quarter of 2012 was to accelerate pre-strip mining in the southwest section of the Central Pit and to unload the ice and waste material from the high movement area over-hanging the southeast section. Therefore, as expected an insignificant amount of ore was mined during the second quarter and inventory was reduced as Kumtor processed low grade stockpiles. In comparison, Kumtor had mined and processed higher consistent head grade for the second quarter of 2011. Mill head grade for the second quarter of 2012 was 1.33 g/t with a recovery of 71.2%, versus 3.27g/t and a recovery of 82.6% for the same quarter in 2011. Tonnes processed were 1,375,582 for the second quarter of 2012, 11% lower than the same period of 2011 as the mill throughput was lowered to optimize recoveries to handle the metallurgically difficult ores.

**Cost of Sales**

Cost of sales at Kumtor, which include non-cash DD&A associated with the ounces sold and excludes abnormal mining costs, was $62.1 million for the second quarter of 2012 which is a decrease of $30.8 million or 33% compared to the same period of 2011. Although, during the second quarter of 2012, Kumtor processed higher cost ounces that resulted from the higher depreciation and operating costs from the expanded fleet commissioned during 2011 and 2012, the cost of sales was lower as compared to the second quarter of 2011 due to processing significantly fewer ounces.

Depreciation, depletion, and amortization associated with production for the second quarter 2012 decreased by $7.7 million compared to the same period last year, due to processing significantly lower ounces. In addition, depreciation expense for the second quarter of 2012 was lower than the comparative quarter as the expanded mining fleet activities focused on stripping waste from the southwest portion of the Kumtor pit (cut-back 14B), which is mainly capitalized and will be depreciated through cost of sales when the ore from cut-back 14B is ultimately processed and sold.

Operating cash costs at Kumtor increased by $5.5 million before the capitalization of pre-stripping and the expensing of unloading activities totalling $40.2 million (net amount of $34.7 million lower) for the second quarter of 2012 compared to the same quarter of 2011. This variance can be explained as follows:

Mining costs for the second quarter of 2012 were $54.0 million, an increase of $4.2 million or 8% compared to the same quarter in 2011. The cost increase is related to an increase in tire costs ($2.0 million) due to increased tire requirements for the recently expanded CAT 789 fleet of haul trucks, and Sandvik drills, higher national labour cost due to increases in the social fund payments related to the high altitude coefficient ($1.8 million), higher costs for explosives and blasting accessories ($0.8 million) predominantly due to higher purchase price of ammonium nitrate and increased costs for diesel ($0.5 million) due to the unit price increasing from US$0.79 to US$0.84 per litre. This was partially offset by lower dewatering costs ($1.8 million) and lower lubricant and other costs.

Milling costs for the second quarter of 2012 were $14.6 million, a decrease of $0.6 million or 4% compared to the same quarter in 2011. Costs were lower due to lower maintenance activity ($0.6 million) as Kumtor deferred its regular maintenance work until the planned mill shutdown scheduled to begin near the end of July 2012.

Site administration costs for the second quarter of 2012 were $12.9 million, an increase of $1.9 million or 18% compared to the same quarter of 2011. This was primarily due to an increase in property and mandatory insurance premiums ($1.2 million) and increased national labour costs ($0.8 million).

Costs of sales for the second quarter of 2012 also includes a charge of $7.2 million representing a metal reconciliation variance between the gold content estimated to be in the stock piles and the gold actually recovered through processing. The second quarter 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 compensation for work conducted at high altitude at the Kumtor project.

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

Total cash cost per ounce produced for the second quarter of 2012 was $876 per ounce compared to $505 per ounce for the same period in 2011, mainly as a result of lower production due to the lower grades and recovery from the stockpiled material processed, which increased cash costs by $615 per ounce. This was partially offset by a decrease in operating costs of $244 per ounce predominantly from the capitalization of substantial mining costs. Total cash cost per ounce produced is a non-GAAP measure and is discussed under “Non-GAAP Measures”.

Cost of sales per ounce sold for the second quarter of 2012 increased to $1,544 per ounce compared to $642 per ounce for the same period in 2011. The majority of the gold production during the second quarter of 2012 was from higher cost, low grade ore stockpiles resulting in lower production, reduced sales and an increased cost per ounce sold.

## Abnormal Mining Costs

Kumtor recorded an amount of $13.5 million of abnormal mining costs in the second quarter of 2012 resulting from the increased unloading of ice and waste material in the high movement area and the impact of the revised mine plan.  Under this new plan no ore was released from the pit during the second quarter of 2012 while pre-stripping activities were moved to the southwest portion of the pit (cut-back 14B).  This pre-stripping activity added costs totalling $9.6 million, which were in excess of what the Company believes it can realize after further processing and eventual sale of the gold. See also “Consolidated Financial Results - Three-Months Ended June 30, 2012 Compared with the Three-Months Ended June 30, 2011 – Abnormal Mining Costs”.

The cost of removal of the ice and waste from the high movement area during the second quarter of 2012 was $3.9 million, expensed to abnormal mining costs.

### Kumtor Regional Administration

Bishkek administration costs for the second quarter of 2012 were $4.1 million, a decrease of $0.4 million compared to the similar quarter of 2011**.**

### Exploration

Exploration costs at Kumtor for the second quarter of 2012 were $2.9 million which is similar to the comparative quarter of 2011. Exploration activity focused on drilling of the SB Zone from the Central Pit, underground exploration drilling from Declines #1 and #2 and drilling at Sarytor.

### Capital Expenditures

Capital expenditures spent and accrued at Kumtor for the second quarter of 2012 were $110.0 million compared to $46.0 million in the same quarter of 2011. The second quarter expenditures consisted of $11.2 million of sustaining capital, predominantly expended for the dewatering program ($4.3 million), the major overhaul program for heavy duty equipment ($3.9 million), the tailings dam expansion ($2.9 million) and other projects ($0.1 million). Growth capital investment totalled $98.8 million which was expended for pre-stripping capitalization ($64.1 million), the


1 University Avenue, Suite 1500
Toronto, ON
M5J 2P1
tel 416-204-1953
fax 416-204-1954
www.centerragold.com

underground development of phases I and II ($12.0 million), purchase of new CAT 789 haul trucks ($6.5 million), purchase of Hitachi shovels ($6.0 million), purchase of larger Sandvik drills ($5.1 million), Stockwork delineation drilling ($1.2 million), camp expansion ($1.0 million), underground equipment ($1.0 million), expanded fuel farm ($0.6 million) and numerous other smaller projects ($1.3 million).

## Six-Months Ended June 30, 2012 Compared with the Six-Months Ended June 30, 2011

### Revenue and Gold Production

Revenue for the first six months of 2012 decreased to $171.8 million from $451.1 million in the comparative period of 2011, primarily as a result of lower sales volumes (102,425 ounces in the first six months of 2012 compared to 310,832 ounces in the comparative period of 2011) that was partially offset by an increased average realized gold price at $1,677 per ounce compared to $1,451 per ounce in the same period of 2011. Kumtor mined very little ore and processed material from low grade stockpiles during the first six months of 2012.

Total tonnes mined (including ore, ice and waste material) for the first six months of 2012 was 73.5 million tonnes compared to 74.8 million tonnes in the comparative period of 2011, a decrease of 2% mainly due to the ten day work stoppage in February 2012 and subsequent delays in re-starting the equipment due to the extremely cold weather. The bench cubic meters (BCM's) of material moved, which attempts to measure the volume of material moved, for the first six months of 2012 increased by 15% compared to the comparative period, as more ice was mined.

Kumtor produced 102,014 ounces of gold for the first six months of 2012 compared to 303,244 ounces of gold in the comparative period of 2011. The company processed ore from low grade stockpiles resulting in significantly lower ounces produced for the first six months of 2012. In comparison Kumtor continued to mine the remaining high-grade benches of cut-back 12A in the first quarter of 2011 and processed the high grade material stockpiled in the fourth quarter of 2010 through the mill in the first half of 2011. The comparative period of 2011 was positively impacted by higher throughput, more consistent feed grades and higher recovery. The mill head grades in the second quarter of 2012 averaged 1.64 g/t with a recovery of 72.0%, versus 3.68 g/t and a recovery of 82.6% for the same period last year. Tonnes of material processed through the mill were 2.63 million for the first six months of 2012, 11% lower than the same period of 2011 as a result of lower mill operating time due to the labour dispute and related ten day work stoppage that occurred during the first quarter of 2012.

### Cost of Sales

Cost of sales at Kumtor, which includes non-cash DD&A associated with the ounces sold but excludes abnormal mining costs, was $130.6 million for the first six months of 2012 which is an decrease of $10.6 million or 8% compared to the same period of 2011. This is primarily due to the lower ounces sold in the first six months of 2012, partially offset by the processing of higher cost ounces impacted by the higher operating costs of the expanded fleet. This was partially offset by processing significantly fewer ounces.

