

Centerra Gold Inc.
Management's Discussion and Analysis
For the fiscal year ended December 31, 2011

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The following discussion has been prepared as of February 23, 2012, and is intended to provide a review of the financial position of Centerra Gold Inc. (“Centerra” or the “Company”) as at and for the financial year ended December 31, 2011 and results of operations in comparison with those as at and for the financial year ended December 31, 2010. This discussion should be read in conjunction with the Company’s audited financial statements and notes thereto for the year ended December 31, 2011 prepared in accordance with International Financial Reporting Standards. In addition, this discussion contains certain forward-looking information regarding Centerra’s businesses and operations. See “Risk Factors” and “Caution Regarding Forward-Looking Information” in this discussion. All dollar amounts are expressed in United States (US) dollars, except as otherwise indicated. Additional information about Centerra, including the Company’s Annual Information Form for the year ended December 31, 2011, will be available on the Company’s website at www.centerragold.com and on the System for Electronic Document Analysis and Retrieval (“SEDAR”) at www.sedar.com.

Conversion to IFRS

As prescribed by the CICA Accounting Standards Board, the Company adopted the requirements of the International Financial Reporting Standards (“IFRS”) in its statements of account as of January 1, 2011, including the restatement of its opening balance sheet of January 1, 2010. The restatement of the Company’s comparative balances from those previously reported under Canadian GAAP standards to those converted IFRS standards is fully explained and reconciled in note 32 of the Company’s December 31, 2011 consolidated financial statements as filed on SEDAR.

Centerra’s Business

Centerra is a Canadian-based gold company, focused on acquiring, exploring, developing and operating gold properties in Asia, the former Soviet Union and other emerging markets worldwide. Centerra’s common shares are listed for trading on the Toronto Stock Exchange. As of February 23, 2012, being the date of this Management’s Discussion and Analysis (“MD&A”), there are 236,353,942 common shares issued and outstanding.

As of December 31, 2011, Centerra’s assets consist of a 100% interest in the Kumtor mine, located in the Kyrgyz Republic, a 100% interest in the Boroo mine and a 100% interest in the Gatsuurt development property, both located in Mongolia, a 50% interest in the Kara Beldyr property in Russia (subsequently increased to 70% in January 2012), a 50% interest in the Öksüt property in Turkey and 100% interest in various exploration and advanced exploration properties including the Altan Tsagaan Ovoo (“ATO”) property in northeast Mongolia. Additionally, the Company is earning an interest in other joint venture exploration properties located in Russia, Turkey, China, the United States (Nevada) and Mongolia.

Substantially all of Centerra’s revenues are derived from the sale of gold. The Company’s revenues are derived from production volumes from its mines and gold prices realized. Gold doré production from the Kumtor mine is purchased by Kyrgyzaltyn JSC (“Kyrgyzaltyn”) for processing at its refinery in the Kyrgyz Republic while gold doré produced by the Boroo mine is exported and until September 30, 2011 sold under a refining agreement with Johnson Matthey Limited (“JM”). Pursuant to the agreement with JM, the gold doré can also be sold (at the Company’s election) to a third party who has an account with JM. In September 2011, the Company’s subsidiary that owns the Boroo mine entered into a master sale agreement with Auramet Trading LLC (“Auramet”) for this purpose. As a result, starting in October 2011 the

gold doré from Boroo continued to be shipped to JM for refining but the product was sold to Auramet at agreed market terms. Sales to JM under the refining agreement are based on the afternoon fixing price on the London Bullion Market (“London PM fix”), whereas sales under the Auramet master sale agreement are based on spot gold prices. The Gatsuurt property is in the development phase. The Kara Beldyr, Oksut and other Russian, Turkish, Chinese and Mongolian properties are in the exploration phase.

In 2011, the Company’s two mines produced a total of 642,380 ounces of gold, ranking Centerra as an intermediate-sized North American-based gold producer.

The average spot price for gold in 2011 based on the London PM fix was \$1,572 per ounce, an increase of 28% over the average in 2010. This follows year-over-year increases of 26% in 2010 and 11% in 2009. The average realized price of gold received by Centerra in 2011 was \$1,569 per ounce. Historically, gold has been seen to be a hedge against inflation and U.S. dollar weakness. A number of factors continue to support the strengthening of the gold price, including a general wariness with respect to the stability of the U.S. dollar, sustainability of sovereign debt levels, concerns about the possibility of inflation stemming from aggressive economic stimulus programs, heightened equity market volatility and an increase in the demand for gold for investment purposes (see the discussion below under “Gold Industry, Key Economic Trends and Recent Market Uncertainty”).

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

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

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

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

Over the life of each mine, another significant cost that must be planned for is the closure, reclamation and decommissioning of each operating site. In accordance with standard practices for Western-based mining companies, Centerra carries out remediation and reclamation work during the operating period of the mine, where feasible, in order to reduce the final decommissioning costs. Nevertheless, the majority of rehabilitation work can only be

performed following the completion of mining operations. Centerra's practice is to record estimated final decommissioning costs based on conceptual closure plans, and to disclose these costs according to the principles of IFRS. In addition, Kumtor has established a reclamation trust fund to pay for these costs (net of forecast salvage value of assets) from the revenues generated over the life of mine. Annually Boroo deposits 50% of the upcoming year's annual reclamation budget into a government account and recovers this money when the annual reclamation commitments are completed.

Gold Industry, Key Economics and Recent Market Uncertainty

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

Global gold industry production is expected to grow at a modest rate over the next few years after significant growth from 1995 to 2001 followed by virtually flat production levels through to 2008. The growth in production beginning in 2009 and expected in the coming few years is a function of a higher gold price which has made previously marginal deposits economically viable. Centerra believes the cost of gold production in U.S. dollar terms is rising globally due primarily to a declining quality of reserves at producing mines, higher costs of construction and equipment and higher cost of labour and certain consumables. There has been significant consolidation among gold producers since 2002, and this is expected to continue as established producers seek to replenish reserves and junior producers seek capital. To replace mined reserves, producers are exploring in new regions because there are fewer remaining opportunities in conventional gold mining locations.

As well as supply factors internal to the industry, described above, external factors impact the gold price. One of these important factors is the trade-weighted U.S. dollar exchange rate. Historically, there has been a strong inverse correlation between the trade-weighted U.S. dollar exchange rate and the gold price resulting in a positive gold price trend during extended periods of U.S. dollar weakness. Notwithstanding periods in which this correlation at times breaks down, as witnessed in the recent years of global financial crisis, in general a weak U.S. dollar is positive for gold. Another factor affecting the gold price which has gained in importance is investment demand. Since the beginning of the global financial crisis in late 2007, investor demand for gold has significantly increased. The protracted period of financial instability, high unemployment and stagnant economic growth in developed countries, combined with increasing sovereign debt levels as governments endeavour to stimulate an economic recovery have shaken investor confidence in traditional investment vehicles in favour of gold as a safe haven. Investor demand via gold exchange traded funds ("ETF's") which allow investors to more directly invest in gold without holding the physical asset is expected to have increased by approximately 15%, year-over-year, in 2011, notwithstanding a level of disinvestment at times during the year when investors sold their investments to cover losses in other investment vehicles in their portfolio. Whilst investment in ETFs has continued to grow, total investment demand in 2011 is expected to have declined, year-over-year. This may be attributable to periods of higher risk aversion which saw investors shift to the U.S. dollar as a safe haven. In addition, the latter part of the fourth quarter saw significant gold selling as investors monetized their gold holdings to rebalance investment portfolios and cover losses. Consumers also became more reluctant to invest in gold as prices for the metal hit

record highs in the third quarter. Investor sentiment towards gold can thus have a material impact on the gold price.

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

The Company believes that fundamentals remain positive for gold in the coming year. Burgeoning federal deficits in the U.S. resulting from economic stimulus measures are expected to weaken the U.S. dollar and ultimately usher in a period of higher inflation. The role of gold as a hedge against inflation would support continued demand for the metal as would growing appetite by central banks and developing Asian nations seeking a more reliable store of value as compared with other investments. In addition, as governments seek to stimulate economic growth, a shift to more accommodative monetary policies would also be positive for gold. Doubts in respect of an eventual resolution to sovereign debt levels, particularly in the Eurozone and the United States, and the effectiveness of measures to promote economic growth in these countries could also support continued interest in gold.

Financial liquidity provides the Company's with the ability to fund future operating activities and investments. Centerra has two operating mines located in the Kyrgyz Republic and Mongolia. Centerra generated \$434.9 million in cash from operations in 2011 and has a balance of cash and short-term investments of \$568.2 million at December 31, 2011. The Company's financial risk management policy focuses on cash preservation, while maintaining the liquidity necessary to conduct operations on a day-to-day basis. The Company manages counterparty credit risk, in respect of cash and short-term investments, by maintaining bank accounts with highly-rated U.S. and Canadian banks and investing only in highly-rated Canadian and U.S. Government bills, term deposits or banker's acceptances with highly-rated financial institutions, and corporate direct credit of highly-rated, highly-liquid issuers. The Company has no outstanding debt, and it is expected that all planned capital and operating expenditures can be funded out of cash flow for 2012. See "Caution Regarding Forward-Looking Information".

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

The following table shows the average afternoon gold price fixing, by quarter, on the London Bullion Market for 2010, and 2011:

Quarter	Average Gold Price (\$)
2010 Q1	1,109
2010 Q2	1,197
2010 Q3	1,227
2010 Q4	1,367
2011 Q1	1,386
2011 Q2	1,506
2011 Q3	1,702
2011 Q4	1,688

Growth and Strategy

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

- developing new reserves at or near its existing mines from in-pit and underground sources;
- advancing late-stage exploration properties, including properties earned into through the use of joint venture vehicles, through drilling and feasibility studies, as warranted; and
- actively pursuing selective acquisitions in Asia, the former Soviet Union and opportunistically other emerging markets worldwide.

Centerra's growth strategy could be impacted by the risk factors described on page 54.

During 2011, the Company continued its exploration drilling activities in and around the Kumtor mine site and on its various advanced exploration projects in the Asian region. On February 9, 2012, the Company released the results of the updated reserve and resource estimates for the Kumtor and Boroo mines and updated its resource profile for its advanced projects providing estimates on the Company's reserves and resources as of December 31, 2011. Overall, the Company was successful in replacing the reserves it mined in the Kumtor Central Pit during 2011, thereby increasing its total proven and probable reserves by 694,000 contained ounces, an increase of 9% (before accounting for the processing of 793,00 contained ounces in 2011 at its Kumtor and Boroo operations), to 8.1 million ounces of contained gold. Measured and indicated resources increased by 36% or 1.8 million ounces when compared to December 31, 2010 to total 6.7 million ounces of contained gold, from additions around the Central pit at Kumtor, the new discovery at the Altan Tsagaan Ovoo ("ATO") project in Mongolia and from the Kara Beldyr joint venture project in Russia. Inferred resources were also increased at Kumtor's high-grade SB Underground project and at the Kara Beldyr project, of which Centerra currently owns a 70% interest. The 2011 year-end reserves and resources were estimated using a gold price of \$1,200 per ounce compared to \$1,000 per ounce in 2010. See the "2011 Year-end Gold Reserve and Resource Summary" table and the "Polymetallic Mineral Resources" summary table.

Reserves:

As of December 31, 2011, Centerra's proven and probable reserves increased 694,000 contained ounces (before accounting for 2011 production) to 8.1 million ounces of contained gold, compared to 8.2 million ounces as of December 31, 2010. This represents an increase of

9% before accounting for 793,000 contained ounces processed at Kumtor and Boroo during 2011. All 2011 year-end reserves were estimated using a gold price of \$1,200 per ounce compared to \$1,000 per ounce at December 31, 2010.

At Kumtor, before accounting for the processing of 709,000 contained ounces during 2011, proven and probable reserves increased by 704,000 contained ounces of gold replacing reserves mined during the year. All of the increase in the Central Pit open pit reserves is a result of additional exploration drilling primarily on the Southwest Extension of the SB Zone. This drilling has continued to outline a new zone of mineralization that lies immediately to the northwest of the Southwest Extension of the SB Zone. The drilling has also increased the average reserve grade for the Central Pit to 3.7 g/t Au, compared to 3.4 g/t Au in 2010. There has been no change in cut-off grades used for reserve estimation.

At Boroo, after accounting for the processing of 84,000 contained ounces during 2011, proven and probable reserves total 298,000 contained ounces of gold. At the reserve gold price assumption, the Boroo operation could potentially continue to feed the mill for over two years utilizing existing low-grade stockpiles.

At Gatsurt, proven and probable reserves remain unchanged at 1.5 million contained ounces of gold.

Resources

As of December 31, 2011, Centerra's measured and indicated resources increased by 36% or 1.8 million ounces over the December 31, 2010 figures to total 6.7 million ounces of contained gold, compared to 4.9 million contained ounces as of December 31, 2010. The increase from the 2010 year-end measured and indicated resources is attributable to an increase in resources at Kumtor together with the addition of new resources for both the ATO project in Mongolia and the Kara Beldyr joint venture project in Russia.

The Company's inferred resources also increased by 570,000 contained ounces of gold year-over-year. At Kumtor, the inferred resources in the high-grade underground SB Zone increased by 393,000 contained ounces to 1.8 million contained ounces of gold with an average grade of 13.6 g/t. This increase is primarily a result of exploration drilling that has extended the strike length of the high-grade underground resources along strike to the northeast and southwest. The cut-off grade was lowered to 6 g/t Au, from the 7 g/t Au used in previous estimates, which reflects updated cost estimates for mining, however, this has only a minimal impact of the resource estimation. Inferred open pit resources decreased by 65,000 contained ounces of gold in the Central Pit. In addition, exploration drilling in 2011 at the Northeast Prospect resulted in the addition of 150,000 contained ounces of gold to the inferred open pit resources to 278,000 ounces of contained gold with an improvement of grade to 2.1 g/t Au.

The initial resource estimate for the ATO project in Mongolia has a measured and indicated resource of 824,000 ounces of contained gold together with significant silver, lead and zinc and an inferred resource of 26,000 ounces of contained gold together with silver, lead and zinc.

The resource estimate on a 100% basis for the Gord Zone on the Kara Beldyr property in Russia has an indicated resource of 289,000 ounces of contained gold and an inferred resource of 211,000 ounces of contained gold. As of January 2012, Centerra holds a 70% equity interest in the property.

Centerra Gold Inc.
2011 Year-end Gold Reserve and Resource Summary
(as of December 31, 2011)

Gold Mineral Reserves ^{(1) (12) (13)} (tonnes and ounces in thousands)									
Property ⁽³⁾	Proven			Probable			Total Proven and Probable		
	Tonnes	Grade (g/t)	Contained Gold (oz)	Tonnes	Grade (g/t)	Contained Gold (oz)	Tonnes	Grade (g/t)	Contained Gold (oz)
Kumtor ⁽⁵⁾	3,023	1.6	153	56,671	3.4	6,125	59,694	3.3	6,278
Boroo ⁽⁷⁾	8,767	0.8	215	891	2.9	83	9,658	1.0	298
Gatsuurt ^{(8) (15)}	-	-	-	16,349	2.8	1,489	16,349	2.8	1,489
Total	11,790	1.0	368	73,911	3.2	7,697	85,701	2.9	8,065
Gold Measured and Indicated Mineral Resources ^{(2) (12) (13)} (tonnes and ounces in thousands)									
Property ⁽³⁾	Measured			Indicated			Total Measured and Indicated		
	Tonnes	Grade (g/t)	Contained Gold (oz)	Tonnes	Grade (g/t)	Contained Gold (oz)	Tonnes	Grade (g/t)	Contained Gold (oz)
Kumtor ^{(4) (5)}	43,262	2.3	3,141	22,687	2.3	1,658	65,949	2.3	4,799
Boroo ^{(4) (7)}	452	2.2	32	4,464	1.5	210	4,916	1.5	242
Gatsuurt ^{(4) (8) (15)}	-	-	-	5,533	2.4	426	5,533	2.4	426
Ulaan Bulag ⁽⁹⁾	-	-	-	1,555	1.5	73	1,555	1.5	73
ATO ⁽¹⁰⁾	10,305	1.4	466	11,978	0.9	358	22,283	1.2	824
Kara Beldyr ⁽¹¹⁾	-	-	-	3,790	2.4	289	3,790	2.4	289
Total	54,019	2.1	3,639	50,007	1.9	3,014	104,026	2.0	6,653
Gold Inferred Mineral Resources ^{(2) (12) (13) (14)} (tonnes and ounces in thousands)									
Property ⁽³⁾	Tonnes	Grade (g/t)	Contained Gold (oz)						
	Tonnes	Grade (g/t)	Contained Gold (oz)						
Kumtor Open Pit ^{(4) (5)}	9,195	2.4	694						
Kumtor SB Underground ⁽⁶⁾	4,040	13.6	1,760						
Kumtor Stockwork UG ⁽⁶⁾	1,633	12.0	629						
Boroo ^{(4) (7)}	7,323	1.0	235						
Gatsuurt ^{(4) (8) (15)}	5,926	2.6	491						
Ulaan Bulag ⁽⁹⁾	315	1.3	13						
ATO ⁽¹⁰⁾	1,418	0.6	26						
Kara Beldyr ⁽¹¹⁾	3,354	2.0	211						
Total	33,204	3.8	4,059						

- (1) The mineral reserves have been estimated based on a gold price of \$1,200 per ounce.
- (2) Mineral resources are in addition to reserves. Mineral resources do not have demonstrated economic viability.
- (3) Centerra's equity interests as of this MD&A are: Kumtor 100%, Gatsuurt 100%, Boroo 100%, Ulaan Bulag 100%, ATO 100% and Kara Beldyr 70% (as of January 2012). All contained ounces in table above are shown on a 100% basis.
- (4) Open pit resources occur outside the current ultimate pits which have been designed using a gold price of \$1,200 per ounce.
- (5) The open pit reserves and resources at Kumtor are estimated based on a cut-off grade of 0.85 gram of gold per tonne for the Central Pit and 1.0 grams of gold per tonne for the Southwest, Sarytor and Northeast deposits.
- (6) Underground resources occur below the Central pit and are estimated based on a cut-off grade of 6.0 grams of gold per tonne.
- (7) The open pit reserves and resources at Boroo are estimated based on a 0.5 gram of gold per tonne cut-off grade.
- (8) The open pit reserves and resources at Gatsuurt are estimated using either a 1.2, 1.4 or 1.5 grams of gold per tonne cut-off grade depending on ore type and process method and include the Central Zone and Main Zone deposits.
- (9) The open pit resources at Ulaan Bulag are estimated on a cut-off grade of 0.8, 0.9 or 1.0 grams of gold per tonne depending on ore type and process method.
- (10) The ATO open pit resources are estimated based on a Net Smelter Return (NSR) cut-off grade of \$6.50 NSR per tonne for oxide mineralization and \$25.50 NSR per tonne for sulphide mineralization.
- (11) The open pit resources at Kara Beldyr are estimated based on a 1.0 gram of gold per tonne cut-off grade and the contained ounces are shown on a 100% basis.
- (12) A conversion factor of 31.10348 grams per ounce of gold is used in the reserve and resource estimates.
- (13) Numbers may not add up due to rounding.
- (14) Inferred mineral resources have a great amount of uncertainty as to their existence and as to whether they can be mined economically. It cannot be assumed that all or part of the inferred resources will ever be upgraded to a higher category.
- (15) In July 2009, the Mongolian Parliament enacted legislation that would prohibit mineral prospecting, exploration and mining in water basins and forest areas in the territory of Mongolia and provides for the revocation of mining and exploration licenses affecting such areas. The legislation exempts any "mineral deposit of strategic significance". If the legislation is not repealed or amended or if Gatsuurt is not designated as a "mineral deposit of strategic importance" that is exempt from this legislation, mineral reserves at Gatsuurt may have to be reclassified as mineral resources or eliminated entirely. See "Other Corporate Developments – Mongolia" and "Risk Factors".