Depreciation, depletion, and amortization for the first six months of 2012 decreased by $1.7 million compared to the same period last year due to processing significantly fewer ounces. In addition, depreciation expense for the first six months of 2012 was lower than the comparative quarter as the expanded mining fleet activities focused on stripping the southwest portion of the Kumtor pit (cut-back 14B), which is mainly capitalized and will be depreciated through cost of sales when the ore from cut-back 14B is ultimately processed and sold.

Operating cash costs at Kumtor increased by $13.1 million before the capitalization of pre-stripping and the expensing of unloading activities totaling $48.4 million (net amount of $35.3 million lower) for the first six months of 2012 compared to the same period of 2011. This variance can be explained as follows:

Mining costs for the first six months of 2012 were $104.9 million; an increase of $11.8 million or 13% compared to the same period of 2011. This is primarily due to increased tire requirements for the recently expanded CAT 789 fleet of haul trucks ($3.8 million), increases in the social fund payments related to the high altitude coefficient ($3.7 million), higher costs for diesel ($2.3 million) due to an increase in the unit price from US$0.80 to US$0.88 cents and increased cost of explosives and blasting accessories ($0.9 million) predominantly due to an increase in the price of ammonium nitrate. This was partially offset by lower dewatering costs ($1.6 million).

Milling costs for the first six months of 2012 were $28.0 million, a decrease of $1.7 million or 6% compared to the same period of 2011. Costs were lower due to the lower amount of material processed as a result of the ten day work stoppage in February 2012 and reduced hourly throughput which lowered the consumption of reagents, electricity and grinding balls ($0.7 million). In addition, lower maintenance costs of $0.9 million resulted from the deferral of regular maintenance work until the planned mill shutdown scheduled to begin at the end of July. This was partially offset by other costs ($0.6 million).

Site administration costs for the first six months of 2012 were $24.6 million, an increase of $3.0 million or 14% compared to the same period of 2011. This was primarily due to increases in the social fund payments for the high altitude coefficient ($1.6 million) and higher property and mandatory insurance premiums ($2.0 million), partially offset by lower maintenance costs ($0.4 million).

Cost of sales for the first six months of 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. 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.

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

Total cash cost per ounce produced for the first six months of 2012 was $950 per ounce compared to $417 per ounce for the same period of 2011, as a result of 66% lower production. This was partially offset by decreased operating costs resulting from increased capitalization of mining costs as the mining equipment was deployed to capitalized stripping and the expensing of the ice and waste


1 University Avenue, Suite 1500
Toronto, ON
M5J 2P1
tel 416-204-1953
fax 416-204-1954
www.centerragold.com

unload in the high movement area. Total cash cost per ounce produced is a non-GAAP measure and is discussed under "Non-GAAP Measures".

Cost of sales per ounce sold for the first six months of 2012 increased to $1,275 per ounce compared to $454 per ounce for the same period of 2011. The majority of the ounce production during the first six months of 2012 was from low grade ore stockpiles resulting in lower production and reduced sales. Kumtor also processed higher cost material from stockpiles in the first six months of 2012 due to higher depreciation and operating costs from the expanded fleet incurred during 2011 and the increased waste mining requirements incurred for the first six months of 2012.

## Abnormal Mining Costs

Kumtor recorded an amount of $32.8 million of abnormal mining costs in the first half of 2012 resulting from the increased unloading of ice and waste material in the high movement area and the impact of the revised mine plan. The new mine plan has delayed the release of ore from the pit while pre-stripping activities continue in the southwest portion of the SB zone. This pre-stripping activity for the first half of 2012 added costs totalling $28.4 million, which were in excess of what the Company believes it can realize after further processing and eventual sale of the gold. See also "Consolidated Financial Results - Six-Months Ended June 30, 2012 Compared with the Six-Months Ended June 30, 2011 – Abnormal Mining Costs".

The cost of removal of the ice and waste material from the high movement area during the first six months of 2012 was $4.4 million.

### Mine Standby Costs

Kumtor incurred standby costs of $4.6 million in the first half of 2012 as a result of the temporary suspension of operations due to a ten day illegal strike initiated by unionized employees on February 6, 2012.

### Kumtor Regional Administration

Bishkek administration costs for the first six months of 2012 were $7.4 million, $0.3 million or 4% lower than the comparative period of 2011**.**

### Exploration

Exploration costs at Kumtor for the first six months 2012 were $5.1 million, a decrease of $1.8 million or 26% compared to the comparative period of 2011 due to drilling activities focusing on capitalized delineation drilling for the underground Stockwork Zone. Exploration activity focused on drilling of the SB Zone from the Central Pit, underground drilling in the Stockwork Zone Drive, underground exploration drilling from Declines # 1 and #2 and drilling at Sarytor.

### Capital Expenditures

Capital expenditures spent and accrued for the first six months of 2012 were $235.0 million compared to $117.9 million in the same period of 2011. The first six months expenditures consisted of $16.7 million of sustaining capital, predominantly spent on the major overhaul program for heavy duty equipment ($7.3 million), the dewatering program ($5.4 million), the tailings dam expansion

($3.1 million) and numerous other projects ($0.9 million). Growth capital investment totalled $218.3 million which was spent on pre-stripping capitalization ($94.3 million), purchase of new CAT 789 haul trucks ($78.6 million), the underground development of phases I and II ($21.9 million), purchase of larger Sandvik drills ($10.3 million), purchase of Hitachi shovels ($6.0 million), Stockwork delineation drilling ($2.4 million), camp expansion ($1.0 million), underground equipment ($1.0 million), expanded fuel farm ($0.6 million) and numerous other projects ($2.2 million).

### Boroo and Gatsuurt

The Boroo open pit mine, located in Mongolia, was the first hard rock gold mine in Mongolia. To date it has produced approximately 1.6 million ounces of gold since the beginning of its operation in 2004. During the first half of 2012, there were no recordable injuries and no reportable environmental incidents.

Mining activities in Pit 6, which commenced with the capitalized pre-stripping of waste rock, began in January and was completed at the end of the second quarter of 2012 when ore at the bottom of the pit was exposed. Milling of Pit 6 ore is expected to extend to January 2013.

The Gatsuurt project remained under care and maintenance in the first half of 2012 due to continued delays in permitting. Further development of the project is subject to receiving all required approvals and regulatory commissioning from the Mongolian Government, which would allow the Gatsuurt project to move forward.

The heap leach operation at Boroo remained idle during the first half of 2012 pending issuance of the final permitting and regulatory commissioning by the Mongolian government authorities. The Company continues to work with the Mongolian authorities. See “Other Corporate Developments-Mongolia”.

## Three-Months Ended June 30, 2012 Compared with the Three-Months Ended June 30, 2011

### Revenue and Gold Production

Revenue in the second quarter of 2012 increased to $25.7 million from $22.6 million in the second quarter of 2011 due to a 7% increase in ounces sold (15,973 ounces sold in the second quarter of 2012, compared to 14,955 ounces sold in the same period of 2011). The revenue for a gold shipment in transit at the end March 2012 of 4,088 ounces was recorded in the second quarter of 2012.

Boroo produced 11,175 ounces of gold in the second quarter of 2012 as compared to 16,089 ounces of gold in the second quarter of 2011. Milling operation continued to process low grade and low recovery ore stockpiled from the pit (including low grade material originally destined for the heap leach operation) during the second quarter of 2012. The milling ore grade averaged 0.86 g/t with a recovery of 69.0% in the second quarter of 2012, compared to 1.35 g/t with a recovery of 70.3% in the same quarter of 2011.

The average realized gold price per ounce in the second quarter of 2012 was $1,610 compared to $1,513 in the same period of 2011.

Heap leach operations at Boroo remain under care and maintenance while the Company continues to work with the Mongolian authorities. See “Other Corporate Developments- Mongolia”.

**Cost of Sales**

Cost of sales, which includes non-cash DD&A associated with the ounces sold, increased by $3.3 million in the second quarter of 2012 to $16.3 million compared to the same period of 2011, mainly as a result of higher ounces sold.

Depreciation, depletion and amortization from operations in the second quarter of 2012 totalled $2.5 million, a decrease of $0.3 million or 11% lower than the same period in 2011. The reduction results mainly from the lower production volumes in the second quarter of 2012.

Operating cash costs at Boroo increased in the second quarter of 2012 by $4.9 million before the capitalization of $3.6 million for pre-stripping activities in Pit 6 (net increase of $1.3 million) compared to the same quarter in 2011. This variance is explained as follows:

Mining costs before the capitalization of pre-stripping activities for the second quarter of 2012 were $3.7 million, $3.5 million higher than the same quarter in 2011. The increase is a result of the resumption of Pit 6 mining operations beginning January 1, 2012, which capitalized $3.6 million of pre-stripping costs for the second quarter of 2012. In the second quarter of 2011, $0.2 million of mining cost were incurred for mine overheads.

Milling costs for the second quarter of 2012 were $5.4 million, $1.3 million or 31% higher than the same quarter in 2011. This is primarily the result of higher costs incurred for the consumption of reagents, grinding media and electricity in the second quarter of 2012 as 25% higher throughput flowed through the mill compared to the same period in 2011. During 2011 the mill was shut down during May and June for SAG mill repairs resulting in the reduced consumption of consumables.

Site administration costs remained constant at approximately $2.0 million for the second quarter in both years.

Royalties for the second quarter of 2012 at $1.3 million increased by $0.2 million, primarily due to higher sales as compared to the same period in 2011.

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

Total cash cost per ounce produced in the second quarter of 2012 was $916 compared to $555 per ounce for the same period in 2011. The increase is mainly as a result of lower gold production and higher milling costs incurred. Total cash cost per ounce produced is a non-GAAP measure and is discussed under “Non-GAAP Measures”.

On a unit cost basis, cost of sales per ounce sold increased to $1,079 in the second quarter of 2012 compared to $693 for the same period in 2011 mainly reflecting the higher operating costs in the current quarter.

**Boroo Regional Administration**

Boroo regional administration costs remained constant at approximately $1.3 million for the second quarter in both years.

**Exploration**

Exploration expenditures in Mongolia decreased to $2.1 million in the second quarter of 2012 from $4.1 million in the same period of 2011, reflecting lower activity at the ATO property while the Company focused on completion of the Mongolian Reserve and Resource Report.

**Capital Expenditures**

Capital expenditures spent and accrued at Boroo in the second quarter of 2012 increased to $4.9 million ($2.4 million in the same period of 2011), mainly as a result of cash and non-cash Pit 6 pre-stripping activities resulting in $4.1 million of these costs capitalized in the second quarter of 2012. Minimal capital expenditures were incurred at Gatsuurt, pending resolution of permitting issues related to the Water and Forest Law as the project was put on care and maintenance. Since June 2011, Gatsuurt's care and maintenance costs, including security contractors, have been expensed. See "Other Corporate Developments – Mongolia".

## Six-Months Ended June 30, 2012 Compared with the Six-Months Ended June 30, 2011

**Revenue and Gold Production**

Revenue in the first six months of 2012 increased to $51.7 million from $42.9 million in the same period of 2011 primarily as a result of 7% higher ounces sold (31,496 in the first six months of 2012, compared to 29,439 ounces sold in the same period of 2011). The revenue for two gold shipments which were in transit at the end December 2011 of 7,197 ounces was recorded in the first quarter of 2012.

Boroo produced 23,023 ounces of gold in the first six months of 2012 compared to 32,639 ounces of gold in the same period of 2011. During the first half of 2012, the milling operation processed lower ore grades and had lower recovery from stockpiled material. The ore grade averaged 0.82 g/t with a recovery of 73.7% in the first six months of 2012, compared to 1.35 g/t with a recovery of 65.5% in the same period of 2011.

The average realized gold price per ounce in the first half of 2012 was $1,643 compared to $1,457 in the same period of 2011.

The heap leach operation remained idle in the first six months of 2012 pending receipt of the final permitting and regulatory commissioning by the Mongolian government authorities. The Company continues to work with the Mongolian authorities. See "Other Corporate Developments- Mongolia".

**Cost of Sales**

Cost of sales, which includes non-cash DD&A associated with the ounces sold, increased by $7.1 million in the first six months of 2012 to $33.6 million compared to the same period of 2011, mainly as a result of higher sales volume.

Depreciation, depletion and amortization from operations in the second quarter of 2012 totalled $5.1 million, a decrease of $0.9 million or 14% from the same period in 2011, mainly due to the impact of lower ounces poured in the first half of 2012 compared to the same period of 2011.

Operating cash costs at Boroo increased in the first six months of 2012 by $8.0 million before the capitalization of $6.3 million for pre-stripping activities in Pit 6 (net increase of $1.6 million) compared to the same period of 2011. This increase can be explained as follows:

Mining costs for the first six months of 2012, before the capitalization of pre-stripping activities, were $6.5 million, $5.7 million higher than the same period in 2011. The increase is a result of the resumption of Pit 6 mining operations beginning January 1, 2012, which capitalized $6.3 million of pre-stripping costs in the first half of 2012. In the first half of 2011, $0.8 million of mining costs were incurred for mine overheads.

Milling costs for the first six months of 2012 were $11.3 million, $1.6 million or 17% higher than the same period in 2011, reflecting 10% higher throughput flowing through the mill as compared to the same period in 2011. Higher consumption of major consumables such as, reagents, grinding media and electricity was also incurred as well as increased prices. During the first half of 2011 there was a shutdown of the mill caused by the SAG mill repair in May and June 2011 that reduced overall consumption of consumables.

Costs for heap leaching activities were $0.2 million lower than the same period in 2011, which resulted from halting the recirculation of solution at the plant starting in August 2011.

Site administration costs in the first half of 2012 were $4.0 million, $0.2 million higher than the same period of 2011.

Royalties increased by $0.5 million to total $2.6 million, primarily due to higher sales in the first six months of 2012 compared to the same period in 2011.

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

Total cash cost per ounce produced in the first six months of 2012 was $911 compared to $600 per ounce for the same period in 2011. The increase in the unit cash cost of $311 per ounce is primarily as a result of lower ounce production in the first half of 2012. Total cash cost per ounce produced is a non-GAAP measure and is discussed under "Non-GAAP Measures".

On a unit cost basis, cost of sales per ounce sold increased to $1,069 in the first half of 2012 compared to $749 for the same period in 2011 mainly reflecting the higher operating costs.


1 University Avenue, Suite 1500
Toronto, ON
M5J 2P1
tel 416-204-1953
fax 416-204-1954
www.centerragold.com

### Boroo Regional Administration

Boroo regional administration costs in the first six months of 2012 were $2.7 million, $0.1 million or 3% lower than the same period in 2011. This is mainly due to lower spending in the 2012 period on contractors.

### Exploration

Exploration expenditures in Mongolia decreased to $4.3 million in the first six months of 2012 from $4.9 million in the same period of 2011. Exploration activity at the ATO property in northeast Mongolia was lower in the first six months of 2012 while the Company focused on completion of the Mongolian Reserve and Resource Report.

### Capital Expenditures

Capital expenditures spent and accrued at Boroo in the first six months of 2012 increased to $8.6 million ($2.5 million in the same period of 2011), mainly as a result of cash and non-cash Pit 6 pre-stripping costs of $7.3 million capitalized in the first half of 2012. Minimal capital expenditures were incurred at Gatsuurt in the first half of 2012 (minimal spending in the comparative period of 2011), pending resolution of permitting and commissioning issues related to the Water and Forest Law. The project has been on care and maintenance since June 2011. At the current time, Gatsuurt spending is limited to care and maintenance costs which are expensed.

## Other Financial Information – Related Party Transactions

### Kyrgyzaltyn JSC

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

The table below summarizes 100% of 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 receivable by Kyrgyzaltyn to KGC according to the terms of a Restated Gold and Silver Sale Agreement between KGC (KOC entered into on behalf of KGC), Kyrgyzaltyn and the Government of the Kyrgyz Republic dated June 6, 2009.

| *($ thousands)* | **Three months ended June 30** | | **Six months ended June 30** | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| Management fees paid by KGC to Kyrgyzaltyn | **$ 40** | $ 145 | **$ 102** | $ 311 |
| | | | | |
| Gross gold and silver sales from KGC to Kyrgyzaltyn | **$ 64,219** | $ 221,938 | **$ 172,246** | $ 452,685 |
| Deduct: refinery and financing charges | **(196)** | (751) | **(489)** | (1,586) |
| Net sales revenue received by KGC from Kyrgyzaltyn | **$ 64,023** | $ 221,187 | **$ 171,757** | $ 451,099 |
| | | | | |
| Dividends paid to Kyrgyzaltyn | **$3,096** | $29,412 | **$3,096** | $29,412 |



1 University Avenue, Suite 1500
Toronto, ON
M5J 2P1
tel 416-204-1953
fax 416-204-1954
www.centerragold.com

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 the Gold and Silver Sale Agreement. Amounts receivable from Kyrgyzaltyn arise from the sale of gold to Kyrgyzaltyn. Pursuant to the Restated Gold and Silver Sale Agreement, Kyrgyzaltyn is required to pay for gold delivered within 12 days from when the gold is collected by Kyrgyzaltyn. 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, the value of which fluctuates with the market price of Centerra's shares.