Centerra Gold Inc.
Polymetallic Mineral Resources as of December 31, 2011

Category	Tonnes (000's)	Gold Grade (g/t)	Contained Gold ⁽²¹⁾ (oz 000's)	Silver Grade (g/t)	Contained Silver (oz 000's)	Lead Grade (%)	Contained Lead (lb 000's)	Zinc Grade (%)	Contained Zinc (lb 000's)
ATO Project⁽¹⁹⁾									
Oxide Mineral Resources^{(16) (17) (19) (20) (22) (23)} (> \$6.50 NSR cut-off Grade)									
Measured Resources	3,345	1.4	146	8.8	950	-	-	-	-
Indicated Resources	2,966	0.8	77	7.4	707	-	-	-	-
Measured and Indicated	6,311	1.1	223	8.2	1,657	-	-	-	-
Inferred Resources ⁽¹⁸⁾	244	0.5	4	4.9	38	-	-	-	-
Sulphide Mineral Resources^{(16) (17) (19) (20) (22) (23)} (> \$25.50 cut-off Grade)									
Measured Resources	6,960	1.4	320	7.5	1,685	0.864	132,572	1.542	236,605
Indicated Resources	9,012	1.0	281	7.9	2,301	0.692	137,486	1.269	252,123
Measured and Indicated	15,972	1.2	601	7.8	3,986	0.767	270,058	1.388	488,728
Inferred Resources ⁽¹⁸⁾	1,174	0.6	22	5.2	196	0.704	18,221	1.068	27,642

- (16) Mineral resources have been estimated on the following metal prices (gold \$1,200 per ounce), (silver \$20 per ounce), (lead \$ 0.87 per lb), (zinc \$0.87 per lb).
- (17) Mineral resources do not have demonstrated economic viability.
- (18) Inferred mineral resources have a great amount of uncertainty as to their existence and as to whether they can be mined economically. It cannot be assumed that all or part of the inferred resources will ever be upgraded to a higher category.
- (19) Centerra's equity interest in the ATO project is 100%.
- (20) Numbers may not add up due to rounding.
- (21) The contained gold resources have also been included in Centerra's 2011 Year-end Gold Reserve and Resource Summary
- (22) The ATO resources are estimated based on a Net Smelter Return cut-off grade of \$6.50 NSR per tonne for oxide mineralization and \$25.50 NSR per tonne for sulphide mineralization.
- (23) Variables used to calculate NSR values include:
Oxide total recovery of gold=60%
Oxide total recovery of Silver=40%
Sulphide Net Smelter Return total recovery of gold=70%
Sulphide Net Smelter Return total recovery of silver=70%
Sulphide Net Smelter Return total recovery of lead=81%
Sulphide Net Smelter Return total recovery of zinc=51%
Payable royalty on total recovered gold=9.0%
Payable royalty on total recovered silver=6.75%
Payable royalty on total recovered lead=6.75%
Payable royalty on total recovered zinc=6.75%

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

	December 31 2010 ⁽¹⁾	2011 Throughput ⁽²⁾	2011 Addition (Deletion) ⁽³⁾	December 31 2011
Gold Proven and Probable Mineral Reserves				
Kumtor ^{(4) (5)}	6,283	709	704	6,278
Boroo ⁽⁴⁾	392	84	(10)	298
Gatsuurt ^{(4) (7) (11)}	1,489	0	0	1,489
Total Proven and Probable Reserves	8,164	793	694	8,065
Gold Measured and Indicated Mineral Resources				
Kumtor ^{(4) (6)}	4,134	0	665	4,799
Boroo ⁽⁴⁾	242	0	0	242
Gatsuurt ^{(4) (7) (11)}	426	0	0	426
Ulaan Bulag ⁽⁴⁾	80	0	(7)	73
ATO ⁽⁴⁾	0	0	824	824
Kara Beldyr ⁽⁴⁾	0	0	289	289
Total Measured & Indicated Resources	4,882	0	1,771	6,653
Gold Inferred Mineral Resources ⁽¹⁰⁾				
Kumtor Open Pit ^{(4) (6)}	759	0	(65)	694
Kumtor Stockwork Underground ⁽⁴⁾	628	0	1	629
Kumtor SB Underground ⁽⁴⁾	1,367	0	393	1,760
Boroo ⁽⁴⁾	233	0	2	235
Gatsuurt ^{(4) (7) (11)}	491	0	0	491
Ulaan Bulag ⁽⁴⁾	11	0	2	13
ATO ⁽⁴⁾	0	0	26	26
Kara Beldyr ⁽⁴⁾	0	0	211	211
Total Inferred Resources	3,489	0	570	4,059

- (1) Reserves and resources as reported in Centerra's Annual Information Form filed in March 2011.
- (2) Corresponds to mill feed at Kumtor and Boroo.
- (3) Changes in reserves or resources, as applicable, are attributed to information provided by drilling and subsequent reclassification of reserves or resources, an increase in the gold price, changes in pit designs, reconciliation between the mill and the resource model, and changes to operating costs.
- (4) Centerra's equity interests as of this MD&A are as follows: Kumtor 100%, Gatsuurt 100%, Boroo 100%, Ulaan Bulag 100%, ATO 100% and Kara Beldyr 70% (as of January 2012). Contained ounces are on a 100% basis in the table above at each property.
- (5) Kumtor open pit reserves include the Central Pit and the Southwest and Sarytor Deposits.
- (6) Kumtor open pit resources include the Central Pit, Southwest Deposit, Sarytor Deposit and Northeast Deposit.
- (7) Gatsuurt open pit reserves and resources include the Central Zone and Main Zone deposits.
- (8) Centerra reports reserves and resources separately. The amount of reported resources does not include those amounts identified as reserves.
- (9) Numbers may not add up due to rounding.
- (10) Inferred mineral resources have a great amount of uncertainty as to their existence and as to whether they can be mined economically. It cannot be assumed that all or part of the inferred resources will ever be upgraded to a higher category.
- (11) In July 2009, the Mongolian Parliament enacted legislation that would prohibit mineral prospecting, exploration and mining in water basins and forest areas in the territory of Mongolia and provides for the revocation of mining and exploration licenses affecting such areas. The legislation exempts any "mineral deposit of strategic significance". If the legislation is not repealed or amended or if Gatsuurt is not designated as a "mineral deposit of strategic importance" that is exempt from this legislation, mineral reserves at Gatsuurt may have to be reclassified as mineral resources or eliminated entirely. See "Other Corporate Developments – Mongolia" or "Risk Factors".

Selected Annual Information

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

\$ millions, unless otherwise specified	Year Ended December 31,		
	2011	2010	2009 ⁽¹⁾
Revenue	\$ 1,020	\$ 850	\$ 685
Cost of sales	382	342	399
Mine standby costs	0	1	4
Regional office administration	21	21	23
Earnings from mine operations	617	485	259
Revenue-based taxes	132	99	60
Other operating expenses	15	8	-
Exploration and business development	43	32	26
Corporate administration	45	52	34
Earnings from operations	381	294	139
Other (income) and expenses	(1)	1	(1)
Finance costs	4	2	2
Gain on sale of exploration project	-	(35)	-
Unusual items - Kyrgyz agreement	-	-	49
Earnings before income taxes	379	327	89
Income tax expense	8	4	29
Net earnings	\$ 371	\$ 322	\$ 60
Earnings per common share (basic and diluted) - \$/share	\$ 1.57	\$ 1.37	\$ 0.27
Total assets	\$ 1,689	\$ 1,400	\$ 1,074
Long-term provision for reclamation and deferred income taxes	\$ 56	\$ 31	\$ 21
Operating Highlights			
Gold sold – ounces sold	650,258	687,706	676,394
Gold produced - ounces poured	642,380	678,941	675,582
Average realized price – \$/oz sold	\$ 1,569	\$ 1,236	\$ 1,013
Gold spot market price – \$/oz ⁽¹⁾	\$ 1,572	\$ 1,225	\$ 973
Cost of sales - \$/oz sold	\$ 588	\$ 498	\$ 590
Total cash cost – \$/oz produced ⁽²⁾	\$ 502	\$ 440	\$ 459
Total production cost – \$/oz produced ⁽²⁾	\$ 687	\$ 555	\$ 607

⁽¹⁾ The Company’s 2009 information has not been restated to conform to IFRS and is presented in accordance with Canadian Generally Accepted Accounting Principles.

⁽²⁾ Average for the period as reported by the London Bullion Market Association (US dollar Gold P.M. Fix Rate).

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

Results

2011 In Review:

- Significant precious and base metal exploration discovery in Eastern Mongolia at the ATO property announced July 11, 2011. Initial measured and indicated resource of 824,000 ounces of contained gold,
- Proven and probable reserves increased by 694,000 contained ounces replacing the 2011 production at Kumtor and measured and indicated resources increased by 36% or 1.8 million ounces, including the ATO discovery,
- Earned a 50% interest in the Öksüt exploration project in Turkey that has returned significant intercepts of oxidized gold mineralization from drilling activity in 2011,
- Increased dividend payout in 2011 to include a special dividend of Cdn\$0.30 per share and annual dividend of Cdn\$0.10 per share during the year (total of US\$99.3 million paid),
- Achieved milestone of \$1 billion in revenue in 2011,
- Centerra became a supporting company of the Extractive Industries Transparency Initiative (EITI) promoting good governance and responsible mining: both Kumtor and Boroo have played an active role in supporting the EITI in their respective countries of operation,
- The remedial measures the Company has put in place to manage the ice and waste movement in the South-East high-wall at Kumtor over the last few years continued throughout 2011,
- Filed an updated technical report for the Kumtor Mine in March 2011,
- Converted the Company's accounting principles to IFRS from Canadian Generally Accepted Accounting Principles.

Overview of 2011 Versus 2010

Centerra's 2011 and 2010 results reflect fully consolidated interests in the Kumtor and Boroo mines, a fully consolidated interest in the Gatsuurt and ATO properties and 50% ownership in the Company's jointly-controlled entities, Kara Beldyr (Russia) and Öksüt (Turkey).

For the year ended December 31, 2011, the Company recorded net earnings of \$370.9 million or \$1.57 per share, compared to net earnings of \$322.3 million or \$1.37 per share in 2010. The increase reflects a 27% increase in the realized gold price in the year, partially offset by lower gold ounces sold, the settlement of \$14.1 million with the Kyrgyz Social Fund, the settlement with the Mongolian government of \$2.6 million for the alluvial claim and the contribution of \$10 million to the Kyrgyz government for the construction and repair of 27 schools in the country (see "Other Corporate Developments"). The earnings in 2010 included a 22% increase in the realized gold price, the gain recorded from the sale of the REN property of \$34.9 million partially offset by the contribution of \$6.4 million by Boroo Gold LLC ("BGC", the Company's wholly-owned subsidiary that owns the Boroo mine) to the construction of a maternity hospital in Ulaanbaatar.

During 2011, the Company's earnings from mine operations was \$616.5 million (60% of revenue), compared to \$485.2 million (57% of revenue) in 2010. Earnings from mine operations are defined as revenue less cost of sales (including cash and non-cash items), mine standby costs and regional office administration. The increase in the earnings from mine operations is due to increased margins, resulting primarily from higher realized gold prices, partially offset by higher operating costs and lower gold sales.

Revenue:

Revenue for 2011 increased by \$170.6 million, or 20%, to \$1,020.3 million compared to \$849.8 million in the same period of 2010 due to a 27% increase in the realized gold price partially offset by lower ounces produced and sold. Gold production was 642,380 ounces in 2011 compared to the 678,941 ounces reported in 2010. This reduction reflects lower gold production at Boroo (-47%) mostly due to lower grades and lower recoveries processed through the mill. At Boroo, the ore became increasingly refractory during 2010 and throughout 2011 and the grades and recoveries continued to decline throughout 2011. Mining activities at Boroo were temporarily suspended in November 2010 but resumed in January 2012. The mill at Boroo operated in 2011 by processing stockpiled material from the pit and higher grade material from the heap leach stockpiles. Gold sold in 2011 totalled 650,258 ounces (599,494 ounces from Kumtor and 50,764 ounces from Boroo) compared to 687,706 ounces in 2010 (568,390 ounces from Kumtor and 119,316 ounces from Boroo). The average realized gold price for 2011 was \$1,569 per ounce compared to \$1,236 per ounce in the same period of 2010 reflecting higher spot prices for gold throughout the year.

Consolidated gold production in 2011 of 642,380 ounces was within the Company's initial guidance of 600,000 - 650,000 ounces.

Cost of sales:

As a result of the IFRS conversion, cost of sales now includes non-cash depreciation, depletion and amortization ("DD&A") in addition to operating cash costs related to the product sold in the period. The comparative period also reflects this change in treatment.

Cost of sales was \$382.3 million in 2011 compared to \$342.2 million in 2010. The increase results from higher operating costs for labour, diesel and other consumables at Kumtor, the settlement reached between Kumtor and the Kyrgyz government relating to the Kyrgyz Social Fund totalling \$14.1 million and increased DD&A of \$22 million. As a result of the social fund settlement, beginning in the fourth quarter of 2011, the amounts contributed to the social fund include a portion for the high altitude premiums paid to employees, which increased the contributions in the fourth quarter of 2011 by \$2.3 million.

Depreciation, depletion, and amortization associated with production increased by 30% to \$98.4 million in 2011 from \$75.6 million in 2010 as a result of higher depreciation for the expanded mobile fleet at Kumtor, which was increasingly used to move waste and ice in 2011, and higher amortization of deferred stripping costs on cutback 12B. (See "2012 Outlook" and "2012 Depreciation, Depletion and Amortization".) Cost of sales per ounce sold was \$588 in 2011 compared to \$498 in 2010, as more waste had to be moved to expose lower grade ore thereby resulting in higher cost ounces being sold in 2011.

Total cash cost per ounce produced for 2011 increased to \$502 compared to \$440 per ounce in 2010 (total cash cost per ounce produced is a non-GAAP measure and is discussed under "Non-GAAP Measures"). The increase in 2011 reflects the impact of lower production levels due to lower grades and recoveries and higher operating costs at Kumtor and at Boroo as discussed in the "Results of Operating Segments" for Kumtor and Boroo.

Total cash cost of \$502 per ounce in 2011 was slightly above the Company's guidance of \$480 - \$500 per ounce (which was revised in the third quarter 2011), due mainly to increased operating costs.

Taxes:

Centerra recorded an amount of \$131.8 million in 2011 for revenue-based tax expense in respect to the Kyrgyz segment compared to \$98.6 million in 2010, and an amount of \$8.1 million in 2011 in respect of income tax expense at Boroo compared to \$4.4 million in 2010.

Pursuant to the Restated Investment Agreement between Centerra, Kumtor Gold Company CJSC ("KGC), Kumtor Operating Company CJSC ("KOC") and the Government of the Kyrgyz Republic (the "Government"), dated as of June 6, 2009 (the "Restated Investment Agreement"), the tax regime previously applicable to the Kumtor project was replaced by a simplified regime with effect from January 1, 2008. Under this simplified regime, tax is paid at a rate of 13% of gross revenue. In addition, with effect from January 1, 2009, Kumtor makes a monthly contribution of 1% of gross revenue to the Issyk-Kul Oblast Development Fund. This new regime, which was approved by the Kyrgyz Parliament on April 30, 2009 (considered the date of substantial enactment for financial reporting purposes), replaced a number of taxes previously imposed. The increase in revenue-based taxes expensed in 2011 over that of 2010 reflects the increase in revenue from the higher realized gold price recognized by Kumtor in 2011.

The Restated Investment Agreement also provides for an annual payment to the State budget of 4% of gross revenue. This annual payment is reduced by the amount of capital and exploration expenditures incurred in the Kyrgyz Republic. Any of these expenditures not applied as a credit in the year are carried forward to future years. As at December 31, 2011, the excess expenditure in the Kyrgyz Republic on capital and exploration over 4% of gross revenue being carried forward to future years is \$382.9 million. This excess amount is subject to audit by the Kyrgyz authorities.

The tax regime for Boroo Gold LLC, which owns the Boroo mine in Mongolia, is governed by a Stability Agreement with the Government of Mongolia. That agreement was amended August 3rd, 2007, effective from January 1, 2007, to establish an income tax rate at 25% of taxable income over 3 billion Mongolian Tugriks (MNT) (approximately \$2.2 million at the 2011 year-end exchange rate) with a tax rate of 10% applicable to taxable income up to that amount. Income tax expense in the Mongolian segment is determined by reference to the MNT. The increase of \$3.7 million in Boroo's income tax expense for the year 2011 compared to that of the prior year, resulted primarily from the tax expense that was recorded as a result of the weakening MNT versus the United States dollar during 2011 on US dollar-denominated monetary assets.

Losses incurred by Centerra's entities in the North American segment have not been tax effected.

Goodwill:

During the year ended December 31, 2011, the Company undertook its normal annual review of the goodwill recorded by the Kyrgyz reporting unit. As a result, management concluded that current circumstances did not indicate that the carrying value of the unit exceeded its fair value.

Exploration:

Exploration expenditures for 2011 totalled \$39.6 million, an increase of 27% over the 2010 expenditures of \$31.3 million.

Exploration expenditures at Kumtor totalled \$12.7 million where work focused on drill testing the extent and grade of the Southwest extension of the SB zone as well as testing the mineralization within and below the KS11 open pit design at deeper elevations in the Saddle and SB zones. This work had positive results, returning significant mineralized intercepts both within and immediately below the KS11 design pit which contributed to the reserve and resource increases published by the Company in its February 9, 2012 news release. Exploration drilling was carried out in Decline #1 immediately below the Davidoff glacier to test the Kumtor structure and also in Decline #2 to test the extension of the Stockwork Zone: drilling will continue in 2012 as access becomes available. Resource delineation drilling of the Stockwork Zone commenced in the second quarter of 2011 showing some initial positive results. Regional exploration at Kumtor continued in 2011 across all major areas on the Kumtor mining concession returning encouraging results in the Northeast and Southeast areas and disappointing results were seen at Petrov and Bordoo areas. In addition trenching, prospecting, and target definition work continued in the Kumtor district. Results from the work have been encouraging and additional drilling is planned in 2012.

In Mongolia, 2011 exploration expenditures totalled \$11.4 million compared to \$8.4 million in 2010. Exploration work focused on the ATO project with drilling, trenching, mapping, geochemical and geophysical surveys being carried out on the ATO prospect and in the district. In July 2011, the Company announced its new precious/base metal discovery in northeast Mongolia at the ATO property where drilling has outlined three breccia pipes with an initial measured and indicated resource of 824,000 ounces. Exploration work is continuing and additional metallurgical testwork will be carried out along with baseline social environmental and hydrological studies. Results continue to be encouraging and additional work on the large ATO land holding is planned for 2012.

Expenditures in Russia were \$5.1 million in 2011 with the focus on drilling targets identified on the Kara Beldyr joint venture (“JV”) in the Tyva Republic. Drilling in 2011 was carried out on the Gord, Camp and Ezen zones, which confirmed the main geological features previously identified and returned promising results. In January 2012, Centerra earned a further 20% interest in the property, bringing its total ownership interest to 70%. Further work on the project will continue in 2012 and will be funded on a pro-rata basis with Centerra’s joint venture partner Central Asia Goldfields.

In Turkey, \$4.3 million was spent on exploration in 2011. In the fourth quarter of 2011, Centerra earned a 50% interest in the Öksüt property, a joint venture with Stratex International PLC, and subsequent to the 2011 year-end, Centerra exercised its right to earn an additional 20% interest in the Öksüt joint venture (for a total interest of 70%) by agreeing to invest a further \$3 million on exploration work over the next two years. The drilling program on the

property continued in 2011 and returned significant results from the Ortaçam North prospect. Additional drilling and metallurgical test work are planned for 2012.

In the United States 2011 expenditures were \$2.1 million with work focused on drilling activities on the Oasis projects in Nevada. Data for the Tonopah Divide project was compiled and it was determined that the project does not have the size potential to meet Centerra's requirements. As a result, a decision was made to sell our interest in the property.

In 2011, the Company entered into three new joint venture agreements covering projects located in the Amur region of Russia, Central Anatolia region of Turkey and Heilongjiang region of China. The Company will earn ownership interests in these joint ventures as the predetermined spending thresholds are met.

Generative work continued in China and other prospective regions in Asia in 2011.

Subsequent to the 2011 year-end Centerra decided to close its exploration office in Reno, Nevada and to refocus its exploration efforts outside of the Great Basin in Nevada, USA to those areas in which it is having more success, such as in Mongolia, Turkey, Russia and Kyrgyzstan.

Other operating expenses

Other operating expenses in 2011 were \$15.5 million compared to \$8.0 million in the prior year. The 2011 expense includes \$12.6 million for donations and sustainable development contributions made in both the Kyrgyz Republic and Mongolia (\$8.7 million in 2010), the settlement in the amount of \$2.6 million relating to a claim with government authorities in Mongolia regarding alluvial reserves on the Boroo project licenses (see "Other Corporate Developments – Mongolia"), the net income of \$0.1 million (\$0.7 million in 2010) related to the production of alluvial reserves at the Boroo property and various other community-based sustainability projects supported by both operations.

The results also include corporate sustainability spending by Kumtor totalling \$10.0 million in 2011 for the construction and repair of 27 schools throughout the Kyrgyz Republic, while in 2010 Boroo funded the construction of a maternity hospital in Ulaanbaatar in the amount of \$6.4 million.

Net Earnings

Net earnings for 2011 were \$370.9 million or \$1.57 per share compared to \$322.3 million or \$1.37 per share in 2010. The 2010 comparative year included a gain of \$34.9 million on the sale of the REN exploration property in Nevada, USA.

Cash Flow:

Cash flow provided from operations for 2011 was \$434.9 million compared to \$281.0 million in 2010, primarily as a result of higher earnings and lower working capital levels at the end of the year. Cash used in investing activities totalled \$473.5 million in 2011 compared to \$119.6 million in the prior year. Investing activities in 2011 primarily include the outflow of funds for the investment in capital projects and the net purchase of short-term investments, while in 2010 the investment in capital projects was partially offset by the receipt of funds from the net

redemption of short-term investments and proceeds received from the sale of the REN property. Investments in capital projects of \$175.1 million in 2011 compared to \$208.2 million in 2010, represents lower spending on growth projects mainly at Gatsuurt and lower spending for sustaining capital at Kumtor on equipment rebuilds. Investments in growth capital for 2011 totalled \$140.5 million (\$164 million in 2010), while \$34.6 million was invested in sustaining capital (\$44.2 million in 2010). A net amount of \$290.4 million in short-term financial instruments were purchased in 2011, whereas a net amount of \$63.7 million of short-term investments matured in 2010. The net proceeds from the sale of the REN property added \$34.9 million of investment cash in 2010. Cash used in financing activities in 2011 was \$96.6 million (\$7.6 million in 2010), including a dividend payment of \$99.3 million (dividend of \$13.6 million in 2010) partially offset by proceeds for shares issued on the exercise of stock options.

Net cash and short-term investments increased to \$568.2 million from \$413.0 million at the prior year end.

Capital:

Capital expenditures (spent and accrued) in 2011 were \$187.9 million as compared to \$212.0 million in the prior year. Sustaining capital in 2011 of \$34.6 million (including \$32.2 million at Kumtor and \$1.8 million at Boroo), compared to \$44.2 million in 2010 (including \$40.1 million at Kumtor and \$3.5 million at Boroo). Growth capital of \$153.3 million in 2011, compared to \$167.8 million the prior year, reflects \$148.5 million of spending at Kumtor mainly on fleet expansion and for the pre-stripping of cut-back 12B and 14A, \$43.9 million on underground development of phase I and II and spending at Boroo of \$4.5 million in 2011 to raise the tailings dam.

Credit and Liquidity:

As at December 31, 2010 and 2011, the Company had no outstanding debt. On November 16, 2010, the Company secured a three-year, \$150 million revolving credit facility with the European Bank for Reconstruction and Development (“EBRD”) to support future growth initiatives. The facility remains undrawn.

A significant factor in determining profitability and cash flow from the Company’s operations is the price of gold. The spot market gold price based on the London PM fix was \$1,531 per ounce at the end of 2011. For 2011, the gold price averaged \$1,572 per ounce compared to \$1,225 per ounce for the same period in 2010.

The Company receives its revenues through the sale of gold in U.S. dollars. The Company has operations in the Kyrgyz Republic and Mongolia, and its corporate head office is in Toronto, Canada. During 2011, the Company incurred combined costs (including capital) totalling roughly \$917 million. Approximately \$409 million of this (45%) was in currencies other than the U.S. dollar. The percentage of Centerra’s non-U.S. dollar costs, by currency was, on average, as follows: 37% in Canadian dollars, 36% in Kyrgyz soms, 13% in Euros, 11% in Mongolian tugriks, and approximately 3% in Russian Rubles, Australian dollars, Turkish Lira, British pounds, and Swiss Franc combined. In 2011, the average value of the currencies of the Kyrgyz Republic, and the Eurozone appreciated against the U.S. dollar by approximately 2.0%, and 3.8%, respectively, from their value at December 31, 2010. The British Pound, Swiss Franc, Russian Ruble, and Australian Dollar also appreciated against the U.S. dollar by 2.6%, 5.1%, 3.7%, and 5.3%, respectively. The Turkish Lira declined in value by approximately

8.8% against the U.S. dollar. On average, the value of both the Mongolian tugrik and the Canadian dollar remained virtually flat to their value at December 31, 2010 with a decline of 0.4% and an appreciation of 0.9%, respectively, against the USD. The net impact of these movements in 2011, after taking into account currencies held at the beginning of the year, was to increase annual costs by \$6.2 million.

Results of Operating Segments

As of December 31, 2011, Centerra owns 100% of Kumtor, 100% of Boroo, Gatsuurt and the ATO project, and owns 50% of the Kara Beldyr and Öksüt joint venture projects.

Kumtor

The Kumtor open pit mine, located in the Kyrgyz Republic, is the largest gold mine in Central Asia operated by a Western-based gold producer. It has been operating since 1997 and has produced over 8.4 million ounces of gold to December 31, 2011.

In accordance with the mine plan, the focus at Kumtor in 2011 was to complete the stripping work necessary to access the higher grade material from cut-back 12B and 14A and the removal of ice and waste material from the high wall associated with the SB Zone. Ore from cut-back 12B was uncovered in May 2011 and as a result, Kumtor began amortizing the associated pre-stripping costs previously capitalized. In the first half of 2011, Kumtor processed the high-grade material that had been stockpiled during the fourth quarter of 2010 and mined at the beginning of 2011 from cut-back 12A. The mill blended ore from cutback 12B as it became available starting in May 2011 with other lower grade stockpiled material. The higher grade benches from cut-back 12B were exposed in November 2011 and this higher grade material was processed through the mill in the last two months of 2011. As experienced in 2010, Kumtor had to manage an increased flow of ice on the southwest high wall during 2011. To ensure continued safe mining, a 75 meter step-in was designed and implemented in the 12B cut-back that allowed mining to continue safely. The deferred ore tonnage will be removed as part of a future cut back. In addition and similar to the prior year, Kumtor managed the inflow of melt waters during the warmer period of this year (second and third quarters 2011). A permanent water pumping facility to effectively and efficiently dewater the pit has been designed and the equipment and supplies have been ordered as part of the future pit operation.

As at September 2011, mine operations received, as planned, 36 new larger CAT 789 haul trucks, 4 Liebherr shovels and 2 larger capacity drills. Accordingly, the average daily volume of materials moved in the fourth quarter of 2011 by the mining operation increased by over 60% as compared to normal volumes moved in 2010. Kumtor achieved the continuous mining rate of 500,000 tonnes per day as planned in the 2011 mine plan.

In 2011 the total underground development advance at Kumtor was 1,864 metres. Decline #1 (SB Zone decline) advanced 903 metres while Decline #2 (Stockwork zone decline) advanced 961 metres in 2011. The Stockwork drive reached its design limit in October 2011 and delineation drilling of the Stockwork Zone has begun.

	Year Ended December 31			
	2011	2010	Change	% Change
Kumtor Operating Results				
Gold sold – ounces	599,494	568,390	31,104	5%
Revenue - \$ millions	941.1	704.3	236.8	34%
Average realized price - \$/oz sold	1,570	1,239	331	27%
Cost of sales - \$ millions ⁽¹⁾	332.6	272.4	60.2	22%
Cost of sales - \$/oz sold	555	479	76	16%
Tonnes mined - 000s	150,605	116,466	34,139	29%
Tonnes ore mined - 000s	6,020	5,765	255	4%
Average mining grade - g/t ⁽²⁾	3.49	4.14	(0.65)	(16%)
Tonnes milled - 000s	5,815	5,594	221	4%
Average mill head grade - g/t ⁽²⁾	3.79	4.02	(0.23)	(6%)
Recovery - %	80.8	79.5	1.3	2%
Gold produced – ounces	583,156	567,802	15,354	3%
Total cash costs - \$/oz produced ⁽³⁾	482	409	74	18%
Total production cost - \$/oz produced ⁽³⁾	673	513	160	31%
Capital expenditures - \$ millions	180.7	186.5	(5.8)	(3%)

(1) Cost of sales for 2011 and its comparative years exclude regional office administration.

(2) g/t means grams per tonne.

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

Revenue and Gold Production:

Revenue in 2011 increased to \$941.1 million from \$704.3 million in 2010, as a result of both higher sales volumes and higher average realized price for gold. Gold sales for 2011 were 599,494 ounces at an average realized price per ounce of \$1,570 compared to 568,390 ounces at an average realized price of \$1,239 per ounce in 2010. The higher average realized gold price per ounce is due to higher gold spot prices.

Kumtor produced 583,156 ounces of gold for the twelve months of 2011 compared to 567,802 ounces of gold in the same period of 2010. The increase resulted primarily from processing the high level of gold that was in circuit at the end of 2010 as well as processing increased tonnes due to greater availability of the mill in 2011 at 94% compared to 91% in 2010. The ore feed grade averaged 3.79 g/t with a recovery of 80.8% in 2011, compared to 4.02 g/t with a recovery of 79.5% in 2010. The grade reduction resulted from the sequencing of ore from the pit, reflecting the non-homogeneity of the ore body. Feed grades in 2010 saw high grades in the first quarter with decreasing grades in both the second and third quarter before obtaining higher grades from cut-back 12B in the fourth quarter. In 2011, the metallurgical feed grade was very constant which had positive results on the average recovery.

Cost of Sales

The cost of sales at Kumtor, which includes non-cash DD&A associated with the ounces sold, was \$332.6 million in 2011, an increase of \$60.2 million or 22% compared to 2010. This is primarily due to increased operating and depreciation costs compared to the same period in 2010. The increase in 2011 includes \$14.1 million representing the settlement reached between Kumtor and the Kyrgyz government relating to the Kyrgyz Social Fund, higher DD&A and increased operating costs.

As a result of an audit by the Kyrgyz Social Fund of the 2010 operating year an agreement was reached whereby Kumtor and the Social Fund agreed that Kumtor would voluntarily pay \$14.1 million representing amounts for both Kumtor and its employees to September 30, 2011. As a

result of this settlement, the social fund contributions starting in the fourth quarter of 2011 are now calculated including the impact of the high altitude premiums paid to employees. (See “Other Corporate Developments – Kyrgyz Republic”.)

Depreciation, depletion, and amortization associated with production increased by \$28.9 million in 2011 over the 2010 year. This increase was predominantly due to the increased depreciation of the expanded mining fleet, higher volumes of sales impacting depreciation calculated on a unit-of-production basis and the amortization of the pre-stripping costs from cut-back 12B which began in May 2011 when ore was first released. This was partially offset by a buildup of inventories as a result of mining cutback 12B, which classified a significant amount of mining related depreciation costs in inventory and from the additional reserves announced at the end of 2010 at Kumtor, which reduced the charge from the assets depreciated on a unit of production basis. (See “2012 Outlook” and “2012 Depreciation, Depletion and Amortization”.)

Operating cash costs at Kumtor increased in 2011 by \$80.9 million before the capitalization of an additional \$28.5 million for pre-stripping activities (net amount of \$52.4 million) compared to the 2010 year. This variance can be explained as follows:

Mining costs in 2011 were \$197.3 million, an increase in costs of \$63.0 million or 47% compared to 2010. The cost increase reflects the higher mining rate achieved during 2011 where 29% more tonnes of waste and ore were moved with Kumtor’s expanded mining fleet. The increased mining activity resulted in increased costs for diesel (\$28.6 million with \$15.2 million of that resulting from the price increasing from US\$0.59 to US\$0.76 cents per litre), national labour costs predominantly as a result of a new collective agreement with the unionized national workforce signed in October 2010 (\$16.2 million), explosives (\$6.2 million of which \$3.8 million is a result of a higher purchase price), maintenance, tire and lubricant costs due to the expanded fleet (\$5.5 million), equipment rental (\$1.5 million), camp catering (\$1.0 million), dewatering costs (\$0.9 million), drilling bits (\$0.7 million) and other expenses (\$2.4 million).