Based on movements in Centerra's share price and the value of individual or unsettled gold shipments, the highest value receivable from unsettled shipments during the second quarter of 2012 was $24.7 million and $48.7 million for the six months ended June 30, 2012. On the date when these unsettled shipments were outstanding, the value of the pledged shares was sufficient to cover the amounts outstanding. However, the last shipment of the quarter, on June 30, 2012, coincided with a material decline in the value of Centerra's stock, thereby resulting with a shortfall in the pledged security coverage of approximately $0.5 million for that unsettled shipment.

As at June 30, 2012, Kumtor had an amount of $19.1 million receivable from Kyrgyzaltyn under these agreements (December 31, 2011 - $47.4 million). Subsequent to June 30, 2012, the balance receivable from Kyrgyzaltyn was paid in full.

## 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. Production and sales in 2012 have been impacted by the accelerated ice movement at Kumtor which has necessitated a change in the mine plan and the re-deployment of the mining equipment to address the ice and waste movement in the southeast portion of the Kumtor 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 totalling $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 (the Company paid both the employer and employee portions for the period of 2010-2011). In the first quarter of 2011 cost of sales was reduced due to the processing of low cost ore stockpiled in the fourth quarter of 2010 when Kumtor accessed and mined high grade material from the central pit. Cost of sales was also impacted by higher costs of labour and diesel in the second, third and fourth quarters of 2011 and into 2012. The first and second quarters of 2012 were impacted by the significant ice and waste removal costs which delayed the release of mined ore and added a significant amount of abnormal mining costs charged to expense of $18.7 million for the first quarter and a further $9.6 million in the second quarter. Other operating charges in second quarter of 2012 for social development programs include $21 million spent by Kumtor on a national micro-credit financing program and $1.1 million accrued by Boroo to increase its funding of a maternity hospital in Ulaanbaatar. Similarly Kumtor spent in the third quarter of 2011 $10 million for special funding of a school improvement program in the Kyrgyz Republic and Boroo committed to funding and


1 University Avenue, Suite 1500
Toronto, ON
M5J 2P1
tel 416-204-1953
fax 416-204-1954
www.centerragold.com

accrued for the construction of a maternity hospital totalling $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 (see "Annual Information Form – Three Year History"). The results for the third quarter of 2010 include the gain on sale of the REN exploration property of $34.9 million. The quarterly financial results for the last eight quarters are shown below:

| *$ millions, except per share data* | **2012** | | **2011** | | | | **2010** | |
|---|---|---|---|---|---|---|---|---|
| | **Q2** | **Q1** | **Q4** | **Q3** | **Q2** | **Q1** | **Q4** | **Q3** |
| Revenue | **90** | **134** | 248 | 278 | 244 | 250 | 323 | 120 |
| Net earnings (loss) | **(55)** | **(15)** | 79 | 84 | 71 | 137 | 151 | 17 |
| Earnings (loss) per share (basic and diluted) | **(0.23)** | **(0.06)** | 0.34 | 0.35 | 0.30 | 0.58 | 0.64 | 0.07 |

## Other Corporate Developments

The following is a summary of corporate developments since the Company's MD&A for the period ended March 31, 2012 filed on May 15, 2012 with respect to matters affecting the Company and its subsidiaries in the Kyrgyz Republic, Mongolia and Canada. Except as expressed below, no material changes have occurred with respect to the matters discussed in the "Other Corporate Development" section of the Company's MD&A for the period ended March 31, 2012 published on May 15, 2012 and no new corporate developments have occurred that are material to Centerra.

In particular, the following corporate matters remain outstanding:

- Heap Leach Permit: receipt of a permanent permit and regulatory commissioning to resume heap leach operations at Boroo;

- Gatsuurt and the Impact of the Mongolian Water and Forest Law: the receipt of regulatory commissioning of the Gatsuurt development property, and determination of the impact of 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") on the Company's Mongolian operations. 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 Company's Mongolian activities. There can be no assurance, however, that this will be the case. Unless the Water and Forest Law is repealed or amended such that the law no longer applies to the 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 June 30, 2012, the Company had net assets recorded amounting to approximately $36 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;

- Impact of the Graduated Royalty Fee on Boroo: the possibility that the graduated royalty fee introduced by the Mongolian Parliament in November 2010 may apply to the Boroo project, despite the existence of a stability agreement which provides legislative stabilization for the property. 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. Despite this, the Company cannot provide any assurances that Boroo will not be made subject to the graduated royalty fee. If the graduated royalty fee does apply to Boroo, it may have an adverse impact on Centerra's future cash flows, earnings, results of operations or financial condition;

- Enforcement Notice by Sistem: the impact on Centerra of an enforcement notice filed in an Ontario court by Sistem Muhenkislik Insaat Sanayi Ticaret ("Sistem") in March 2011 to seize shares and dividends in Centerra held by Kyrgyzaltyn JSC in satisfaction of an international arbitral award against the Kyrgyz Republic in favour of Sistem in the amount of $11 million with additional interest. On July 25, 2012, the Ontario Superior Court of Justice dismissed a motion brought by Kyrgyzaltyn raising a jurisdictional challenge to a prior Ontario court decision which had recognized an international arbitral award obtained by Sistem. The merits of the dispute between Kyrgyzaltyn and Sistem will now proceed in court, subject to any appeal which may be taken of the July 25th decision.

For a discussion relating these corporate matters affecting the Company and its operations, please see the Company's MD&A for the period ended March 31, 2012 and the Company's 2011 Annual Information Form.

**Kyrgyz Republic**

***Tax Advance Agreement***

At the request of the Kyrgyz Government, an agreement was reached on May 28, 2012 between Kumtor Gold Company ("KGC") and the Kyrgyz Government whereby KGC agreed to advance $30 million before the end of May 2012 in revenue-based taxes. This interest-free advance will be applied against revenue-based taxes otherwise payable during 2012 (starting in November 2012) and 2013, under a formal repayment schedule that will involve $10 million being offset in 2012 and the remaining $20 million offset in 2013.

***National Micro-Credit Financing Program***

On April 23, 2012, KGC signed an agreement with the Kyrgyz Government to fund $21 million into a national micro-credit financing program. This funding is part of an existing government program whose objective is to provide financing for small sustainable development projects throughout the Kyrgyz Republic. On signing of this agreement, the $21 million was transferred by KGC to the Government's micro credit agency. This funding is in support of the Company's commitment to invest in sustainable development projects in the communities where it works.

### *Kyrgyz Republic Parliamentary Commission Report and State Commission*

**<u>Parliamentary Commission Report</u>**

On February 15, 2012, the Kyrgyz Republic Parliament (the "Parliament") established an interim Parliamentary Commission (the "Parliamentary Commission") to inspect and review (i) Kumtor's compliance with relevant Kyrgyz operational and environmental laws and regulations and community standards, and (ii) the State's regulation over Kumtor's activities. The Parliamentary Commission made numerous requests to Centerra and Kumtor for various project-related documents and information going back to the initial project discussions in 1992. These requests related to a wide variety of subjects including mine construction, operations, project ownership, human resources and procurement practices, environmental practices, and project management and financial matters.

The Parliamentary Commission released its report on June 18, 2012 (the "Commission Report"). The Commission Report, which is over 300 pages, made numerous assertions, all of which the Company believes are without merit. The Company notes that the Kumtor project has been operating without interruption since 1997 and is in full compliance with Kyrgyz law, meets or exceeds Kyrgyz and international environmental standards, and has been the subject of systematic compliance audits by both Kyrgyz and international independent experts, who have confirmed its high level of performance. The assertions made in the Commission Report include:

(i) challenging the legal validity and propriety of the project agreements that have governed the Kumtor project from time to time, and certain transactions contemplated by such agreements, including the 1992 Master Agreement between the Kyrgyz Republic and the investor parties, the 2003 Investment Agreement between the Kyrgyz Republic, Centerra and others, and the current agreements that govern the project, including the Restated Investment Agreement among the Kyrgyz Republic, Centerra, Kumtor Gold Company ("KGC") and Kumtor Operating Company ("KOC") dated June 6, 2009, the Restated Concession Agreement between the Kyrgyz Republic and KGC dated June 6, 2009, the Restated Shareholders Agreement between Kyrgyzaltyn JSC and Centerra dated June 6, 2009, and the Restated Gold and Silver Sale Agreement between Kyrgyzaltyn JSC, the Government of the Kyrgyz Republic (the "Government") on behalf of Kyrgyz Republic and KGC dated June 6, 2009 (collectively, the "Restated Project Agreements");

(ii) non-compliance by the Kumtor project with Kyrgyz environmental laws and other laws and regulations, and inadequate oversight of the Kumtor project by Kyrgyz state authorities. The allegations of non-compliance related to, among other things, the Kumtor tailings facility, the Davidov glacier, and the Sarychat-Ertash State Reserve which is in the vicinity of the Kumtor mine. The Commission Report also alleges very substantial monetary damage as a result of environmental contamination at Kumtor; and

(iii) inefficient or improper management of the Kumtor mine, including in relation to customs practices, tax and social fund payments, operational decisions, procurement practices and mill efficiencies (gold recoveries). The Commission Report alleges very substantial losses due to the purported inefficient approach to gold recoverability since 1997 (when commercial production began).


1 University Avenue, Suite 1500
Toronto, ON
M5J 2P1
tel 416-204-1953
fax 416-204-1954
www.centerragold.com

## Draft Parliamentary Commission Decree

On June 20, 2012, the Parliamentary Commission proposed a form of decree to the Parliament ("Draft Decree"), which, among other things, called for the cancellation of the Restated Project Agreements, among other agreements, and the creation of a new state-owned Kyrgyz Republic entity to assume control over the Kumtor mine. If the Draft Decree had been approved and given full effect by the Government, the results would have, in substance, resulted in the nationalization of the Kumtor project.

## Government Review of Parliamentary Commission Report

The Parliament reviewed the Commission Report and the Draft Decree on June 20, 22 and June 27, 2012. At its meeting on June 27, 2012 the Parliament voted against the Draft Decree proposed by the Parliamentary Commission and instead elected to adopt an alternative resolution ("Resolution 2117-V"). Resolution 2117-V took note of the Commission Report and declared the Restated Investment Agreement to be contradictory to the interests of the Kyrgyz people. Resolution 2117-V also called for the formation of a State Commission by July 10, 2012 to examine the Commission Report, and to, among other things, by October 1, 2012 "assess the environmental, industrial and social damage" caused by the Kumtor project and to initiate the renegotiation of the current project agreements, "in order to protect economic and environmental interests". Resolution 2117-V also recommended that renegotiations include increasing environmental reclamation obligations, renegotiation of the ownership interest of the Kyrgyz Republic in Centerra, replacing the current profit sharing arrangement with a production sharing arrangement, renegotiating the Kumtor concession area and the applicable tax regime, and other matters relating to the Kumtor project. Resolution 2117-V requested that the State Commission submit information to Parliament on the work done by November 1, 2012.

Resolution 2117-V also recommended that the Government cancel various government decrees and orders, including Government Decree #168 dated March 25, 2010 regarding the allocation of lands to Kumtor (surface rights in respect of the Kumtor concession area), and recommended to the State Agency for Geology and Mineral Resources to cancel certain licenses granted to Kumtor, including the exploration license for the Koendy licensed area. Lastly, the resolution also called on the Prosecutor General of the Kyrgyz Republic to examine all agreements and other documents made with the Kyrgyz Republic relating to the Kumtor project and to investigate any offences committed arising from them.

## Decree #465 and the State Commission

In response to Resolution 2117-V, the Government issued Decree #465 dated July 3, 2012 to establish a State Commission (the "State Commission") for the purpose of reviewing the Commission Report by inspecting and reviewing Kumtor's compliance with Kyrgyz operational and environmental laws and regulations and community standards. The Company understands that 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 matters).

On July 13, 2012, the Kyrgyz Republic Prime Minister issued orders to establish two interagency commissions to facilitate the activity of the State Commission. According to the Government orders, one interagency commission is to review Kumtor's compliance with Kyrgyz legal requirements in general, and one is tasked with reviewing Kumtor's compliance with legal requirements with respect to natural resources, environmental and operation-related matters. Both interagency commissions have until September 1, 2012 to complete their review, and are given the right to use government specialists as well as independent experts and consultants. It is unclear at this point how the work of the interagency commissions will relate to the work of the State Commission.

**Decree #475 and the Land Use Certificate**

The Government issued Decree #475 dated July 5, 2012 to cancel Government Decree #168 which was issued on March 24, 2010. Government Decree #168 provided Kumtor with land use (surface) rights over the Kumtor concession area for the duration of the Restated Concession Agreement. On July 6, 2012, in response to a request for clarification from the Company, the Kyrgyz Republic Prime Minister confirmed the Government's position that Decree #475 would have no impact on or limit in any way Kumtor's activities or operations. Based on advice from Kyrgyz legal counsel, the Company believes that Decree #475 is in violation of the Kyrgyz Republic Land Code because such legislation provides that land rights can only be terminated by court decision and on the listed grounds set out in the Land Code. The requirements were not followed in these circumstances, and accordingly the Company believes that Decree #475 cannot be considered a legal basis for terminating KGC's land rights. The Company also notes that under the Restated Investment Agreement, Kumtor is guaranteed all necessary access to the Kumtor concession area, including all necessary surface lands as is necessary or desirable for the operation of the Kumtor project. The agreement also provides for the payment of quarterly land use and access fees. The Restated Investment Agreement also provides that the Government shall use its best efforts to reserve or cancel any action that conflicts with Kumtor's rights under the Restated Investment Agreement. To the extent that Kumtor's land use rights are considered invalid (which the Company does not accept), the Company would seek to enforce its rights under the Restated Investment Agreement to obtain the rights otherwise guaranteed to it.

**Other Related Matters**

Kumtor received notice on June 15, 2012, that the renewal applications for its exploration licenses for the Koendy license area and the Karasay license area would be reviewed by the Kyrgyz Republic Environmental and Forestry Agencies for possible impacts on the nearby Sarychat-Ertash State Reserve. Kumtor has been conducting exploration on these two license areas since 2010 and has expended in excess of $1 million developing exploration targets on both licenses. Exploration work has been suspended on these licenses and will not resume until such reviews have been completed and the licenses renewed. It is unlikely that any exploration work will be performed on these licenses in 2012.

On July 17, 2012, the Company received notice from the Kyrgyz Republic Social Fund (i) declaring invalid an August 23, 1994 agreement between the Kyrgyz Social Fund and Kumtor Operating Company, and requiring Kumtor to pay Social Fund contributions for all expatriate employees for the period from February 15, 1993 to present, and (ii) obliging Kumtor to make Social Fund contributions on high altitude premiums paid to all Kumtor employees before 2010. As previously disclosed, the application of the Social Fund contributions to the high altitude premium for the 2010 tax year was the subject of a dispute between the Kyrgyz Social Fund and Kumtor, which was settled


1 University Avenue, Suite 1500
Toronto, ON
M5J 2P1
tel 416-204-1953
fax 416-204-1954
www.centerragold.com

in late 2011 with Kumtor agreeing to make a settlement payment and to apply the contribution going forward. Tax audits for periods prior to 2010 have been completed, and the Company believes that cancelling such previously completed tax audits is not permitted under Kyrgyz law or under the Company's agreement with the Kyrgyz Republic. The Company notes that pursuant to the Restated Investment Agreement, Kumtor is only required to make Social Fund payments in respect of such Kumtor employees who are Kyrgyz citizens.

**Conclusion**

As noted above, Centerra believes that the findings of the Parliamentary Commission set out in the Parliamentary Commission Report are without merit. Nevertheless, Centerra and Kumtor intend to work constructively with the State Commission and the interagency commissions to complete their reviews, and with any other Kyrgyz regulatory body to resolve matters. With respect to the State Commission's mandate in Resolution 2117-V to renegotiate the current project agreements by October 1, 2012, the Company notes that such agreements were approved by all relevant Kyrgyz governmental authorities in 2009, including the Kyrgyz Parliament and the Constitutional Court. Accordingly, the Company believes these agreements are legally valid and enforceable obligations. In addition, concurrently with entering into the Restated Project Agreements, Centerra, KGC, the Kyrgyz Republic and others entered into a Release Agreement dated June 6, 2009, whereby, subject to certain exceptions which are not applicable in the circumstances, the Kyrgyz Republic released Centerra and KGC from any and all claims, and damages with respect of any matter (including any tax or fiscal matters) arising or existing prior to the date of such release agreement, whether such matters were known or unknown at such time, and the Kyrgyz Republic agreed not to commence any actions or assert any demands for such actions or demands so released. The Restated Project Agreement also provide for any disputes regarding the Restated Project Agreements, the Release Agreement, and the Kumtor project to be resolved by international arbitration if necessary.

There are risks associated with the Parliamentary Commission Report, the State Commission, the interagency commissions, and the other related matters which could have an adverse impact on Centerra's future cash flows, earnings, results of operations, financial condition, or business prospects. See "Outlook for 2012 – Material Assumptions & Risks" and "Caution Regarding Forward-Looking Information".