Milling costs in 2011 were \$63.5 million, an increase of \$7.4 million or 13% when compared to 2010. This was primarily due to an increase in national labour costs (\$2.3 million) resulting from the new collective agreement, cyanide consumption (\$1.4 million), other reagents which includes flocculants, nitric acid, PAX and lime due to both higher price and consumption partially resulting from additional tonnage processed (\$1.2 million), grinding media due to higher purchase price (\$1.2 million), electricity (\$0.8 million), sodium hydroxide (\$0.6 million) and other cost increases (\$1.4 million). This was partially offset by lower carbon costs due to sourcing from an alternate low cost producer and lower consumption of carbon from the circuit (\$1.5 million).

Site administration costs in 2011 were \$47.3 million, an increase of \$10.5 million or 28% when compared to the 2010 year. This was primarily due to an increase in national labour (\$6.2 million) resulting from the new collective agreement, road service costs due to additional waste dumps and increased cost of equipment (\$1.7 million), insurance (\$1.4 million), diesel costs (\$1.0 million), food and camp supplies (\$1.0 million), equipment rental (\$0.6 million) and maintenance materials (\$0.6 million), partially offset by lower camp catering and expatriate labour costs.

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

Total cash cost per ounce produced in the twelve months of 2011 increased by \$73 to \$482 per ounce compared to \$409 per ounce for the same period in 2010 as a result of higher operating costs described above which increased cash costs by \$85 per ounce, partially offset by 3% higher production due to the higher throughput and the drawdown of gold that remained in the circuit from 2010. Total cash cost per ounce produced is a non-GAAP measure and is discussed under “Non-GAAP Measures”.

Cost of sales per ounce sold, which includes the impact of depreciation, depletion and amortization, for 2011 increased to \$555 per ounce compared to \$479 per ounce in 2010. The increased cost of sales per ounce sold reflects higher operating costs and depreciation due in part to higher throughput of lower grade ore and higher waste and ice movement, partially offset by higher production levels.

Mine Standby Costs

Standby costs at the Kumtor mine in 2010 totalled \$1.3 million (nil in 2011) as a result of the temporary suspension of operations due to a ten-day strike initiated by the unionized employees on October 1, 2010. The labour dispute was resolved on October 10, 2010, after which Kumtor resumed full operation.

Kumtor Regional Administration

Kumtor regional administration costs in 2011 were \$15.4 million, \$1 million or 7% higher than in 2010, mainly due to higher labour costs.

Exploration

Exploration costs at Kumtor in 2011 were \$12.7 million, \$1.2 million or 10% higher than in 2010, reflecting increased drilling activity. As a result, additional costs were incurred primarily for national, contractor and expatriate labour costs (\$2.4 million) and drilling consumables (\$0.5 million), partially offset by capitalizing delineation drilling activities on the underground Stockwork zone (\$1.6 million). Expenditures on exploration in the Kumtor district primarily on the Karasay and Koendy licences also increased to \$0.9 million reflecting increased generative and target definition work in the Kumtor district.

Capital Expenditures

Capital expenditures in 2011 were \$180.7 million compared to \$186.5 million in 2010. The 2011 expenditures included \$32.2 million of sustaining capital, predominantly spent on the major overhaul program for heavy duty equipment (\$18.0 million), tailings dam lift (\$4.9 million), ancillary equipment replacement (\$2.6 million), Balykchy Marshalling Yard relocation (\$1.5 million), pit dewatering system (\$1.0 million), replacement of light vehicles (\$0.7 million) and numerous other projects (\$3.5 million). Growth capital investment in 2011 of \$148.5 million was spent on pre-strip capitalization (\$53.4 million), underground development of phase I and II (\$42.1 million), purchase of new CAT 789 haul trucks (\$36.6 million), purchase of Liebherr shovels (\$6.0 million), waste rock dump buttress (\$2.3 million), Stockwork delineation drilling (\$1.8 million), purchase of other mobile equipment (\$1.3 million), purchase of drilling equipment (\$1.2 million), purchase of three Mack trucks with

trailers (\$0.7 million), purchase of dewatering pumps (\$0.6 million) and numerous other projects (\$2.5 million).

The Kumtor deposit is described in the Company's most recently filed Annual Information Form (the "AIF") and technical report dated March 22, 2011 (the "Kumtor Technical Report") prepared in accordance with National Instrument 43-101 Standards for Disclosure for Mineral Projects ("NI 43-101"). The Kumtor Technical Report describes the exploration history, geology and style of gold mineralization at the Kumtor deposit. Sample preparation, analytical techniques, laboratories used and quality assurance-quality control protocols used during the drilling programs at the Kumtor site and satellite deposits are described in the Kumtor Technical Report. A copy of the Kumtor Technical Report can be obtained on SEDAR at www.sedar.com.

Boroo and Gatsuurt

The Boroo open pit mine, located in Mongolia, was the first hard rock gold mine in Mongolia. It has produced approximately 1.6 million ounces of gold since it began operation in 2004.

Boroo suspended its mining activities at the end of November 2010. Subsequently, due to delays in permitting of the Gatsuurt project, a decision was made to mine and process the remaining refractory ore in pit 6. Mining activities in pit 6 recommenced in January 2012 and are expected to continue for a period of 10 months. It is expected that the remaining in situ refractory ore and the oxide stockpiles at Boroo will be processed through the mill until the earlier of January 2014 or when the Gatsuurt regulatory commissioning occurs. Development of the bio-oxidation facility to process Gatsuurt's sulphide ore is subject to receiving all required approvals and regulatory commissioning from the Mongolian Government allowing the Gatsuurt project to move forward.

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

	Year Ended December 31			
	2011	2010	Change	% Change
Boroo Operating Results				
Gold sold – ounces	50,764	119,316	(68,552)	(57%)
Revenue - \$ millions	79.3	145.5	(66.2)	(46%)
Average realized price - \$/oz sold	1,562	1,219	343	28%
Cost of sales - \$ millions ⁽¹⁾	49.7	69.8	(20.1)	(29%)
Cost of sales - \$/oz sold	979	585	394	67%
Total tonnes mined - 000s ⁽²⁾	-	11,358	(11,358)	(100%)
Average mining grade (non heap leach material) - g/t ⁽⁴⁾	-	1.33	(1.33)	(100%)
Tonnes mined heap leach - 000s	-	1,694	(1,694)	(100%)
Tonnes ore mined direct mill feed - 000s	-	2,399	(2,399)	(100%)
Tonnes ore milled - 000s	2,340	2,466	(126)	(5%)
Average mill head grade - g/t ^{(3) (4)}	1.11	1.86	(0.75)	(40%)
Recovery - % ⁽³⁾	68.9	71.8	(2.9)	(4%)
Gold produced – ounces	59,224	111,139	(51,915)	(47%)
Total cash costs - \$/oz produced ⁽⁵⁾	694	601	93	15%
Total production cost - \$/oz produced ⁽⁵⁾	828	770	58	8%
Capital expenditures (Boroo) - \$ millions	6.3	7.9	(1.6)	(20%)
Capital expenditures (Gatsuurt) - \$ millions	0.3	17.2	(16.9)	(98%)

- (1) Cost of sales for 2011 and its comparative years exclude regional office administration costs.
(2) 2010 includes heap leach material of 1,694,000 tonnes with an average mining grade of 0.70 g/t in 2010.
(3) Excludes heap leach ore.
(4) g/t means grams per tonne.
(5) Total cash cost and total production cost are non-GAAP Measure and are discussed under “Non-GAAP Measures”.

Revenue and Gold Production:

Revenues for 2011 were \$79.3 million, compared to \$145.5 million in 2010, reflecting lower sales volume partially offset by the higher year-over-year realized gold price. The lower ounces sold resulted from lower production of gold in 2011 mainly due to the suspension of mining in November 2010, the lower grades achieved from the stockpiled mill feed and lower ounces poured from the heap leach operation which remains idle since the expiry of its temporary permit at the end of April 2009. (See “Other Corporate Developments – Mongolia”.)

Gold production at Boroo was 59,224 ounces in 2011, a reduction of 51,915 ounces of gold produced as compared to 2010. The reduction is mainly due to the suspension in mining activities in November 2010 and the processing of stockpiled materials with lower mill head grades and recovery in 2011, in addition to lower contribution from the heap leach operation which remains idle pending issuance of a final operating permit by government authorities.

Gold production of 59,224 ounces in 2011 was within final guidance for the year. Boroo’s initial 2011 guidance of approximately 50,000 ounces of gold was revised to approximately 60,000 ounces of gold at the end of the third quarter reflecting improved recoveries from the processing of the stockpiled ore through the mill.

Cost of sales:

The cost of sales, which includes non-cash DD&A associated with the ounces sold, was \$49.7 million in 2011, compared to \$69.8 million in 2010. The reduction is primarily the result of a

57% decrease in ounces sold in 2011 as compared to 2010. The cost of sales per ounce sold of \$979 in 2011 (\$585 per ounce in 2010) was higher due to the decrease in gold production partially offset by lower operating costs.

Depreciation, depletion and amortization from operations in 2011 totalled \$10.1 million, a decrease of \$6.1 million or 38% compared to 2010. The reduction results mainly from the lower sales and production volumes in 2011 which impacted the equipment depreciated on a unit-of-production basis. Rates of depreciation for equipment depreciated on a straight-line basis are not reduced as a result of lower production. In addition pit 3 pre-stripping was fully amortized by the end of the third quarter of 2010. (See “2012 Outlook” and “2012 Depreciation, Depletion and Amortization”.)

The operating costs (including costs such as mining, processing, site administration, and royalties) for the year decreased by \$24.3 million compared to 2010.

Mining costs in 2011 were \$2.1 million, \$18.5 million or 90% lower than 2010, as mining activities were suspended at the end of November 2010 and remained this way throughout 2011. The mining costs incurred during 2011 represent continuing activities for site supervision, road maintenance work and maintenance on equipment used on the tailings dam construction and reclamation requirements.

Milling costs in 2011 of \$21.2 million remained unchanged from the prior year.

Costs for heap leaching activities of \$0.3 million in 2011 were \$2.0 million or 88% lower than 2010. Stacking and crushing activities were suspended during the second quarter of 2010 pending issuance of the operating permit, and in July 2011 the plant stopped the recirculation of solution.

Site administration costs in 2011 decreased by 8% to \$7.7 million, \$0.7 million lower than in 2010. This is mainly due to lower camp catering costs incurred as a result of the lower number of manpower residing at the mine site, since mining operation was halted in November 2010.

Royalties decreased in 2011 by \$3.3 million or 45% to \$3.9 million due to the 57% lower ounces sold in 2011 compared to 2010, partially offset by higher realized gold price.

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

Total cash costs per ounce produced increased to \$694 per ounce for 2011 compared to \$601 per ounce in 2010. This increase results primarily from reduced levels of production partially offset by lower costs. Total cash cost of \$694 per ounce produced in 2011 was lower than the revised guidance of approximately \$750 per ounce provided in the third quarter for 2011 and reflects lower operating costs. (Total cash cost per ounce is a non-GAAP measure and is discussed under “Non-GAAP Measures”.)

On a unit cost basis, cost of sales per ounce sold, which includes the impact of depreciation, depletion and amortization, increased to \$979 in 2011 compared to \$585 in 2010 reflecting the lower ounces sold.

Boroo Regional Administration:

Regional administration costs in 2011 decreased by 12% to \$6.0 million, \$0.8 million lower than in 2010. This is mainly due to lower payroll related cost and lower administrative expenditures.

Exploration:

No expenditures were made on exploration by the Company at the Boroo mine site in either 2011 or 2010. Exploration expenditures in Mongolia were \$11.4 million in 2011 compared to \$8.2 million in 2010. This reflects significant additional drilling performed on the Altan Tsagaan Ovoo property in northeast Mongolia to follow up on the discovery of significant precious/base metal mineralization on the property.

Capital Expenditures:

Capital expenditures at Boroo were \$6.3 million in 2011 compared to \$7.9 million in 2010. The decrease is mainly due to lower mobile equipment component change-outs performed as a result of halting the mining activities in November 2010. At Gatsuurt, \$0.3 million was spent in 2011 mainly for contractors' costs, as compared to 2010 when \$17.3 million was spent on road building and development of phases 1 and 2 of the project.

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

Gatsuurt Project

As at December 31, 2011, proven and probable reserves for the Gatsuurt Project are estimated at 16.3 million tonnes averaging 2.8 g/t for a total of 1.5 million ounces of contained gold. Measured and Indicated resources are exclusive of proven and probable reserves and are estimated at 5.5 million tonnes averaging 2.4 g/t for a total of 426,000 ounces of contained gold.

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

The Gatsuurt Project anticipates mining and processing of the Gatsuurt Project ores in two phases; an oxide ore phase and a sulphide ore phase. The oxide ore phase encompasses mining of the Gatsuurt oxide and transition ores, haulage of the ores to the Boroo processing plant, and processing of the ores utilizing the existing Boroo CIL facility. As sulphide ores are encountered during mining, they will be stockpiled at the Gatsuurt site for future processing.

Concurrent with the oxide ore phase, a flotation and bio-oxidation facility will be constructed at the Boroo processing plant in preparation of processing the Gatsuurt Project sulphide phase ores. The sulphide ore phase encompasses the mining, haulage and processing of the Gatsuurt Project sulphide ores, which are refractory in nature, through a flotation and bio-oxidation facility constructed at the Boroo processing plant.

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

Approval to begin construction of the Gatsuurt Project was received from Centerra's Board of Directors in December 2008. To date, \$33.3 million has been expended on pre-production site construction and initial engineering of the proposed flotation and bio-oxidation facility. The Gatsuurt Project site infrastructure and engineering for the flotation and bio-oxidation facility are substantially complete. Completed site infrastructure includes a 55 km haul road to the Boroo mill, a services and administration building, a water diversion system of dams and channels, a construction camp, pads for ore and waste stockpiles, and a fueling station. Going forward, all development and construction activities at Gatsuurt have been suspended pending clarification of the impact of the Water and Forest Law on the Gatsuurt Project and until final approvals and regulatory commissioning to commence mining are received. See "Other Corporate Developments – Mongolia".

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

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

Fourth Quarter Results

Financial and Operating Summary	Three Months Ended December 31			
	2011	2010	Change	% Change
Revenue - \$ millions	248.0	322.2	(74.3)	(23%)
Cost of sales - \$ millions	104.1	89.6	14.5	16%
Net earnings - \$ millions	79.4	150.8	(71.3)	(47%)
Earnings per common share - \$ basic and diluted	0.34	0.64	(0.30)	(47%)
Cash provided by operations - \$ millions	60.3	129.5	(69.2)	(53%)
Capital expenditures - \$ millions	30.0	55.4	(25.4)	(46%)
Average realized gold price - \$/oz sold	1,690	1,376	314	23%
Gold sold – ounces	146,704	234,148	(87,444)	(37%)
Cost of sales - \$/oz sold	709	383	327	85%
Gold produced – ounces	151,562	249,866	(98,304)	(39%)
Total cash cost - \$/oz produced ⁽¹⁾	603	308	295	96%
Total production cost - \$/oz produced ⁽¹⁾	820	401	419	104%

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

Overview

In the fourth quarter of 2011, the Company recorded net earnings of \$79.4 million or \$0.34 per common share, compared to net earnings of \$150.8 million (\$0.64 per common share) over the same period of 2010. In 2010, gold production was heavily weighted to the fourth quarter while in 2011 production was more evenly spaced throughout the year.

Revenue and Gold Production:

Revenue in the fourth quarter of 2011 was \$248.0 million compared to \$322.2 million during the same period of 2010. Fourth quarter 2011 revenue reflects a 37% decrease in ounces sold (146,704 ounces in the fourth quarter 2011 versus 234,148 ounces in the fourth quarter of 2010). Lower sold ounces were partially offset by a higher realized gold price (\$1,690 per ounce in the fourth quarter of 2011 versus \$1,376 per ounce in the fourth quarter of 2010).

The Company produced 151,562 ounces in the fourth quarter of 2011, 98,304 ounces or 39% lower than the same period in 2010. Lower gold production was realized at both Boroo and Kumtor. The Boroo production in the fourth quarter of 2011 was lower by 8,567 ounces compared to the same period of 2010 due to lower grades and lower recovery of the stockpiled ore processed by the mill. In 2010, the Boroo operation was still mining until the end of November. The Kumtor production in the fourth quarter of 2011 was lower by 89,737 ounces compared to the same period of 2010 when the mill processed higher grade material (averaging 7.1 g/t) from the newly exposed cut-back 12A. The majority of the mill feed processed by Kumtor in the fourth quarter of 2011 included ore sourced from cut-back 12B which resulted in a lower head grade (averaging 3.8 g/t) and recovery than the comparative quarter.

Cost of sales:

Cost of sales, which includes non-cash DD&A associated with the ounces sold, was \$104.1 million in the fourth quarter 2011 which is an increase of \$14.5 million or 16% compared to

the same period of 2010. The increase resulted from higher operating and non-cash costs at Kumtor, where 35% more waste and ice tonnage was moved in the fourth quarter 2011 compared to the same period of the prior year, higher labour costs due to the new collective agreement and the higher social fund contributions resulting from its application to the high altitude premium (\$2.3 million incremental cost in the fourth quarter of 2011 where the Company also paid the employees' share), partially offset by lower sales volumes.

Depreciation, depletion and amortization from operations increased by \$10.6 million in the fourth quarter of 2011 compared to the same period last year, mainly from the increased depreciation of the expanded mining fleet, the higher throughput achieved at Kumtor including the movement of waste and ice and the amortization of the pre-stripping costs from cut-back 12B at Kumtor.

Fourth quarter operating cash costs (including costs such as mining, processing, site administration, and royalties) prior to the allocation to capitalized pre-stripping increased from \$79.7 million in 2010 to \$91.7 million in 2011. Allocation to pre-stripping was lower in 2011 totalling \$6.0 million compared with \$10.9 million in 2010 making the operating cash costs \$85.7 million in 2011 compared with \$68.8 million in 2010 on a net basis. The increase is explained as follows:

At Kumtor, quarter over quarter, operating costs (before allocation to capitalized pre-stripping) increased by \$17.9 million or 28% primarily due to higher mining costs (up \$14.7 million), higher milling costs (\$1.3 million) and higher site administration costs (\$1.9 million). The increase in mining costs of \$14.7 million (39% higher than the same quarter in 2010) reflects the higher mining rate achieved during the fourth quarter of 2011 where 26% more tonnes of waste and ore were moved with Kumtor's expanded mining fleet. The higher costs are due to the increased mining activity which includes diesel (\$6.3 million including a \$1.9 million effect due to the price increasing from US\$0.68 to US\$0.76 cents), national labour cost due to increased workforce and social fund payments as discussed in "Other Corporate Developments" (\$3.4 million), and higher costs for explosives (\$1.8 million) of which \$1.4 million is a result of a higher purchase price and higher maintenance, tire and lubricant costs due to the expanded fleet (\$1.5 million), lower allocation of service equipment (\$0.7 million) and other increases of \$1.0 million. The milling and site administration costs increased due to higher national labour, reagents and diesel costs.

Operating costs at Boroo were down \$5.9 million quarter-over-quarter primarily due to reduced costs for mining (\$4.6 million), heap leaching (\$0.4 million) and royalties (\$1.3 million), partially offset by an increase in milling costs (\$0.4 million). The mining costs were lower as Boroo ceased mining activities at the end of November 2010. Heap leaching costs were \$0.4 million lower as no crushing and stacking activities occurred starting in the fourth quarter of 2010, and the recirculation of solution was stopped in the fourth quarter of 2011. Royalties decreased in 2011 due to the 57% fewer ounces sold in the 2011 fourth quarter.

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

On a unit basis, cost of sales per ounce sold for the fourth quarter of 2011 was \$709 compared to \$383 for the same period of 2010 primarily due to lower production, higher operating costs

where lower grade ore was mined and processed and higher waste and ice was moved in the fourth quarter of 2011.

Total cash cost per ounce produced was \$603 in the fourth quarter of 2011 compared to \$308 per ounce in the same period of 2010 after allocation of costs to capitalized pre-stripping. Total cash operating costs of \$91.4 million in the fourth quarter of 2011 were \$14.4 million or 19% higher than the \$77.7 million in the same period in 2010. Gold production in the fourth quarter of 2011 was significantly down by 98,304 ounces or 39%, reflecting lower grades processed primarily from stockpiles at Kumtor compared to the high grade material from cut-back 12B mined and processed in the fourth quarter of 2010, lower grade material processed at Boroo in the fourth quarter of 2011, lower recoveries at both sites and higher cash operating costs reflecting a larger fleet which increased throughput to move significantly higher levels of rock waste and ice at Kumtor. (Total cash cost is a non-GAAP measure and is discussed under “Non-GAAP Measure – Total Cash Cost.”)

Mine Standby Costs

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

Depreciation, Depletion and Amortization

Depreciation, depletion and amortization associated with production in the fourth quarter 2011 totalled \$30.3 million, an increase of \$10.6 million or 54% as compared to the same period in 2010 due to higher depreciation at Kumtor as a result of the increased capital fleet including the 36 new larger haul trucks which were fully commissioned at the end of the third quarter 2011 and increased amortization of deferred pre-stripping costs in the fourth quarter of 2011. In addition, Kumtor moved 35% more waste and ice while capitalizing less of these non-cash pre-stripping costs in the fourth quarter of 2011 (\$2.2 million capitalized in Q4 2011 compared to \$3.5 million in Q4 2010).

Exploration:

Exploration expenditures for the fourth quarter of 2011 were \$11.7 million compared to \$11.2 million in the fourth quarter of 2010 reflecting continued significant spending at the Kumtor property, at the ATO project in Mongolia and at the Kara Beldyr project in Russia.

Kyrgyz Republic

A total of \$2.9 million was spent on exploration in the Kyrgyz Republic in the fourth quarter of 2011. The drilling program on the Kumtor property focused on testing the extent and grade of mineralization within and below the current KS11 pit design and for mineralization at deeper elevations in the Saddle and SB Zones. Drilling in the fourth quarter to test the Southwest Extension of the SB Zone returned a number of significant mineralized intercepts both within and immediately below the KS11 design pit. This drilling has continued to outline a new zone of mineralization first identified in drilling at the start of 2011 that lies immediately to the northwest of the Southwest Extension of the SB Zone. This drilling has had a positive impact on the year-end resource estimate.

Regional exploration drilling continued in the fourth quarter of 2011 with up to four drills testing targets in the Northeast, Sarytor, and Southwest areas. The drilling programs were designed to test the extensions to known mineralization with encouraging results. The drilling of these targets will continue into 2012.

Mongolia

In Mongolia, \$4.2 million was spent on exploration in the fourth quarter of 2011 mainly in the Dornod region where exploration was carried out in the ATO District and included diamond drilling, trenching, mapping, geochemical and geophysical surveys and on the ATO project where exploration drilling, baseline and environmental work were continued.

Russia

Spending in Russia in the fourth quarter of 2011 totalled \$1.8 million and focused mainly on the more advanced Kara Beldyr project (\$1.1 million) and to a lesser extent the recently acquired Dvoynoy project (\$0.4 million).

On the Kara Beldyr property, drilling on the Gord, Ezen and Camp Zones continued to provide encouraging results intersecting known mineralization and confirming continuity of previous intercepts.

At the Dvoynoy project, a drill program was started in early December to test geochemical and geophysical anomalies identified over the Dvoynoy prospect. Drilling will continue into 2012.

Turkey

Spending in Turkey during the fourth quarter of 2011 totalled \$0.9 million, mainly on the Öksüt project where Centerra earned a 50% interest in the joint venture during the quarter. Drilling of the Ortaçam North prospect on the Öksüt JV continued to return significant intercepts of oxidised gold mineralization. The drilling program will continue in 2012 to further test the mineralized zone identified.

Other Expenses

In the fourth quarter of 2011, Boroo recorded a charge of \$2.6 million for the resolution of a claim with the Mongolian government regarding sterilized alluvial reserves on the Boroo property (see “Other Corporate Developments”).

Net Earnings

Net earnings for the fourth quarter of 2011 were \$79.4 million or \$0.34 per share compared to \$150.6 million or \$0.64 for the comparative quarter of 2010.

Cash Flow

Cash provided by operations was \$60.3 million for the fourth quarter of 2011 compared to \$129.5 million for the fourth quarter of the prior year. The decrease reflects primarily lower earnings from lower production in the fourth quarter of 2011.

Capital Expenditures

Capital expenditures in the fourth quarter of 2011 totalled \$30.0 million compared to \$55.4 million in the same period of 2010. Capital expenditures included \$9.0 million spent and accrued on sustaining capital projects (\$9.4 million in the same period of 2010) and \$21.0 million invested in growth capital (\$46.0 million in the same period of 2010). The major

growth capital initiatives at Kumtor were related to the underground development project (\$11.1 million) and the capitalized pre-stripping for cut-back 14A (\$8.3 million). The growth capital expenditures for Boroo and Gatsurt in the fourth quarter of 2011 amounted to \$0.3 million compared to \$1.2 million in the same period of 2010 which represented spending at Boroo on raising the main cell of the tailings dam to process Boroo ores.

Goodwill:

During fourth quarter ended December 31, 2011, the Company undertook its normal annual review of goodwill which is related to the Kyrgyz reporting unit. As a result, management concluded that current circumstances did not indicate that the carrying value of the Kyrgyz reporting unit exceeded its fair value.

Taxes:

Centerra recorded revenue-based tax expense of \$33.6 million for the Kyrgyz segment in the fourth quarter of 2011 compared to \$40.5 million in the same period in 2010. In the Mongolian segment, an income tax expense of \$0.9 million was recorded in the fourth quarter of 2011 compared to a recovery of \$4.0 million in the fourth quarter of 2010.

The decrease in the revenue-based tax expense recorded by the Kyrgyz segment reflects 17% lower revenue in the last quarter of 2011.

Income tax expense in the Mongolian segment is determined by reference to the Mongolian Tugrik (MNT). The increase of \$4.9 million in income tax expense in the segment in the fourth quarter of 2011 compared to the fourth quarter of 2010 resulted primarily from the tax expense recorded as a result of the weakening MNT versus the US dollar in the fourth quarter 2011 on Boroo's US dollar-denominated monetary assets.

Quarterly Results – Last Eight Quarters

Over the last eight quarters, Centerra's results reflect the positive impact of rising gold prices and increasing cash costs. Non-cash costs have also progressively increased over 2011 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 (note that the Company paid both the employer and employee portions). 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. Other charges for Kumtor in the third quarter of 2011 include \$10 million for special funding of a school improvement program in the Kyrgyz Republic, while Boroo committed to funding and 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 "Other Corporate Developments"). 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:

Key results by quarter

\$ millions, except per share data Quarterly Data Unaudited	2011				2010 ⁽¹⁾			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	248	278	244	250	323	120	152	255
Net earnings	79	84	71	137	151	17	30	124
Earnings per share (basic and diluted)	0.34	0.35	0.30	0.58	0.64	0.07	0.13	0.53

(1) revised under IFRS

Balance Sheet

Inventory

Total inventory at December 31, 2011 of \$292 million (\$195 million at December 31, 2010) includes gold inventory of \$136 million (\$82 million in 2010) and supplies inventory of \$156 million (\$113 million in 2010). The increase reflects a build-up of gold inventory and in-transit gold inventory at the end of 2011 and increased parts requirements from the expanded capital fleet at Kumtor.

Property, Plant and Equipment

The aggregate book value of property, plant and equipment at December 31, 2011 of \$590 million, compares to \$519 million at the end of 2010 and is allocated as follows: Kyrgyz \$469 million, Mongolia \$120 million and corporate entities \$1 million. The increase in 2011 relates mainly to the growth projects at Kumtor, being the underground project and the mine fleet expansion.

Share capital

As of February 23, 2012, Centerra had 236,353,942 shares outstanding and options to acquire 737,547 common shares outstanding under its stock option plan with exercise prices ranging between Cdn\$4.81 and Cdn\$22.28 per share, with expiry dates ranging between 2014 and 2017.

Asset Retirement Obligations

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

The Company has estimated the net present value of the total asset retirement obligations to be \$55.6 million as at December 31, 2011 (December 31, 2010 - \$40.3 million). These payments are expected to commence over the next 1 to 10 years. The Company used a risk-free rate of 2.0% at Kumtor and 0.6% at Boroo to calculate the present value of the asset retirement obligations.

The increase in 2011 in the present value of the obligation of \$15.3 million was mainly as a result of the latest update to the closure costs estimates at both sites which increased the provision by \$16.5 million, an accretion increase of \$1.2 million, partially offset by cash spending on on-going reclamation of \$2.4 million. In December 2011, the Company revised the closure plan at Boroo with the effect of deferring the reclamation spending at the site and updated the closure costs for Kumtor and Boroo. As a result of the increase in estimated mine life, decrease in discount rate and update to the closure cost plan the present value of the

obligation at Boroo increased by \$9.0 million. A similar update to Kumtor's closure cost plan and decrease in discount rate resulted in an increase to the obligation of \$7.5 million.

The Company's future undiscounted decommissioning and reclamation costs have been estimated to be \$62.9 million before salvage value.

Gold Hedging and Off-Balance Sheet Arrangements

The Company had no gold hedges in place as of December 31, 2011. Centerra currently intends that its gold production will remain unhedged.

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

Liquidity and Capital Resources

At December 31, 2011, Centerra held cash and cash equivalents of \$195.5 million, plus short-term investments of \$372.7 million. In November 2010, Centerra secured a three-year, \$150 million revolving credit facility to increase liquidity available for future growth initiatives. Centerra believes it has sufficient cash to carry out its business plan in 2012, including its exploration plans. To the extent that a new property is acquired and/or developed, additional financing may be required. Continued uncertainty in global financial markets has constrained the ability of many companies to access capital markets funding. Although Centerra has no current requirements for such funding, the markets have retained an interest in gold producers and, under the right conditions, equity issues of many of these companies have been well received. With the conclusion in 2009 of the transactions contemplated in the Agreement on New Terms (June 11, 2009) and the divestiture by Cameco of its interest in Centerra (December 30, 2009), management of Centerra believes that the Company is well positioned to grow and may contemplate an equity issue to support growth initiatives. (See "Caution Regarding Forward Looking Information" and "Risk Factors".)

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

\$ millions	2011	2010
Cash provided by operating activities	435	281
Short-term investments redeemed (purchased) - net	(290)	64
Cash provided by (used in) other investing activities	(183)	(183)
Cash provided by (used in) financing activities	(97)	(8)
Cash provided (used) during the year	(135)	154
Cash and cash equivalents, beginning of the year	331	177
Cash and cash equivalents, end of the year	196	331

Cash provided by operations was \$435 million in 2011 compared to \$281 million in 2010. The increase over 2010 reflects higher earnings from higher realized prices and lower working capital levels, partially offset by higher operating costs and lower production.

Investing activities in 2011 totalled \$474 million, including \$290 million in U.S. Government securities and commercial paper purchased in the year and investments of \$35 million in

sustaining capital and \$141 million in growth capital spent at the Kumtor and Boroo mines. The comparative in 2010 of \$119 million includes the receipt of \$64 million in matured funds from short-term U.S. Government securities and commercial paper, proceeds of \$35 million on the sale of the REN property and further reflects \$44 million of sustaining capital and \$164 million of growth capital spent at the Kumtor and Boroo mines. Cash spent on financing activities includes a dividend payment in 2011 of \$99 million, compared to a \$14 million dividend paid in 2010.

Working capital, which consists of accounts receivable, prepaids, inventory, supplies and accounts payable, increased in 2011 by \$44 million compared to an increase of \$79 million in 2010.

Contractual Obligations

The following table summarizes Centerra's contractual obligations, including payments due for the next five years and thereafter, as of December 31, 2011.

\$ millions	Total	Due in Less than One year	Due in 1 to 3 Years	Due in 4 to 5 Years	Due After 5 Years
Kumtor					
Reclamation trust deed ⁽¹⁾	\$ 27.9	\$ 4.1	\$ 8.2	\$ 7.7	\$ 7.9
Capital equipment ⁽²⁾	98.2	98.2			
Operational supplies	44.5	44.5			
Lease of premises					
Boroo					
Conservation fund ⁽³⁾	0.1	0.1	-	-	-
Capital projects	0.2	0.2	-	-	-
Corporate					
Lease of premises ⁽⁴⁾	2.1	0.4	0.8	0.9	-
Total contractual obligations	\$173.0	\$ 147.5	\$ 9.0	\$ 8.6	\$ 7.9

(1) Centerra's future decommissioning and reclamation costs for the Kumtor mine are estimated to be \$37.0 million. The estimated future cost of closure, reclamation and decommissioning of the project are used as the basis for calculating the amount to be deposited in the Reclamation Trust Fund (\$27.9 million). This restricted cash is funded by sales revenue, annually in arrears and on December 31, 2011 the balance in the fund was \$9.1 million (2010 - \$7.4 million), with the remaining \$27.6 million to be funded over the life of the mine.

(2) Agreement as at December 31, 2011 to purchase capital equipment.