## Corporate

Effective May 17, 2012, Mr. Patrick James retired as a director and Chair of the Board and Mr. Ian Austin retired as a director. Mr. James and Mr. Austin had been on Centerra's Board since 2004. Mr. Stephen Lang, Centerra's former President and CEO replaced Mr. James as Chair of the Board effective as of May 17, 2012. Mr. Lang has been with Centerra since December, 2007, was named President and CEO in June, 2008, and has been a member of the Board since that time. He decided to retire from his former role concurrently with assuming the position of the Chair. As Mr. Lang will not be considered as an independent director for a three year period due to his historical role with Centerra, the independent members of the Board named Mr. Terry Rogers as the independent lead director.

In accordance with the succession plan previously established by the Board, Mr. Ian Atkinson was promoted to the position of President and CEO and Mr. David Groves was promoted to the position


1 University Avenue, Suite 1500
Toronto, ON
M5J 2P1
tel 416-204-1953
fax 416-204-1954
www.centerragold.com

of Vice President, Global Exploration, both became effective immediately following the annual general shareholders meeting.

The Board replaced Mr. Austin with Mr. Rick Connor who now serves as the chair of the Board's audit committee. Mr. Niyazbek Aldashev resigned from the Board in late June 2012.

On June 15, 2012, Centerra paid a dividend of C$0.04 per common share to shareholders of record on May 31, 2012.

Effective June 29, 2012, the Company closed its Reno, Nevada office.

See "Risk Factors" in the Company's most recently filed Annual Information Form available on SEDAR at www.sedar.com and see also the discussion below under the heading "Cautionary Note Regarding Forward-looking Information".

## Changes in Accounting Policies

There were no new accounting policies adopted during the three months ended June 30, 2012.

***New Pronouncements***
As disclosed in the Company's 2011 annual MD&A and in note 5 to its annual financial statements of 2011, the following recently issued IFRS standards have not been adopted:

IFRS 7 *Financial Instruments – Disclosures* ("IFRS 7") 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*. 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*. 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.* This new standard is applicable for accounting periods beginning January 1, 2013. The Company is assessing the impact of IFRS 11 on its results of operations and financial position and will adopt IFRS 11 in its financial statements effective from January 1, 2013.

IFRS 12 *Disclosure of Interests in Other Entities.* 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*. 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*. The Company intends to adopt IFRS 13 in its financial statements for the annual period beginning on January 1, 2013. The Company is assessing the impact of IFRIC 20 on its results of operations and financial position and will adopt the new standard in its financial statements effective from January 1, 2013.

## Outlook for 2012

### Production

Centerra's 2012 consolidated gold production is forecast to be 450,000 to 470,000 ounces. Total cash cost in 2012 is expected to be $590 to $615 per ounce produced. Both production and cash cost guidance are unchanged from the previous guidance disclosed in the Company's MD&A for the first quarter of 2012 dated May 15, 2012.

The Kumtor mine is expected to produce 390,000 to 410,000 ounces of gold in 2012. Kumtor’s total cash cost for 2012 is expected to be $550 to $585 per ounce produced. Both the production and cash cost outlook are unchanged from the previous guidance. It is expected that the higher than anticipated production and cost savings realized at Kumtor in the second quarter of 2012 may be offset by lower production and increased costs in the third and partially in the fourth quarters of 2012. Kumtor still expects to produce approximately 68% of its annual gold production in the fourth quarter of 2012. Production at Kumtor is dependent on successfully maintaining the mining rates of the waste and ice in the south section of the pit to gain access to the higher grade ore in the SB Zone. The substantial acceleration of ice and waste movement in the first quarter is expected to delay the ore release from cut-back 14A from late 2012 to late 2013, resulting in the deferral into 2013-2014 of production from the high-grade SB Zone otherwise expected in 2012. The Company is planning to focus on removal of ice and waste in the high movement area by allocating more of the existing mining capacity to unload activities.

The Company expects to partially mitigate the impact of the ice and waste movement and the resulting delay in cut-back 14A on 2012 gold production by accelerating mining in the southwest portion of the Kumtor pit to access part of the new reserves (reported in its February 9, 2012 reserve and resource update) expected in September 2012 to provide higher grade ore for the Kumtor mill. The Kumtor mill is expected to process stockpiled ore until July 22, 2012. There will be no milling activities at Kumtor in August 2012 until ore from the southwest portion of the SB Zone is accessed in September 2012 at which time the mill will process this high grade ore for the balance of the year. The planned downtime of the mill in August will be used to carry out the scheduled and planned mill maintenance. Kumtor’s collective bargaining agreement expires at the end of 2012. A work stoppage at any time during the year would have a significant impact on Kumtor achieving its revised forecast production. Additionally, achieving the revised production is dependent on the Company satisfactorily managing the ice movement and unloading the ice and waste in the southeast portion of the pit. See “Material Assumptions & Risks and Caution Regarding Forward-looking Information”.

At the Boroo mine, gold production is forecast to be approximately 60,000 ounces in 2012. Boroo’s total cash cost is expected to be $810 per ounce produced in 2012. Both production and cash cost outlook are unchanged from the previous guidance. Boroo resumed mining of Pit 6 from January 2012 and exposed ore at the end of the second quarter. The mining of Pit 6 ore is expected to be completed in the third quarter. During the first half of the year the Boroo mill was processing mostly higher grade heap leach ore stockpiles. During the second half of the year, the Boroo mill is expected to process a mixture of higher grade Pit 6 ore and the stockpiled heap leach material which has grades between 0.67 – 0.76 g/t. The remaining ore from Pit 6 is refractory and recoveries are expected to be approximately 53% of the head grade.

The 2012 forecast also assumes no production from the heap leach facility or the Gatsuurt project due to uncertainties with permitting. Commissioning of the heap leach would add approximately 2,000 ounces of gold a month. At Gatsuurt, the project is ready to begin mining the oxide ore upon receipt of the final approvals and regulatory commissioning. See also “Other Corporate Developments” and other material assumptions set out below.

**Centerra’s Production and Unit Cost –2012 Forecast as follows:**

| | **Production**<br><br>*Ounces of gold* | **Total Cash Cost**[(1)]<br><br>*$ per ounce produced* |
|---|---|---|
| Kumtor | 390,000 – 410,000 | 550 – 585 |
| Boroo | approximately 60,000 | Approximately 810 |
| Consolidated | 450,000 – 470,000 | 580 – 615 |

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

**Kumtor – Forecast Production & Select Financial Information (2012 – 2014) ) – Potential Impact of Technical and Financial Study on Forecast**

The announcement on March 27, 2012 to delay the scheduled access to the high-grade SB Zone at Kumtor as a result of the increased ice movement in the southeast section of the pit necessitated the revision of the mine plan thereby affecting the production outlook for the current year and deferred production into 2013 and 2014.

In its MD&A for the first quarter of 2012 dated May 15, 2012 the Company outlined the production estimate for the Kumtor operation for the three years from 2012 to 2014, highlighting the estimated tonnage to be moved for pre-stripping and abnormal removal of ice and waste from the unload zones, and presented select financial information including unit cost for gold produced in the revised Kumtor plan. This production estimate and related financial information for 2013 and 2014 may be


1 University Avenue, Suite 1500
Toronto, ON
M5J 2P1
tel 416-204-1953
fax 416-204-1954
www.centerragold.com

affected by the ongoing detailed technical and financial study of the potential for expanding the limits of the ultimate pit and the impact of an expanded open pit on reserves and resources and the life-of-mine plan. The work done to date has produced very encouraging results and indicates that a much larger open pit is feasible, which would result in a significant addition to the open pit reserves and a substantially extended mine life. The expanded open pit would also encompass a significant part of the existing SB underground development and would result in a revaluation of the associated capital investment. Further development work on Decline 1 has been postponed until the study is finalized. The expanded open pit may require removal of additional ice and waste material that may have an impact on the short-term (2013-2014) production and financial estimates. Significant technical, financial and permitting factors require further study. The Company expects to complete the study and release its conclusions late in the third quarter of 2012.

**2012 Exploration Expenditures**

Exploration expenditures of $45 million are planned for 2012, which is unchanged from the previous guidance. The 2012 program includes a program of surface and underground drilling at the Kumtor mine site. Planned expenditures are expected to be about $13 million. Further, regional exploration on the Karasay and Koendy licenses has been suspended awaiting the license renewals (see “Other Corporate Developments – Kyrgyz Republic – Kyrgyz Parliamentary Commission Report and State Commission - Other Related Matters”). In Mongolia, planned exploration expenditures have increased to $9 million to fund exploration and advanced project studies on the ATO project and to advance exploration on other projects along the Onon Trend in eastern Mongolia.