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

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

Non-GAAP Measures

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

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

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

(\$ millions, unless otherwise specified)	Year ended		Fourth Quarter	
	December 31,		(unaudited)	
	2011	2010	2011	2010
<u>Centerra:</u>				
Cost of sales, as reported	\$ 382.3	\$ 342.2	\$ 104.1	\$ 89.6
Less: Non-cash component	98.4	75.6	30.3	19.7
Cost of sales, cash component	\$ 283.9	\$ 266.6	\$ 73.8	\$ 70.0
Adjust for: Refining fees & by-product credits	(3.3)	(0.1)	(0.3)	(0.3)
Regional office administration	21.3	21.1	5.9	6.7
Mining Standby Costs	0.2	1.3	-	1.3
Non-operating costs	(14.1)	(0.2)	-	0.7
Inventory movement	34.4	10.1	11.9	(1.4)
Total cash cost - 100%	\$ 322.4	\$ 298.8	\$ 91.3	\$ 76.9
Depreciation, depletion, amortization and accretion	99.3	76.3	30.5	19.8
Inventory movement - non-cash	19.5	1.6	2.5	3.5
Total production cost - 100%	\$ 441.1	\$ 376.7	\$ 124.3	\$ 100.2
Ounces poured - 100% (000)	642.4	678.9	151.6	249.8
Total cash cost per ounce produced	\$ 502	\$ 440	\$ 603	\$ 308
Total production cost per ounce produced	\$ 687	\$ 555	\$ 820	\$ 401
<u>Kumtor:</u>				
Cost of sales, as reported	\$ 332.6	\$ 272.4	\$ 96.9	\$ 72.1
Less: Non-cash component	88.3	59.4	29.1	17.7
Cost of sales, cash component	\$ 244.3	\$ 213.0	\$ 67.7	\$ 54.4
Adjust for: Refining fees & by-product credits	(3.3)	(0.2)	(0.3)	(0.3)
Regional office administration	15.3	14.3	4.1	4.7
Mining Standby Costs	-	1.3	-	1.3
Non-operating costs	(14.1)	-	-	0.7
Inventory movement	39.1	3.6	8.9	(1.2)
Total cash cost - 100%	\$ 281.3	\$ 232.0	\$ 80.4	\$ 59.6
Depreciation, depletion, amortization and accretion	88.9	59.6	29.2	17.7
Inventory movement - non-cash	22.0	(0.5)	2.5	2.4
Total production cost - 100%	\$ 392.2	\$ 291.1	\$ 112.1	\$ 79.7
Ounces poured - 100% (000)	583.2	567.8	138.7	228.4
Total cash cost per ounce produced	\$ 482	\$ 409	\$ 580	\$ 261
Total production cost per ounce produced	\$ 673	\$ 513	\$ 808	\$ 349
<u>Boroo:</u>				
Cost of sales, as reported	\$ 49.7	\$ 69.8	\$ 7.2	\$ 17.5
Less: Non-cash component	10.1	16.2	1.1	2.0
Cost of sales, cash component	\$ 39.6	\$ 53.6	\$ 6.1	\$ 15.5
Adjust for: Refining fees & by-product credits	(0.1)	0.1	-	-
Regional office administration	6.0	6.8	1.8	2.0
Mining Standby Costs	0.2	-	-	-
Non-operating costs	-	(0.2)	-	-
Inventory movement	(4.7)	6.5	3.0	(0.2)
Total cash cost - 100%	\$ 41.1	\$ 66.8	\$ 10.9	\$ 17.3
Depreciation, depletion, amortization and accretion	10.4	16.7	1.3	2.1
Inventory movement - non-cash	(2.5)	2.1	-	1.1
Total production cost - 100%	\$ 49.0	\$ 85.6	\$ 12.2	\$ 20.5
Ounces poured - 100% (000)	59.2	111.1	12.9	21.4
Total cash cost per ounce produced	\$ 694	\$ 601	\$ 849	\$ 810
Total production cost per ounce produced	\$ 828	\$ 770	\$ 951	\$ 959

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 to Kyrgyzaltyn and the amounts paid and accrued by Kyrgyzaltyn to Kumtor according to the terms of a Restated Gold and Silver Sales Agreement between KOC, Kyrgyzaltyn and the Government of the Kyrgyz Republic, entered into in June 2009.

(\$ thousands)	Twelve months ended December 31	
	2011	2010
Management fees paid by KGC to Kyrgyzaltyn	599	\$ 568
Gross gold and silver sales from KGC to Kyrgyzaltyn	944,020	\$ 706,823
Deduct: refinery and financing charges	(2,947)	(2,558)
Net sales revenue received by KGC from Kyrgyzaltyn	941,073	\$ 704,265

Gold produced by the Kumtor mine is purchased at the mine site by Kyrgyzaltyn for processing at its refinery in the Kyrgyz Republic pursuant to a Restated Gold and Silver Sale Agreement (the “Sales Agreement”). Under the Sales Agreement Kyrgyzaltyn is required to pay for gold within 12 calendar days of shipment from the Kumtor mill at a price that is fixed based on the London PM fixed price of gold on the London Bullion Market. The obligations of Kyrgyzaltyn are partially secured by a pledge of 2,850,000 shares of Centerra owned by Kyrgyzaltyn, the value of which fluctuates with the market price of Centerra’s shares. Based on movements of Centerra’s share price, and the value of individual or unsettled gold shipments, the maximum exposure reflecting the shortfall in the value of the security as compared to the value of any unsettled shipments during the year, was \$44.8 million for 2011 and \$35.5 million in 2010.

As at December 31, 2011, \$47.4 million was outstanding under the Sales Agreement (December 31, 2010 - \$89 million).

Related party balances

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

(Thousands of US\$)	December 31 2011	December 31 2010	January 1 2010
Prepaid expenses	\$ 143	\$ 12	\$ -
Amounts receivable	47,366	88,997	37,861
Total related party assets	\$ 47,509	\$ 89,009	\$ 37,861
Amounts payable	\$ -	\$ -	\$ 175
Total related party liabilities	\$ -	\$ -	\$ 175

Dividend

(Thousands of US\$)	2011	2010
Dividends paid to Kyrgyzaltyn	\$ 29,412	\$ 4,412

Transactions with Directors and Key Management

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

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

During 2011 and 2010, remuneration to directors and key management personnel were as follows:

Thousand of US\$	2011	2010
Key Management Personnel		
Salaries and benefits	\$ 5,462	\$ 5,461
Share-based compensation:		
Earned during the year	8,280	6,546
Appreciation during the year from previous grants	941	4,788
	<u>\$ 14,683</u>	<u>\$ 16,795</u>
Directors		
Fees earned and other compensation	\$ 1,055	\$ 945
Share-based compensation:		
Earned during the year	1,151	855
Appreciation during the year from previous grants	(607)	3,563
	<u>\$ 1,599</u>	<u>\$ 5,363</u>

Other Corporate Developments

Kyrgyz Republic

As previously disclosed, Kumtor Operating Company (“KOC”), the Company’s Kyrgyz Republic operating subsidiary was in a dispute with the Kyrgyz Republic Social Fund (the “Social Fund”) regarding whether Social Fund contributions were required to be paid with respect to a high-altitude premium payable to KOC employees. This dispute began in 2010 and eventually led to KOC filing a claim in September 2011 to invalidate an assessment issued by the Social Fund requiring KOC to pay approximately \$6.7 million in contributions owing for the 2010 operating year. The matter was resolved in the third quarter of 2011 when KOC and the Social Fund reached an agreement whereby Kumtor would voluntarily pay to the Social Fund \$14.1 million, covering the 2010 operating year (\$6.7 million) and the first nine months of 2011 (\$7.4 million), without any penalties, fines and financial sanctions and agreed to apply the Social Fund contribution to the high altitude premium in the future. Going forward, KOC will pay the employer’s portion of the Social Fund deduction for the high altitude premium and the employees will be responsible for the employee portion of such deduction.

On October 30, 2011 the Kyrgyz Republic held presidential elections which were won by the former Prime Minister Almazbek Atambayev of the Social Democratic Party of Kyrgyzstan in the first round.

On December 5, 2011, the Company announced that it was experiencing an interruption in the transfer of diesel fuel and other supplies from the Kumtor marshalling yard to the mine site due to an illegal roadblock. The marshalling yard is located in the town of Balykchy in the Issyk-Kul Region of the Kyrgyz Republic and is approximately 270 kilometres from the Kumtor mine. The road block was voluntarily lifted on December 6, 2011 and the transfer of diesel fuel and other supplies resumed. The interruption did not affect the Company’s 2011 production and cost guidance, nor were the mine or milling operations affected.

Kumtor’s collective bargaining agreement expires at the end of 2012. A related work stoppage during 2012 could have a significant impact on Kumtor achieving its forecasted production (see “Risk Factors”). On February 6, 2012 unionized employees at Kumtor began an illegal strike following a dispute regarding the social fund deductions. Production at Kumtor has been suspended. On February 16, 2012 an agreement was reached with the Kumtor Trade Union and unionized employees returned to work. The cost of the settlement for 2012 will be approximately \$4 million. The impact of the strike on production is being evaluated.

Mongolia

In the fourth quarter of 2011, Centerra’s wholly-owned subsidiary, Boroo Gold LLC, which owns the Boroo project, resolved the previously disclosed very significant claim for compensation that it received from the Mongolian General Department of Specialized Inspection (“SSIA”) in October 2009 following the June 2009 inspection at the Boroo project. The claim related to certain mineral reserves, including state alluvial reserves, covered by the Boroo project licenses, that are recorded in the Mongolian state reserves registry, but for which there are no or incomplete records or reports of mining activity. Pursuant to the resolution, Boroo Gold LLC accrued approximately \$2.6 million in the 2011 year-end results and subsequently paid the amount in January 2012. While this claim has been resolved, other regulatory issues remain outstanding in Mongolia, including the issuance of a final heap leach

permit. The Company continues to have discussions with regulatory officials regarding the issuance of the permit. See “Risk Factors”.

As previously disclosed, the Mongolian Parliament enacted the *Law to Prohibit Mineral Exploration And Mining Operations At River Headwaters, Protected Zones Of Water Reservoirs And Forested Areas* (the “Water and Forest Law”) in 2009. Under the Water and Forest Law, mineral prospecting, exploration and mining in water basins and forestry areas in Mongolia are prohibited, and the affected licenses are subject to revocation. The legislation provides a specific exemption for “mineral deposits of strategic importance”, which would exempt the Boroo hard rock deposit from the application of the legislation. Centerra’s Gatsuurt licenses and its other exploration license holdings in Mongolia however, are currently not so exempt. Under the Minerals Law of Mongolia, Parliament on its own initiative or, on the recommendation of the Government, may designate a mineral deposit as strategic. Such designation could result in Mongolia receiving up to a 34% interest in the Gatsuurt deposit.

In 2010, the Company received correspondence from the Minerals Resource Authority of Mongolia (“MRAM”) stating that certain of its mining and exploration licenses, including the Gatsuurt mining licenses, could be revoked under the Water and Forest Law. In 2010, the Company was also informed by the Ministry of Mineral Resources and Energy (“MMRE”) that since the Gatsuurt licenses were within the area designated, on a preliminary basis, as land where mineral mining is prohibited under the Water and Forest Law, and that the MMRE would communicate further with the Company on negotiations with respect to an investment agreement for the Gatsuurt project once the MMRE received additional clarity on the impact of the Water and Forest Law on the Gatsuurt project. In November 2010, the Company also received a letter from the MMRE indicating that operations at the Gatsuurt project cannot be commenced while the implementation of the Water and Forest Law is being resolved. Accordingly, further approvals and regulatory commissioning of Gatsuurt will be delayed as a result of the Water and Forest Law.

In November 2010, the Mongolian cabinet announced its intention to initiate the revocation of 1,782 mineral licenses under the Water and Forest Law on a staged basis, beginning with the revocation of 254 alluvial gold mining licenses, the list of which was finalized by the Mongolian Parliament in 2011. The Company has three licenses on the list of alluvial gold mining license that may be revoked. None of these licenses are material to the Company. In particular, the Company’s principal Gatsuurt hardrock mining licenses are not on the list of alluvial licenses to be revoked. In accordance with the Water and Forest Law, the Company submitted in February 2011 a formal request for compensation for the three licenses to be revoked, which requests were updated again in January 2012 as a result of the finalization of the list.

The Mongolian Government announced in 2010 that it is considering taking the following actions as the next stages of its implementation of the Water and Forest Law:

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

- revoking all 460 gold exploration licenses and providing compensation;
- revoking all 931 non-gold exploration licenses and providing compensation;
- revoking and providing compensation to all remaining affected mining licenses.

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

The Company understands that Mongolia's cabinet expects that the Water and Forest Law will take until approximately November 2012 to fully implement. According to statements by officials, the Mongolian Government estimates that the total compensation due to mining companies for the revocation of their licenses will amount to approximately US\$4 billion, representing a very substantial part of the Mongolia's annual gross domestic product for 2010.

The Water and Forest Law has attracted opposition from Mongolia's alluvial miners, the Mongolian National Mining Association and other groups. A group of parliamentarians proposed amendments to the Water and Forest Law in 2011 to reduce its impact on environmentally-sound mining operations. The Company understands that as drafted, such amendments would allow the Gatsuert project to proceed. Such amendments were discussed by a Mongolian parliamentary committee in 2011 which then referred it to Parliament for further discussion. The Parliament did not discuss the amendment during the 2011 but such amendments may be tabled for discussion in 2012.

Centerra is reasonably confident that the economic and development benefits resulting from its exploration and development activities will ultimately result in the Water and Forests Law having a limited impact on the Company's Mongolian activities. There can be no assurance, however, that this will be the case. Unless the Water and Forest Law is repealed or amended such that the law no longer applies to the project or Gatsuert is designated as a "mineral deposit of strategic importance" that is exempt from the Water and Forest Law, mineral reserves at Gatsuert may have to be reclassified as mineral resources or eliminated entirely and the Company may be required to write-off the associated investment in Gatsuert and Boroo. As at December 31, 2011, the Company had net assets recorded amounting to approximately \$36 million related to the investment in Gatsuert and approximately \$25 million remaining capitalized for the Boroo mill facility and other surface structures which are expected to be utilized for the processing of ore from Gatsuert. Although the Company expects to exploit the Gatsuert 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 Gatsuert 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 and financial condition.

The heap leach operation at Boroo remained idle in 2011 awaiting issuance of the final operating permit from the Mongolian Government. Unless the Company is successful in obtaining the final heap leach operating permit, it will be required to write-off the associated investment which totals \$15.9 million at December 31, 2011.

In November 2010, the Mongolian Parliament passed amendments to its Minerals Law that modified the existing royalty structure on mineral projects. Pursuant to the amended royalty

structure, the royalty rate is no longer a fixed percentage but is graduated and dependent upon the commodity price in US dollars. In the case of gold, there is a basic 5% royalty fee that applies while gold is less than \$900 per ounce. For any increase of \$100 to the price of gold, there is a corresponding 1% increase to the royalty fee. Accordingly, at \$900 per ounce, the royalty fee increases to 6% which continues until the gold price reaches \$1,000 per ounce at which point, the royalty increases to 7%, at \$1,100 per ounce, the royalty increases to 8%, and at \$1,200 per ounce, the royalty increases to 9%. The highest royalty fee rate is reached at 10% when gold is \$1,300 per ounce and above. The graduated royalty became effective as of January 1, 2011 for all mining projects in Mongolia. On January 19, 2011, the Standing Committee of the State Great Hural of Mongolia issued a resolution to the Mongolian Government which, among other things, resolved to direct the Government to enter into negotiations to have the graduated royalty structure apply to business entities that have already entered into a stability agreement and/or an investment agreement. This would include the Company's Boroo project which is currently operating pursuant to a stability agreement entered with the Mongolian Government. The Company is of the opinion that the Boroo stability agreement provides, among other things, legislative stabilization for its Boroo operations and accordingly the graduated royalty fee is not applicable to Boroo's remaining operations. As of the date of this Annual MD&A, the Company is not aware of any response or activity by the Mongolian Government on this State Great Hural of Mongolia resolution. 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. Regardless of whether the graduated royalty fee applies to the Boroo operations, it will apply to gold produced from the Gatsuurt project, when developed.

The Boroo stability agreement expires in July 2013, after which time Boroo's operations will be subject to prevailing tax and royalty fees.

Corporate Matters

In April 2011, Centerra declared a special dividend of Cdn\$0.30 per share and an annual dividend of Cdn\$0.10 per share, payable on May 18, 2011 to shareholders of record on May 12, 2011. This was the Company's first special dividend.

In March 2011, Centerra was served by a Turkish company, Sistem Muhendislik Insaat Sanayi Ticaret SA ("Sistem"), with a notice of enforcement to seize any shares and dividends in Centerra held in the name of the Kyrgyz Republic, followed by a notice of garnishment in April 2011 for any debts owed by Centerra to the Kyrgyz Republic (the "Republic"). These notices were served by Sistem through the Sheriff in Toronto as part of the enforcement proceedings brought by Sistem in the Ontario Superior Court to collect approximately US\$11 million with additional interest, owed to Sistem by the Republic in accordance with a judgment of the Ontario Superior Court enforcing an international arbitration award against the Republic. In these Ontario proceedings, Sistem alleges that the shares in Centerra owned by Kyrgyzaltyn JSC, and any dividends paid in respect of those shares, are in fact legally and beneficially owned by the Republic and are therefore subject to execution to pay the judgment. Based on legal advice received, Centerra disputes those allegations and maintains that Kyrgyzaltyn JSC alone is the legal and beneficial owner of the shares and any dividends in respect of those shares, based on the applicable legal principles and the binding agreements with Kyrgyzaltyn JSC. As a result and notwithstanding such notices of enforcement and garnishment, Centerra paid its May 18, 2011 dividend (as discussed above) in the total amount of approximately Cdn\$31 million to Kyrgyzaltyn JSC. Sistem is continuing with its claim regarding the Centerra shares owned by Kyrgyzaltyn JSC. If this claim is successful in the Ontario court proceedings, Sistem may have a right to execute its judgment against those shares and may assert a claim against Centerra in respect of the payment of the dividends to Kyrgyzaltyn JSC. However, Centerra believes it has a strong defence to that claim based on the facts and the law. At a motion in September 2011, Kyrgyzaltyn JSC was formally added as a party to the proceeding.

Kyrgyzaltyn has brought a motion to be heard by the Ontario Superior Court (to be heard in April 2012) to set aside the Ontario judgment enforcing the arbitration award on the basis that the court did not have jurisdiction to entertain the application or in the alternative that there is a foreign court which is a more convenient forum to hear and decide the issues of legal and beneficial ownership of the shares as between Kyrgyzaltyn and the Kyrgyz Republic.

For information on forward-looking information, see "Caution Regarding Forward-Looking Information". For information regarding risk factors relevant to Centerra and its operations, please see "Risk Factors" in this MD&A and in the Company's most recently filed Annual Information Form.

Critical Accounting Estimates

Centerra prepares its consolidated financial statements in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board. In doing so, management is required to make various estimates and judgments in determining the reported amounts of assets and liabilities, revenues and expenses for each year presented and in the disclosure of commitments and contingencies. Management bases its estimates and judgments on its own experience, guidelines established by the Canadian Institute of Mining, Metallurgy and Petroleum and various other factors believed to be reasonable under the

circumstances. In reference to the Company's significant accounting policies as described in note 3 to the Consolidated Financial Statements management believes the following critical accounting policies reflect its more significant estimates and judgments used in the preparation of the consolidated financial statements.

i. *Share-based Compensation*

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

ii. *Asset retirement obligation*

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

iii. *Reserves*

Certain assumptions are dependent upon reserves, which represent the estimated amount of ore that can be economically and legally extracted from the Company's properties. In order to estimate reserves, assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transportation costs, commodity demand, commodity prices and exchange rates. Estimating the quantity and/or grade of reserves requires the size, shape and depth of ore bodies to be determined by analyzing geological data such as drilling samples. This process may require complex and difficult geological judgments to interpret the data. Economic assumptions used to estimate reserves could change from period to period and as additional geological data is generated during the course of operations, estimates of reserves may change from period to period. Changes in reported reserves may affect the Company's financial results and financial position.

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

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

between estimated and actual costs of mining and differences in gold price used in the estimation of mineral reserves.

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

v. *Impairment of long-term assets*

An impairment test is performed by comparing the carrying amount of the asset or cash-generating unit to their recoverable amount, which is calculated as the higher of an asset's or cash-generating unit's fair value less costs to sell. Fair value less costs to sell is calculated based upon a discounted cash flow analysis, which requires management to make a number of significant assumptions including assumptions relating to future operating plans, gold prices, discount rates, exchange rates and future growth rates. Please see Note 11 for additional information.

vi. *Deferred income taxes*

The Company operates in a number of tax jurisdictions and is, therefore, required to estimate its income taxes in each of these tax jurisdictions in preparing its financial statements. In calculating the income taxes, consideration is given to factors such as tax rates in the different jurisdictions, non-deductible expenses, valuation allowances, and changes in tax law and management's expectations of future results. The Company estimates deferred income taxes based on temporary differences between the income and losses reported in its financial statements and its taxable income and losses as determined under the applicable tax laws. The tax effect of these temporary differences is recorded as deferred tax assets or liabilities in the financial statements. The calculation of income taxes requires the use of judgment and estimates. If these judgments and estimates prove to be inaccurate, future earnings may be materially impacted.

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

In determining mine operating costs recognized in the Consolidated Statements of Earnings and Comprehensive income, the Company's management makes estimates of quantities of ore stacked on heap leach pads and in process and the recoverable gold in this material to determine the average costs of finished goods sold during the period. Changes in these estimates can result in a change in mine operating costs of future periods and carrying amounts of inventories.

Changes in Accounting Policies

As prescribed by the CICA Accounting Standards Board, the Company adopted the requirements under IFRS 1, *First-time Adoption of International Financial Reporting Standards* in its statements of account as of January 1, 2011, including the restatement of its opening balance sheet of January 1, 2010. As the December 31, 2011 financial statements are the Company's first annual financial statements prepared using IFRS, these financial statements should be read in conjunction with the IFRS transition disclosures included in note

32 to the financial statements. Note 32 contains reconciliations and descriptions of the effect of the transition from Canadian Generally Accepted Accounting Principles (“CGAAP”) to IFRS on equity, earnings and comprehensive income, along with line-by-line reconciliations of the consolidated statements of financial position as at December 31, 2010 and January 1, 2010, and the consolidated statements of earnings and comprehensive income for the year ended December 31, 2010.

The accounting policies presented in the December 31, 2011 consolidated financial statements of the Company have been applied consistently to all periods presented and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRS.

Future changes in accounting policies

Recently issued but not adopted accounting guidance are as follows:

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

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

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

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

IFRS 11 *Joint Arrangements* (“IFRS 11”), which replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers*, requires a venturer to classify its interest in a joint arrangement as either a joint operation or a joint

venture. For a joint operation, the joint operator will recognize its assets, liabilities, revenue and expenses, and/or its relative share thereof. For a joint venture, the joint venturer will account for its interest in the venture's net assets using the equity method of accounting. The choice to proportionally consolidate joint ventures is prohibited. 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.

Disclosure Controls and Procedures and Internal Control Over Financial Reporting

As of December 31, 2011, Centerra evaluated its disclosure controls and procedures and internal control over financial reporting, as defined in the rules of the Canadian Securities Administrators. These evaluations were carried out under the supervision of and with the participation of management, including Centerra's Chief Executive Officer and the Chief Financial Officer. Based on these evaluations, the Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures and internal control over financial reporting were effective.

Sustainable Development

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

During 2011, the Company released its first Corporate Responsibility Report for its 2010 reporting year. The report is available on the Company's website at www.centerragold.com.

2012 Outlook

Centerra's 2012 consolidated gold production is forecast to be between 635,000 and 685,000 ounces. The Kumtor mine is expected to produce between 575,000 and 625,000 ounces in 2012. Kumtor's 2012 planned mining sequence results in a production profile with a large portion of the gold production occurring in the fourth quarter. The high-grade material from the SB Zone is only available for mining at the end of the third quarter of 2012 when it is exposed by cut-back 14A. On a quarterly basis, Kumtor's 2012 gold production is forecast to have 12% of gold production being recovered in the first quarter, 20% in the second quarter, 25% in the third quarter and 43% in the fourth quarter. Gold production in the first quarter of 2012 will also be impacted by four days of scheduled mill maintenance of the ball and SAG mills. The Company is also evaluating the impact of the 10-day strike which occurred in February 2012.

Kumtor's collective bargaining agreement expires at the end of 2012. A related work stoppage during the year could have a significant impact on Kumtor achieving its forecasted production (see "Risk Factors"). A work stoppage in the fourth quarter would have a larger negative impact on Kumtor achieving its forecasted production for the year. The Company's production forecast is contingent on its ability to strip enough material from cut-back 14A during the year to expose the high grade SB zone by the end of the third quarter. Additionally, achieving the 2012 production is dependent on the timely delivery of new mining equipment and successfully maintaining the mining rates of the waste and ice in the southeast portion of the pit to gain access to the higher grade ore.

At the Boroo mine, gold production is forecast to be approximately 60,000 ounces and assumes mining of Pit 6. The 2012 forecast also assumes no production from the heap leach facility or the Gatsurt project due to uncertainties with permitting. The Boroo mill is expected to process mostly higher grade heap leach ore stockpiles for the first eight months of 2012, followed by processing the higher grade ore from Pit 6 from September 2012 to January 2013. During September to December 2012, the Boroo mill is expected to process a mixture of higher grade Pit 6 ore with an average grade of approximately 2.1 g/t and stockpiled heap leach material with grades between 0.67 – 0.76 g/t.

Receipt of the final heap leach operating permit would add approximately 2,000 ounces of gold a month. At Gatsurt, the project is ready to begin mining the oxide ore on receipt of the final approvals and regulatory commissioning.

Centerra's 2012 gold production and unit costs are forecast as follows:

	2012 Production Forecast (ounces of gold)	2012 Total Cash Cost ⁽¹⁾ (\$ per ounce produced)
Kumtor	575,000 – 625,000	430 - 465
Boroo	approx. 60,000	810
Consolidated	635,000 – 685,000	465 - 500

(1) Total cash cost is a non-GAAP measure and includes mine operating costs such as mining, processing, regional office administration, royalties and production taxes (except at Kumtor where revenue-based taxes are excluded), but excludes amortization, reclamation costs, financing costs, capital development, community investments and exploration.

2012 Exploration Expenditures

Exploration expenditures of \$45 million are planned for 2012, a 13% increase from the \$39.6 million spent in 2011. The 2012 program will continue the aggressive exploration work at the Kumtor mine together with an increase in the exploration in the Kumtor district; planned expenditures are expected to be about \$15 million. In Mongolia, \$8 million is allocated for exploration programs and work will continue along the Onon trend in eastern Mongolia and to follow up on the positive results on the Altan Tsagaan Ovoo (“ATO”) project.

In 2012, drilling programs will continue on the Kara Beldyr and Dvoynoy projects in Russia and expenditures for the two projects are expected to be approximately \$6 million. Drilling programs will also continue in Turkey on the Company’s joint venture projects with expenditures expected to be approximately \$6 million. Drilling of the Laogouxi project in China is expected to commence in the second quarter. In addition, generative programs will continue in Central Asia, Russia, China, and Turkey to increase the pipeline of projects that the Company is developing to meet the longer term growth targets of Centerra.

Subsequent to 2011 year-end Centerra decided to close its exploration office in Reno, Nevada and to refocus its exploration efforts outside of the Great Basin in Nevada, USA to those areas in which it is having more success, such as in Mongolia, Turkey, Russia and Kyrgyzstan.

2012 Capital Expenditures

The capital expenditures for 2012 are estimated to be \$389 million, including \$49 million of sustaining capital and \$340 million of growth capital.

Capital expenditures include:

Projects	2012 Growth Capital (millions of dollars)	2012 Sustaining Capital (millions of dollars)
Kumtor mine	\$328	\$45
Mongolia	\$12	\$3
Corporate	-	\$1
Consolidated Total	\$340	\$49

Kumtor

At Kumtor, 2012 total capital expenditures are forecast to be \$373 million including \$45 million of sustaining capital. The largest sustaining capital spending will be the major overhaul maintenance of the heavy duty mine equipment (\$21 million), expenditures for dewatering and infrastructure (\$8 million), effluent treatment plant relocation (\$5 million), tailings dam construction works (\$4 million) and for equipment replacement and other items (\$7 million).

Growth capital investment at Kumtor for 2012 is forecast at \$328 million, which includes pre-strip costs related to the development of the open pit (\$128 million), purchase of new mining equipment including 25 CAT 789 haul trucks, 4 drills and 4 Hitachi 3600 shovels (\$126 million) and other items (\$11 million). Growth capital for 2012 has increased compared to the most recent Kumtor technical report as purchases of mine expansion equipment planned for 2013 (\$61 million) have been brought forward to 2012. This was done to ensure that all of the new CAT 789 haul trucks were of the same model “C” series, given that CAT is discontinuing the C series in late 2012. Additionally, the added capacity will help to ensure the required mine production rate is maintained. Also included in the 2012 growth capital investment is

\$63 million which is for the underground project to continue to develop the SB and Stockwork Zones, as well as for delineation drilling and capital purchases in 2012.

The underground development project at Kumtor is on track to achieve breakthrough of Decline 1 with Decline 2 in the third quarter of 2012 and is expected to intersect first ore in the SB Zone in the second quarter of 2013.

Mongolia (Boroo & Gatsuurt)

At Boroo, sustaining capital expenditures in 2012 are expected to be about \$3 million primarily for component change-outs and mill maintenance. Growth capital is forecast at \$12 million, which includes capitalized pre-stripping costs of Pit 6 at Boroo (\$11 million).

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

2012 Depreciation, Depletion and Amortization

Depreciation, depletion and amortization expenses included in costs of sales expense for 2012 are forecast to be approximately \$133 million. Changes in DD&A are a result of increases or decreases to certain of the Company's capital assets. Refer to the Company's 2011 Audited Financial Statements note 9 for further details on the related capital assets.

<i>(In millions)</i>	2012 DD&A Forecast	2011 DD&A Actual	2010 DD&A Actual
Kumtor			
Mine equipment	\$ 80	\$ 69	\$ 36
Less DD&A capitalized to pre-stripping costs ⁽¹⁾	(34)	(14)	(4)
Pre-stripping costs amortized	54	32	-
Mine development and other mining assets	8	5	7
Mill assets	9	8	9
Administration assets and other	10	10	10
Inventory movement (non-cash)	(14)	(22)	1
Subtotal for Kumtor	\$ 113	\$ 88	\$ 59
Boroo			
Mine equipment	\$ 4	\$ 2	\$ 3
Less DD&A capitalized to pre-stripping costs	(2)	-	-
Pre-stripping costs amortized	12	-	4
Mine development and other mining assets	1	1	1
Mill assets	1	1	2
Administration assets and other	2	3	9
Inventory movement (non-cash)	2	3	(2)
Subtotal for Boroo	\$ 20	\$ 10	\$ 16
Consolidated Total	\$ 133	\$ 98	\$ 76

(1) Use of the Company's mining fleet for pre-stripping activities results in a portion of the depreciation related to the mine fleet to be allocated to capitalized pre-strip costs.

Kumtor

At Kumtor, the forecast for 2012 DD&A expensed as part of costs of sales is \$113 million. The increase over the three years reflects a significant expansion of the mining fleet in order to achieve higher throughput levels of materials moved and the increasing stripping of waste required by the deposit. This is the largest component of depreciation expense in 2012 totalling \$80 million. The mine equipment assets are depreciated on a straight-line basis over their estimated useful lives. The depreciation expense related to mine equipment engaged in a stripping campaign is capitalized as pre-stripping costs.

During 2012 Kumtor will be mining the remaining ore from cut-back 12B and continuing stripping campaigns on cut-backs 14A and 14B. The costs to remove waste within the various cut-backs include mining operating costs such as labour, diesel and maintenance costs, as well as the depreciation expense for the mine equipment used in the stripping campaign. Labour and consumables costs (such as diesel costs) have been steadily increasing over the last several years due to both increases in price and demand with the expanding operation at Kumtor. These costs are capitalized as pre-stripping costs and amortized over the ounces contained in the ore body exposed by the stripping campaign.

Based on the sequencing of production at Kumtor for 2012, ore from cut-backs 12B and 14A will be mined resulting in the amortization through cost of sales of \$54 million in capitalized pre-stripping costs. As Kumtor mines the ore from cut-back 12B, it will amortize the remaining unamortized capitalized pre-stripping costs of \$13 million related to that cut-back. The forecast assumes that the stripping campaign for cut-back 14A is completed by the fourth quarter of 2012 providing access to the ore in the fourth quarter. The ore in cut-back 14A will be partially mined in the fourth quarter and the amortization expense for 2012 for the capitalized pre-stripping costs related to cut-back 14A is forecast at \$41 million. The stripping campaign for cut-back 14B was started in December 2011 and is expected to continue throughout 2012 with the goal of reaching ore in 2013. Therefore, no amortization expense is expected to be recorded on cut-back 14B in 2012.

Boroo

At Boroo, the forecast for 2012 DD&A expensed as part of costs of sales is \$20 million, compared to \$10 million in 2011 and \$17 million in 2010. The increase in 2012 reflects the resumption of mining in Pit 6. The largest component of depreciation expense is related to amortization of capitalized pre-stripping costs related to Pit 6.

In January 2012 Boroo re-commenced mining activities in Pit 6 requiring the stripping of waste before ore is exposed. The costs of removing waste for this stripping campaign before the ore is mined will be capitalized as pre-stripping costs and amortized over the ounces contained in the Pit 6 ore. The forecast assumes that the stripping campaign for Pit 6 is completed early in the third quarter of 2012 and the processing of Pit 6 ore through the mill completed in January 2013. The amortization expense for 2012 for the capitalized pre-stripping costs related to Pit 6 production is forecast at \$12 million.

2012 Corporate Administration and Sustainable Community Investment

Corporate and administration expenses for 2012 are forecast at approximately \$41 million.

Total sustainable community investments for 2012 are forecast at \$26 million, in accordance with Centerra's Community Investment policy. Note that these costs are not included in total cash cost per ounce produced (total cash cost per ounce produced is a non-GAAP measure and is discussed under "Non-GAAP Measures").

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, BGC invested \$6.4 million towards the construction of a new maternity hospital in Ulaanbaatar and in 2011 KGC contributed \$10 million for the construction and repair of 27 schools throughout the Kyrgyz Republic. The Company intends to include sustainable community investment expenditures as part of its regular guidance.

Taxes

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

The corporate income tax rate for Centerra's Mongolian subsidiary, BGC is 25% for taxable income over 3 billion Mongolian tugriks (approximately \$2.2 million at the 2011 year-end foreign exchange rate) with a tax rate of 10% for taxable income up to that amount.

Regulatory Matters

In January 2012, Centerra's wholly owned subsidiary, BGC, which owns the Boroo project, resolved the previously disclosed very significant claim for compensation that it received from the Mongolian General Department of Specialized Inspection ("SSIA") in October 2009 following the June 2009 inspection at the Boroo project. The claim related to certain mineral reserves, including state alluvial reserves, covered by the Boroo project licenses, that are recorded in the Mongolian state reserves registry, but for which there are no or incomplete records or reports of mining activity. Pursuant to the resolution, Boroo Gold LLC has accrued approximately \$2.6 million in its 2011 year-end statements. While this claim has been resolved, other regulatory issues remain outstanding in Mongolia, including the issuance of a final heap leach permit.

Sensitivities

Centerra's revenues, earnings and cash flows for 2012 are sensitive to changes in certain variables and the Company has estimated their impact on revenues, net earnings and cash from operations.