Expenditures for the Kara Beldyr and Dvoinoy projects in Russia are expected to total approximately $6 million. In Turkey, expenditures on the Company’s Öksüt, Akarca and Altunhisar joint venture projects are expected to be approximately $8 million, as drilling accelerates at Öksüt in the latter half of the year. Exploration is underway on the Laogouxi joint venture project in China and is expected to total $0.7 million for the year. Approximately $3 million is allocated to generative programs in Central Asia, Russia, China, and Turkey to increase the Company’s pipeline of exploration projects.

**2012 Capital Expenditures**

The capital expenditures for 2012 are estimated to be $384 million, including $36 million of sustaining capital and $348 million of growth capital, which is unchanged from the previous guidance provided in the Company's first quarter 2012 MD&A.

| **Projects** | **2012 Growth Capital** ($ millions) | **2012 Sustaining Capital** ($ millions) |
|---|---|---|
| Kumtor mine | $338 | $32 |
| Mongolia | $10 | $3 |
| Corporate | - | $1 |
| Consolidated Total | $348 | $36 |


1 University Avenue, Suite 1500
Toronto, ON
M5J 2P1
tel 416-204-1953
fax 416-204-1954
www.centerragold.com

### Kumtor

At Kumtor, 2012 total capital expenditures are forecast to be $370 million including $32 million of sustaining capital. The largest sustaining capital spending will be the major overhaul maintenance of the heavy duty mine equipment ($11 million), expenditures for dewatering and infrastructure ($9 million), effluent treatment plant relocation ($5 million), tailings dam construction works ($4 million) and for equipment replacement and other items ($3 million).

Growth capital investment at Kumtor for 2012 is forecast at $338 million, which includes pre-strip costs related to the development of the open pit ($156 million), purchase of new mining equipment including 25 CAT 789 haul trucks, 4 drills and 4 Hitachi 3600 shovels ($126 million), $47 million for the underground project to continue to develop the SB and Stockwork Zones, as well as for delineation drilling and capital purchases in 2012 and other items ($9 million).

### Mongolia (Boroo & Gatsuurt)

At Boroo, 2012 sustaining capital expenditures are expected to be about $3 million primarily for component change-outs and mill maintenance. Growth capital is forecast at $10 million, which includes capitalized pre-stripping costs of Pit 6 at Boroo ($8 million). No capital for the development of the deeper sulphide ores at Gatsuurt has been forecast and capital will only be invested following successful regulatory commissioning of the Gatsuurt oxide project. The engineering and construction of the bio-oxidation facility to be located at the Boroo mill, which is needed to treat Gatsuurt sulphide ores, will also be restarted only after the approval to begin mining at Gatsuurt has been received from the Government of Mongolia.

### 2012 Corporate Administration and Community Investment

Corporate and administration expenses for 2012 are forecast at $32 million, which is $9 million less than the previous guidance reflecting a reduction in stock-based compensation expense.

Total community investments for 2012 are forecast at $28 million, which is unchanged from the previous guidance provided in the Company's first quarter 2012 MD&A. This investment includes $5 million for donations and sustainable development projects in the various communities Centerra operates in and $23 million for strategic community investment projects, including the Company’s funding in the second quarter of 2012 of $21 million to the micro-credit financing program in the Kyrgyz Republic discussed in “Other Corporate Developments – Kyrgyz Republic”. Note that these costs are not included in cash cost per ounce. Centerra has a history of investing in various community sustainable development and strategic investment projects in the countries and communities where it operates. For example in 2010, Boroo contributed $6.4 million towards the construction of a new maternity hospital in Ulaanbaatar and in 2011 Kumtor contributed $10 million for the construction and repair of 27 schools throughout the Kyrgyz Republic.

### Taxes

Pursuant to the Restated Investment Agreement, Kumtor’s operations are not subject to corporate income taxes. The Agreement replaced the prior tax regime applicable to the Kumtor project with a simplified tax regime effective January 1, 2008. This simplified regime, which assesses tax at 13%

on gross revenue (plus 1% for the Issyk-Kul Oblast Development Fund effective January 2009), was approved and enacted by the Parliament of the Kyrgyz Republic on April 30, 2009.

The corporate income tax rate for Centerra's Mongolian subsidiary, Boroo Gold Company, is 25% for taxable income over 3 billion Mongolian tugriks (approximately $2.2 million at the June 30, 2012 end-of-day 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 termination of the Boroo Stability Agreement in July 2013, after which Boroo's operations will be subject to prevailing taxes and royalty fees.

Production, cost and capital forecasts for 2012 are forward-looking information and are based on key assumptions and subject to material risk factors that could cause actual results to differ materially and which are discussed herein under the headings "Material Assumptions & Risks" and "Caution Regarding Forward-Looking Information" and under the heading "Risk Factors" in the Company's 2011 Annual Information Form.

**Sensitivities**

Centerra's revenues, earnings and cash flows for the last six months of 2012 are sensitive to changes in certain variables. The Company has estimated the impact of changes in these variables on revenues, net earnings and cash flow from operations as follows:

| | | **Impact on** *($ millions)* | | | |
|---|---|---|---|---|---|
| | **Change** | **Costs** | **Revenues** | **Cash flow** | **Earnings before Income tax** |
| Gold Price | **$50/oz** | 2.7 | 17.1 | 14.4 | 14.4 |
| Diesel Fuel(1) | **10%** | 5.4 | - | 5.4 | 5.4 |
| Kyrgyz som | **1 som per USD** | 1.3 | - | 1.3 | 1.3 |
| Mongolian tugrik | **25 tugrik per USD** | 0.4 | - | 0.4 | 0.4 |
| Canadian dollar | **10 cents per USD** | 1.8 | - | 1.8 | 1.8 |

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

**Material Assumptions & Risks**

Material assumptions or factors used to forecast production and costs for the second half of 2012 include the following:

- a gold price of $1,600 per ounce,
- exchange rates:
  - $1USD:$1.00 CAD
  - $1USD:47.5 Kyrgyz som
  - $1USD:1,290 Mongolian tugriks
  - $1USD:0.78 Euro
- diesel fuel price assumption:
  - $0.81/litre at Kumtor
  - $1.15/litre at Boroo

The assumed diesel price of $0.81/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 important assumptions include the following:

- any recurrence of political and civil unrest in the Kyrgyz Republic will not impact operations, including movement of people, supplies and gold shipments to and from the Kumtor mine,
- the activities of the Parliamentary Committee and State Commission referred to under the heading "Other Corporate Developments – Kyrgyz Republic - Kyrgyz Republic Parliamentary Commission Report and State Commission" do not have an impact on operations. No assurances can be given by the Company in this regard,
- The Government of the Kyrgyz Republic taking no action in connection with the matters referred to under the heading "Other Corporate Developments – Kyrgyz Republic - Kyrgyz Republic Parliamentary Commission Report and State Commission" that has an impact on operations. 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 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 pit,
- no labour related disruptions occur at any of the Company's operations, in particular at the Kumtor mine where the collective agreement is scheduled to expire on December 31, 2012,
- 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,

- certain issues at Boroo raised by the General Department of Specialized Inspection ("SSIA") concerning the production and sale of gold from the Boroo heap leach facility and other outstanding matters will be resolved through negotiation without material adverse impact on the Company, see "Other Corporate Developments ",
- no further suspension of Boroo's operating licenses, 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 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".

## Non-GAAP Measures

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

Total cash costs include mine operating costs such as mining, processing, administration, royalties and production taxes (except at Kumtor where revenue-based taxes and production taxes are excluded), but exclude amortization, reclamation costs, financing costs, capital development, community investment and exploration costs. In addition, ice and waste removal costs in the unload zones at Kumtor and certain amounts of stock-based compensation have also been excluded from total cash costs. Total production costs includes total cash cost plus depreciation, depletion and amortization. Total cash cost per ounce produced, total production cost 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 total cash cost per ounce produced and total production cost per ounce produced may enable investors to better understand year-over-year changes in production costs, which in turn affect profitability and cash flow.