	Change	Impact on (\$ millions)			
		Costs	Revenues	Cash flow	Earnings before income tax
Gold Price	\$50/oz	5.1	33.5	28.4	28.4
Diesel Fuel ⁽¹⁾	10%	7.1	-	7.1	7.1
Kyrgyz som	1 som	2.6	-	2.6	2.6
Mongolian tugrik	25 tugrik	1.2	-	1.2	1.2
Canadian dollar	10 cents	3.8	-	3.8	3.8

⁽¹⁾ a 10% change in diesel fuel price equals \$11/oz produced

Major Assumptions

The following material assumptions have been used to forecast production, costs and future capital expenditures;

- a gold price of \$1,700 per ounce,
- exchange rates:
 - \$1USD:\$1.01 CAD
 - \$1USD:46.00 Kyrgyz Som
 - \$1USD:1,235 Mongolian Tugrik
 - \$1USD:0.74 Euro
- diesel fuel price assumption:
 - \$0.71/litre at Kumtor
 - \$1.13/litre at Boroo

The assumed diesel price of \$0.71/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. Political and supply pressures and policies may cause the average price of fuel from Russia to be higher. The diesel fuel price assumptions were made when the price of oil was approximately \$99 per barrel.

Other important assumptions include the following:

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

- the remedial plan to deal with the Kumtor waste and ice movement continues to be successful, see "Kumtor Mine – Geotechnical Issues Affecting the Kumtor Open Pit" in the Company's most recently filed annual information form,
- no unplanned delays in or interruption of scheduled production from our mines, including due to civil unrest, natural phenomena, labour, regulatory or political disputes, equipment breakdown or other developmental and operational risks,
- any labour dispute that occurs at Kumtor does not impact the Company's mine plan regarding the stripping of cut-back 14A and subsequent access to the SB zone in the third quarter,
- inflation rates in countries where Centerra operates remain stable,
- no further suspension of Boroo's operating licenses, and
- all necessary permits, licences and approvals are received in a timely manner.

Production and cost forecasts and capital estimates are forward-looking information and are based on key assumptions and subject to material risk factors. If any event arising from these risks occurs, the Company's business, prospects, financial condition, results of operations or cash flows could be adversely affected. Additional risks and uncertainties not currently known to the Company, or that are currently deemed immaterial, may also materially and adversely affect the Company's business operations, prospects, financial condition, and results of operations or cash flows. See the sections entitled "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".

Qualified Person & QA/QC

The reserves and resources estimates and other scientific and technical information in this news release 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 reviewed, verified and compiled by Centerra's geological and mining staff under the supervision of Ian Atkinson, Certified Professional Geologist, Centerra's Senior 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 Kumtor deposit is described in Centerra's most recently filed AIF 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.

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

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

Risk Factors

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

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

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

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

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

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

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

There can be no assurance that industries deemed of national or strategic importance like mineral production will not be nationalized. Government policy may change to discourage foreign investment, renationalization of mining industries may occur or other government limitations, restrictions or requirements not currently foreseen may be implemented. There can be no assurance that Centerra's assets will not be subject to nationalization, requisition or confiscation, whether legitimate or not, by any authority or body. While there are often provisions for compensation and reimbursement of losses to investors under such circumstances, there is no assurance that such provisions would effectively restore the value of Centerra's original investment. Similarly, Centerra's operations may be affected in varying degrees by government regulations with respect to restrictions on production, price controls, export controls, income taxes, expropriation of property, environmental legislation, labour legislation, mine safety, and annual fees to maintain mineral properties in good standing. There can be no assurance that the laws in these countries protecting foreign investments will not be amended or abolished or that these existing laws will be enforced or interpreted to provide adequate protection against any or all of the risks described above. Furthermore, there can be no assurance that the agreements Centerra has with the governments of these countries will prove to be enforceable or provide adequate protection against any or all of the risks described above.

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

adverse impact on Centerra's future cash flows, earnings, results of operations and financial condition if not adequately covered by insurance.

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

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

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

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

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

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

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

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

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

The Company is of the opinion that the Boroo Stability Agreement (which remains in effect until July 2013) affords Boroo protection against the new laws described above, but Centerra's Gatsuurt project does not yet have any such benefits. Centerra has been in discussions with the Government of Mongolia to obtain an investment agreement for the development and mining of the Gatsuurt project which would stabilize the tax regime applicable to Gatsuurt, and including whether such new mineral laws will apply to Gatsuurt. In April 2010, the MMRE indicated to Centerra that further discussions and negotiations with respect to any investment agreement would be postponed until the MMRE received clarification on the application of the Water and Forest Law on the Gatsuurt project. Even with the Water and Forest Law matter being resolved, there can be no assurance that any negotiations will be successful. In addition, Centerra holds other exploration and mining licenses in Mongolia which are not subject to the Boroo Stability Agreement and which may not be subject to any investment agreement to be entered into for Gatsuurt, and therefore these exploration and mining licenses may become subject to such new Mongolian mining laws.

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

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

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

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

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

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

In particular, on October 23, 2009, the Company received a very significant claim from the SSIA in respect of certain mineral reserves, including state alluvial reserves covered by the Boroo project licenses, that are recorded in the Mongolian state reserves registry but for which there are no or incomplete records or reports of mining activity. In the fourth quarter of 2011, Centerra's wholly-owned subsidiary, Boroo Gold LLC, which owns the Boroo project, resolved this claim and accrued approximately \$2.6 million. This claim was paid in full in January 2012.

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

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

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

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

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

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

Centerra's mineral reserves may not be replaced

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

Centerra may experience further ground movements at the Kumtor project

On July 8, 2002, a highwall ground movement at the Kumtor project resulted in the death of one of Centerra's employees and the temporary suspension of mining operations. The movement led to a considerable shortfall in 2002 gold production because the high-grade Stockwork Zone was rendered temporarily inaccessible. Consequently, Centerra milled lower grade ore and achieved lower recovery rates. In February 2004, movement was also detected in the southeast wall of the open pit and a crack was discovered at the crest of the wall. In February 2006, there was further movement detected in the southeast wall of the open pit. In July 2006, there was ground movement in the northeast wall of the open pit that required the adoption of a new mining sequence at Kumtor and resulted in lower than anticipated gold production in 2006. In the first quarter of 2007, minor slope movement was detected in the waste dump above the SB Zone highwall in the Central pit. Deformation cracks in the waste rock above the till focused attention on wall instability seated in the glacial till between the waste dumps and the underlying bedrock. Drilling has indicated that further push backs of the Central pit will encounter unfrozen, water saturated till. The outer face of the till is frozen and hence the water behind the slope face is pressurized. The depressurization and dewatering programs which were established at the mine in 2008 and continuously operated since, have reduced the hydrological content of the waste dump and the till.

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

Centerra will experience further waste and ice movement at the Kumtor project

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

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

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

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

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

Centerra’s mineral reserve and resource estimates may be imprecise

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

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

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

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

Centerra’s production and cost estimates may be inaccurate

Centerra prepares estimates of future production and future production costs for particular operations. No assurance can be given that production and cost estimates will be achieved. These production and cost estimates are based on, among other things, the following factors: the accuracy of mineral reserve estimates; the accuracy of assumptions regarding ground conditions and physical characteristics of ores, such as hardness and presence or absence of particular metallurgical characteristics; equipment and mechanical availability; labour availability; access to the mine; facilities and infrastructure; sufficient materials and supplies on hand; and the accuracy of estimated rates and costs of mining and processing, including the

cost of human and physical resources required to carry out Centerra's activities. Failure to achieve production or cost estimates, or increases in costs, could have an adverse impact on Centerra's future cash flows, earnings, results of operations and financial condition.

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

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

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

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

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

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

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

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

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

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

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

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

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

In addition, the currently permitted tailings management facility does not have sufficient capacity to store the entire approximate 62 million tonnes of ore to be processed in the current life-of-mine plan. The capacity shortfall of approximately 12 million tonnes of ore or 8.4 million cubic metres of tailings will require further raising of the existing tailings dam beyond the 3,670.5 elevation, or the construction of an additional tailings facility to be completed prior to 2019 for the last two years of the life-of-mine.

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

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

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

Centerra is subject to environmental, health and safety risks

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

Centerra's facilities operate under various operating and environmental permits, licenses and approvals that contain conditions that must be met and Centerra's right to continue operating its facilities is, in a number of instances, dependent upon compliance with these conditions. Failure to meet certain of these conditions could result in interruption or closure of exploration, development or mining operations or material fines or penalties, all of which could have an

adverse impact on Centerra's future cash flows, earnings, results of operations and financial condition. Centerra is unable to quantify the costs of such a failure.

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

Centerra has investigated its rights to explore and exploit all of its material properties, and, except as described below, to the best of its knowledge, those rights are in good standing. However, no assurance can be given that such rights will not be revoked or significantly altered to Centerra's detriment. There can also be no assurance that Centerra's rights will not be challenged or impugned by third parties, including local governments. On December 6, 2006, Gatsuurt LLC commenced arbitration before the Mongolian National Arbitration Court ("MNAC") alleging non-compliance by Centerra's subsidiary, CGM, with its obligation to complete a feasibility study on the Gatsuurt property by December 31, 2005 and seeking the return of the license. Centerra believed that Gatsuurt LLC's position was without merit. CGM challenged the MNAC's jurisdiction and the independence and impartiality of the Gatsuurt LLC nominee to the arbitration panel. Centerra and Gatsuurt LLC have reached an agreement to terminate arbitration proceedings. Further to that agreement CGM paid \$1.5 million to Gatsuurt LLC. On signing of a definitive agreement, but subject to CGM having entered into an investment agreement with the Government of Mongolia in respect of the development of the Gatsuurt project, CGM will make a further non-refundable payment to Gatsuurt LLC in the amount of \$1.5 million. Final settlement with Gatsuurt LLC is subject to the negotiation and signing of a definitive settlement agreement.

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

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

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

Pursuant to Centerra's Credit Facility, the Company must maintain certain financial ratios and satisfy other non-financial maintenance covenants. The Company and its material subsidiaries are also subject to other restrictive and affirmative covenants in respect of their respective operations. Compliance with these covenants and financial ratios may impair the Company's ability to finance its future operations or capital needs or to take advantage of other favourable business opportunities. The Company's ability to comply with these covenants and financial ratios will depend on its future performance, which may be affected by events beyond the control of the Company. The Company's failure to comply with any of these covenants or financial ratios will result in a default under the Credit Agreement and may result in the

acceleration of any indebtedness under the Credit Agreement. In the event of a default and Centerra is unable to repay any amounts then outstanding, the lender, EBRD may be entitled to take possession of the collateral securing the Credit Facility, including certain mobile equipment used in the operations at Kumtor and the Mongolian mining licenses, to the extent required to repay those borrowings.

Both projects are unionized and there are no assurances that any renewals of the collective agreements can be negotiated on satisfactory terms. Centerra may also be subject to labour unrest or other labour disturbances.

Non-management employees at Kumtor and Boroo (including those in head office) are unionized and subject to collective agreements. At Kumtor, the current collective bargaining agreement which was ratified in October 2010, following a ten-day illegal work action, expires on December 31, 2012. As of February 6, 2012, unionized employees at Kumtor began an illegal strike. See “Other Corporate Developments – Corporate”. At Boroo, the current collective agreement expires June 30, 2012. There can be no assurance that there will not be any delays in the renewal process, that negotiations will not prove difficult or that Centerra will be able to renegotiate the collective agreement on satisfactory terms, or at all. Centerra could be subject to labour unrest or other labour disturbances including strikes as a result of any failure of negotiations which could, while ongoing, have a material adverse impact on Centerra, including the achievement of any annual production guidelines and costs estimates. The renewal of the collective agreement could result in higher on-going labor costs, which could have a material adverse impact on Centerra’s future cash flows, earnings, results of operations and financial condition. In addition, existing collective agreement may not prevent a strike or work stoppage, and any such work stoppage could have a material adverse impact on Centerra.

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

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

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

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

and on terms acceptable to Centerra. While the Company did receive several permits during the course of 2010 in relation to the Gatsuurt project, in November 2010, the Company received a letter from Mongolia's Ministry of Finance indicating that operations at the Gatsuurt project cannot be commenced while the implementation of the Water and Forest Law is being resolved. Accordingly, further approvals and commissioning of Gatsuurt will be delayed as a result of the Water and Forest Law.

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

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

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

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

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

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

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

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

In the event of a dispute arising at Centerra's foreign operations, Centerra may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdiction of courts in Canada. Centerra may also be hindered or prevented from

enforcing its rights with respect to a governmental entity or instrumentality because of the doctrine of sovereign immunity.

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

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

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

Centerra may experience reduced liquidity and difficulty in obtaining future financing

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

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

Global financial conditions

The financial crisis which began in the latter part of 2007 has resulted in global financial conditions which are characterized by continued high volatility, and financial institutions are still recovering from significant losses. Access to public financing and bank credit has been negatively impacted by both the rapid decline in value of sub-prime mortgages and the resulting liquidity crisis as financial institutions saw their balance sheet impaired. Notwithstanding some improvement in the financial health of major financial institutions,

global financial conditions may affect Centerra's ability to obtain equity or debt financing in the future on favourable terms. Additionally, these factors, as well as other related factors, may cause decreases in Centerra's asset values that may be other than temporary, which may result in impairment losses. If such increased levels of volatility and market turmoil continue, or if more extensive disruptions of the global financial markets occur, Centerra's operations could be adversely impacted and the trading price of Centerra's common shares may be adversely affected.

Currency fluctuations

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

Short-term investment risks

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

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

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

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

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

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

Centerra may experience difficulties with its joint venture partners

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

Centerra's largest shareholder is the Kyrgyz Government

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

Centerra's directors may have conflicts of interest

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

Caution Regarding Forward-Looking Information

Information contained in this Annual MD&A which are not statements of historical facts, and the documents incorporated by reference herein, may be "forward looking information" for the purposes of Canadian securities laws. Such forward looking information involves risks, uncertainties and other factors that could cause actual results, performance, prospects and opportunities to differ materially from those expressed or implied by such forward looking information. The words "believe", "expect", "anticipate", "contemplate", "target", "plan", "intends", "continue", "budget", "estimate", "may", "will", "schedule" and similar expressions identify forward-looking information. These forward-looking statements relate to, among other things, the statements made under the heading, "Outlook for 2012", including the Company's expectations regarding future growth, results of operations, future production and sales, operating capital expenditures, and performance; expected trends in the gold market, including with respect to costs of gold production; capital and operational expenses for 2012 and the ability to fund them from cash flow or to access public markets (and its ability to do so successfully); 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; the application of the new graduated royalty fee regime under the 2006 Mongolian Minerals Law to the Company's Mongolian properties; permitting of the Company's heap leach activities at the Boroo mine; anticipated delays and approvals and regulatory commissioning of the Company's Gatsuurt development property as a result of the Water and Forest Law; the continued success with the management of ice and water movement at Kumtor; the 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 "2012 Outlook". Factors that could cause actual results or events to differ materially from current expectations include, among other things: the sensitivity of the Company's business to the volatility of gold prices; the political risks associated with the Company's principal operations in the Kyrgyz Republic and Mongolia; the impact of changes in, or more oppressive enforcement of, laws, regulations and government practices in the jurisdictions in which the Company operates; the effect of the 2006 Mongolian Minerals Law; the effect of the November 2010 amendments to the 2006 Mongolian Minerals Law on the royalty payments payable in connection with the Company's Mongolian operations; the effect of the Water and Forest Law on the Company's operations in Mongolia; the impact of continued scrutiny from Mongolian regulatory authorities; the impact of changes to, or the increased enforcement of, environmental laws and regulations relating to the Company's operations; the Company's ability to replace its reserves; ground movements at the Kumtor

Mine; waste and ice movement at the Kumtor Mine; litigation; the accuracy of the Company's reserves and resources estimate; the accuracy of the Company's production and cost estimates; the success of the Company's future exploration and development activities; competition for mineral acquisition opportunities; the adequacy of the Company's insurance; environmental, health and safety risks; defects in title in connection with the Company's properties; the impact of restrictive covenants in the Company's revolving credit facility; the Company's ability to successfully renew any collective agreements and to avoid any labour disturbances; the Company's ability to successfully negotiate an investment agreement for the Gatsuurt development property and the Company's ability to obtain all necessary permits and commissions needed to commence mining activity at the Gatsuurt development property; seismic activity in the vicinity of the Company's operations in the Kyrgyz Republic and Mongolia; long lead times required for equipment and supplies given the remote location of the Company's properties; illegal mining on the Company's Mongolian properties; the Company's ability to enforce its legal rights; the Company's ability to accurately predict decommissioning and reclamation costs; the Company's ability to obtain future financing; the impact of current global financial conditions; the impact of currency fluctuations; the effect of recent market conditions on the Company's short-term investments; the Company's ability to attract and retain qualified personnel; the Company's ability to make payments including payments of principal and interest on the Company's debt facilities; risks associated with the conduct of joint ventures; risks associated with the Company's largest shareholder, the Kyrgyz government; and possible director conflicts of interest. There may be other factors that cause results, assumptions, performance, achievements, prospects or opportunities in future periods not to be as anticipated, estimated or intended. See "Risk Factors" in the Company's most recently filed AIF available on SEDAR at www.sedar.com.

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

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

Centerra has not adjusted resource figures included herein in consideration of these risks and, therefore, Centerra can give no assurances that any resource estimate will ultimately be reclassified as proven and probable reserves or incorporated into future production guidance. If Centerra's reserve or resource estimates or production guidance for its gold properties are inaccurate or are reduced in the future, this could have an adverse impact on Centerra's future

cash flows, earnings, results of operations and financial condition. Centerra estimates the future mine life of its operations and provides production guidance in respect of its mining operations. Centerra can give no assurance that mine life estimates will be achieved or that actual production will not differ materially from its guidance. Failure to achieve estimates or production guidance could have an adverse impact on Centerra's future cash flows, earnings, results of operations and financial condition.

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

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