| TOTAL CASH COST & TOTAL PRODUCTION COST RECONCILIATION (unaudited) ($ millions, unless otherwise specified) | Three months ended June 30, 2012 | 2011 | Six months ended June 30, 2012 | 2011 |
|---|---|---|---|---|
| ***Centerra:*** | | | | |
| Cost of sales, as reported | **$ 78.4** | $ 105.9 | **$ 163.2** | $ 167.7 |
| Less: Non-cash component | **17.3** | 25.3 | **37.6** | 40.1 |
| Cost of sales - Cash component | **$ 61.1** | $ 80.6 | **$ 125.6** | $ 127.6 |
| Adjust for: Refining fees & by-product credits | **(0.2)** | (1.3) | **(0.4)** | (2.2) |
| Regional Office administration | **5.3** | 6.2 | **10.1** | 11.0 |
| Mine standby costs | **-** | 0.2 | **4.6** | 0.2 |
| Non-operating costs | **-** | (5.8) | **-** | (5.8) |
| Inventory movement | **(19.8)** | (0.3) | **(22.0)** | 15.7 |
| Total cash cost - 100% | **$ 46.4** | $ 79.7 | **$ 117.9** | $ 146.5 |
| Depreciation, Depletion, Amortization and Accretion | **17.4** | 25.5 | **37.8** | 40.4 |
| Inventory movement - non-cash | **(11.1)** | (8.3) | **(17.4)** | (5.5) |
| Total production cost - 100% | **$ 52.7** | $ 96.8 | **$ 138.3** | $ 181.4 |
| Ounces poured - 100% (000) | **52.5** | 155.2 | **125.0** | 335.9 |
| Total cash cost per ounce | **$ 885** | $ 513 | **$ 943** | $ 436 |
| Total production cost per ounce | **$ 1,005** | $ 625 | **$ 1,106** | $ 541 |
| ***Kumtor:*** | | | | |
| Cost of sales, as reported | **$ 62.1** | $ 92.9 | **$ 130.6** | $ 141.2 |
| Less: Non-cash component | **14.8** | 22.4 | **32.5** | 34.1 |
| Cost of sales - Cash component | **$ 47.3** | $ 70.5 | **$ 98.1** | $ 107.1 |
| Adjust for: Refining fees & by-product credits | **(0.1)** | (1.3) | **(0.3)** | (2.2) |
| Regional Office administration | **4.1** | 4.7 | **7.4** | 8.0 |
| Mine standby costs | **-** | - | **4.6** | - |
| Non-operating costs | **-** | (5.8) | **-** | (5.8) |
| Inventory movement | **(15.1)** | 2.3 | **(12.9)** | 19.5 |
| Total cash cost - 100% | **$ 36.2** | $ 70.5 | **$ 97.0** | $ 126.7 |
| Depreciation, Depletion, Amortization and Accretion | **$ 14.9** | $ 22.6 | **$ 32.6** | $ 34.4 |
| Inventory movement - non-cash | **$ (10.4)** | $ (7.6) | **$ (15.9)** | $ (4.3) |
| Total production cost - 100% | **$ 40.7** | $ 85.5 | **$ 113.7** | $ 156.8 |
| Ounces poured - 100% (000) | **41.3** | 139.1 | **102.0** | 303.2 |
| Total cash cost per ounce | **$ 876** | $ 507 | **$ 950** | $ 418 |
| Total production cost per ounce | **$ 985** | $ 615 | **$ 1,114** | $ 517 |
| ***Boroo:*** | | | | |
| Cost of sales (cash), as reported | **$ 16.3** | $ 13.0 | **$ 32.6** | $ 26.5 |
| Less: Non-cash component | **2.5** | 2.9 | **5.1** | 6.0 |
| Cost of sales - Cash component | **$ 13.7** | $ 10.1 | **$ 27.4** | $ 20.5 |
| Adjust for: Refining fees & by-product credits | **(0.1)** | (0.0) | **(0.1)** | (0.0) |
| Regional Office administration | **1.3** | 1.5 | **2.7** | 3.0 |
| Mine standby costs | **-** | 0.2 | **-** | 0.2 |
| Non-operating costs | **-** | - | **-** | - |
| Inventory movement | **(4.7)** | (2.6) | **(9.1)** | (3.8) |
| Total cash cost - 100% | **$ 10.2** | $ 9.1 | **$ 20.9** | $ 19.8 |
| Depreciation, Depletion, Amortization and Accretion | **$ 2.6** | $ 2.9 | **5.2** | 6.0 |
| Inventory movement - non-cash | **$ (0.7)** | $ (0.7) | **$ (1.6)** | $ (1.2) |
| Total production cost - 100% | **$ 12.0** | $ 11.3 | **$ 24.6** | $ 24.6 |
| Ounces poured - 100% (000) | **11.2** | 16.1 | **23.0** | 32.6 |
| Total cash cost per ounce | **$ 916** | $ 568 | **$ 911** | $ 607 |
| Total production cost per ounce | **$ 1,079** | $ 707 | **$ 1,069** | $ 756 |

## Qualified Person & QA/QC

The exploration information and other 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.

The production information and other scientific and technical information in this MD&A, including statements regarding the potential larger open pit at Kumtor, were prepared in accordance with the standards of the Canadian Institute of Mining, Metallurgy and Petroleum and NI 43-101 – *Standards of Disclosure for Mineral Projects* ("NI 43-101") and were 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.

The Kumtor deposit is described in Centerra's 2011 Annual Information Form and a technical report dated March 22, 2011 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.

## Caution Regarding Forward-Looking Information

Information contained in this MD&A which are not statements of historical facts, and the documents incorporated by reference herein, may be "forward looking information" for the purposes of Canadian securities laws. Such forward looking information involves risks, uncertainties and other factors that could cause actual results, performance, prospects and opportunities to differ materially from those expressed or implied by such forward looking information. The words "believe", "expect", "anticipate", "contemplate", "target", "plan", "intends", "continue", "budget", "estimate", "may", "will", "schedule" and similar expressions identify forward-looking information. These forward-looking statements relate to, among other things, the statements made under the heading, "Outlook for 2012" including "Kumtor - Forecast Production & Select Financial Information (2012-2014) – Potential Impact of Technical and Financial Study on Forecast", the Company's expectations regarding future production, cash cost per ounce produced and expected milling plan for 2012-2014, including expected recoveries; Centerra's statements regarding future growth, results of operations, future production and sales, operating capital expenditures, and performance; the Company's ability to successfully manage the ice and waste movement at Kumtor and to access reserves in the south section of the Kumtor pit and resume milling in September 2012; the outcome


1 University Avenue, Suite 1500
Toronto, ON
M5J 2P1
tel 416-204-1953
fax 416-204-1954
www.centerragold.com

of the review by the State Commission and interagency commissions on Kumtor's compliance with Kyrgyz operational and environmental laws and regulations and community standards, and other matters raised by the Commission Report and Resolution 2117-V, including without limitation, the resolution of temporary land-use matters affecting the Kumtor project, the environmental review of the Karasay and Koendy license areas, the assertions made by the Kyrgyz Republic Social Fund regarding historical social fund contributions, and the continued effectiveness of the Restated Project Agreements; expected trends in the gold market, including with respect to costs of gold production; capital and operational expenses for 2012; exploration plans for 2012 and the success thereof; mining plans at each of the Company's operations; the receipt of permitting and regulatory approvals at the Company's Gatsuurt development property; the impact of the Water and Forest Law on the Company's Mongolian activities; permitting and regulatory commission of the Company's heap leach activities at the Boroo mine; anticipated delays and approvals and regulatory commissioning of the Company's Gatsuurt development property as a result of the Water and Forest Law; the Company's business and political environment and business prospects; and the timing and development of new deposits.

Forward-looking information is necessarily based upon a number of estimates and assumptions that, while considered reasonable by Centerra, are inherently subject to significant political, business, economic and competitive uncertainties and contingencies. Known and unknown factors could cause actual results to differ materially from those projected in the forward looking information. Material assumptions used to forecast production and costs include those described under the heading "Outlook for 2012" including "Kumtor - Forecast Production & Select Financial Information (2012-2014) – Potential Impact of Technical and Financial Study on Forecast". Factors that could cause actual results or events to differ materially from current expectations include, among other things: the sensitivity of the Company's business to the volatility of gold prices; the political risks associated with the Company's principal operations in the Kyrgyz Republic and Mongolia; the impact of changes in, or to the more aggressive enforcement of, laws, regulations and government practices in the jurisdictions in which the Company operates; the effect of the Water and Forest Law on the Company's operations in Mongolia; ground movements at the Kumtor project; waste and ice movement 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; competition for mineral acquisition opportunities; the adequacy of the Company's insurance to mitigate operational risks; 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 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, including specifically the Kumtor collective agreement that expires at the end of 2012; litigation; 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; environmental, health and safety risks; defects in title in connection with the Company's properties; the impact of restrictive covenants in the Company's revolving credit facility; the Company's ability to successfully negotiate an investment agreement for the Gatsuurt project to complete the development of the mine and the Company's ability to obtain all necessary permits and regulatory commissions needed to commence mining activity at the Gatsuurt project; seismic activity in the vicinity of the Company's operations in the Kyrgyz Republic and Mongolia; long lead times required for equipment and supplies given the remote location of the Company's properties; illegal mining on the Company's Mongolian properties; the Company's ability to enforce its legal rights; the Company's ability to accurately predict decommissioning and reclamation costs; the Company's ability to obtain future financing; the impact of 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 attract and retain qualified personnel; 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; risks associated with the conduct of joint ventures; 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 2011 Annual Information Form 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 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 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 the market price of Centerra's shares, 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 the market price of Centerra's shares, 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 August 1, 2012. 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.