Исх. № EXE/4429

January 28, 2013

VIA HAND DELIVERY

To: His Excellency, Zhantoro Satybaldiyev, Prime Minister of the Kyrgyz Republic

To: Ministry of Economics, Chairman State Commission,
Attention: Mr. T.A. Sariev, Minister

To: State Inspectorate for Environmental and Technical Safety under KR Government
Attention: Mr. O. M. Artykbaev, Director

Dear Sirs and Mesdames,

On behalf of Kumtor Operating Company CJSC ("KOC" or "Kumtor") we acknowledge receipt of the claim #09/1500 dated December 11, 2012 (the "Claim") from the State Inspectorate Office for Environmental and Technical Safety under the Kyrgyz Republic Government ("SIETS"). The Claim is in the amount of 106,840,954 (one hundred and six million eight hundred forty thousand nine hundred fifty four) soms for alleged damages caused to land resources at the Kumtor mine site as a result of the failure to remove and store topsoil.

This response is being provided further to our notice of appeal to SIETS and the Government of the Kyrgyz Republic ("KR") dated January 4, 2013 (delivered to SIETS on January 8, 2013).

Kumtor disagrees with the Claim and the manner of calculating purported damages. In this response, we will discuss four alternative bases for why we believe that this Claim is incorrect and therefore must be withdrawn. In particular we submit the following reasons for disputing the Claim (each will be discussed in greater detail below):

1. The issuance of the Claim is invalid as it was based on findings from a SIETS inspection that violated KR legislation.
2. The Restated Investment Agreement among the Government of the Kyrgyz Republic (the "Government") on behalf of the Kyrgyz Republic, Centerra Gold Inc. ("Centerra"), Kumtor Gold Company CJSC ("KGC") and KOC dated as of June 6, 2009 (the "Restated Investment Agreement")

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governs the activity in question and provides a complete regime of payments to be made directly to the Government. Accordingly, no additional fees are payable, even if characterized as a claim for damages or losses.

3. The Claim is invalid because SIETS misinterpreted the specific Kyrgyz legislation noted therein regarding top soil and Kumtor's obligations with respect thereto.
4. SIETS, a governmental agency, cannot commence action for the payment requested due to the Release Agreement and Statute of Limitation (as such terms are defined below), and the proper procedure for resolving disputes with respect to the Kumtor Project is expressly provided in the Restated Investment Agreement.

Basis #1 – The Claim is invalid as it was based on findings from a SIETS inspection that violated KR legislation.

1. SIETS breached requirements under KR legislation for inspections. The Claim was issued as a result of an inspection conducted by SIETS on August 3, 2012. We note that the following breaches of KR Law #72 "On Procedure for Conducting Inspections of Business Entities" dated May 25, 2007 (the "Law on Inspections") occurred:

    a. The inspection was authorized by an approval of the Ministry of Economics dated August 2, 2012 (the "Prescription for Inspection"). The KR legislation governing SIETS and its inspections requires that SIETS provide at least 10 days' advance notice of the inspection. In this case, the approval of the Ministry of Economics was obtained by SIETS on August 2, 2012 and SIETS undertook the investigation the next day. In doing so, SIETS contravened its own notice obligations under KR legislation by not providing the requisite notice to Kumtor.
    b. The Prescription for Inspection provided that SIETS could inspect the activity at the Kumtor mine from December 2011 to August 2012. However, SIETS issued a Claim for activities relating to the period from 1995.
    c. Inspections by SIETS should be conducted in accordance with the quarterly plan to be developed by SIETS and approved by the Ministry of Economy 30 days prior to the next period of inspections. As the State Commission was formed by Government decree #465 on July 3, 2012 and SIETS carried out the inspection on August 3, 2012, we assume that this inspection was not included in SIETS' quarterly plan. Given that the SIETS inspection was not included in its quarterly plan, the inspection must be considered illegal.

2. SIETS does not have the authority to issue claims. The KR legislation, including

Regulation of SIETS #136 dated February 20, 2012, does not provide SIETS with the power to issue such document as a "claim". Therefore, SIETS acted outside of its authority in issuing this Claim. We also note that if SIETS had discovered a violation during its inspection, it is obligated to explain to Kumtor the essence of the violation and issue a written warning requiring it to eliminate the violation within 3 days (if such violation affects the security, life or health of people) or 30 days in other cases.

3. The Purpose of the SIETS investigation was to assist in the State Commission review of Kumtor. The Prescription for Inspection provides that the inspection by SIETS is in furtherance of KR Government Resolution #465 dated July 3, 2012 which established the state commission (the "State Commission") to verify and investigate compliance with the norms and requirements for the rational use of natural resources, environmental protection, operations processes, safety and social protection of the population. The Prescription for Inspection provides for a broad purpose of the inspection, being the inspection of industrial and environmental safety conditions during conducting of mine works on the surface and underground on Kumtor deposit.

The Claim also notes that the SIETS investigation was conducted "...in accordance with the Resolution of the Jogorku Kenesh of the KR (the "Parliament") No. 2117-U, dated June 27, 2012, "Regarding the report of the temporary parliamentary committee aimed at verifying compliance on the part of Kumtor Operating Company CJSC of the norms and requirements for the rational use of natural resources, environmental protection, safety of operational processes and social protection of inhabitants in the areas of impact of the gold mine and the state of the government oversight", such committee being established on the basis of the Resolution of the Parliament of the KR #1642-V, dated February 15, 2012, and the Resolution of the Government of the KR # 465, dated July 3, 2012, "Regarding the establishment of the State Committee to verify and investigate compliance with the norms and requirements for the rational use of natural resources, environmental protection, operational processes, safety and social protection of the population".

The fact that SIETS inspected not the prescribed period from December 2011 to August 2012 but the period from 1995 also confirms that SIETS acted to assist the State Commission.

We note that under the KR legislation, State inspection of the activities at the Kumtor Project can be conducted only in accordance of the "Law on Inspections" and Regulation #533 on Procedure of Conducting Inspections of Business Entities approved by the Government Resolution on November 6, 2007 (the "Regulation on Inspections"). There are no other legal acts granting a right to State bodies to conduct inspections of business entities. The Law on Inspections does not allow conducting the inspection of Kumtor by the State Commission and Resolutions of Jogorku Kenesh and/or the Government cannot serve as a ground for conducting inspections. Thus, in our opinion the inspection of Kumtor's activities by the State

Commission was carried out through the efforts of SIETS. Therefore, we submit that the SIETS inspection violated current Kyrgyz legal framework, as it was conducted arbitrarily at the instruction of the Parliament and Government.

4. The Government's action by creating the State Commission and the inspection of the Kumtor Project by SIETS violated the Government's contractual obligations to treat Centerra, KOC and KGC in a non-discriminatory manner. The creation of the State Commission and the inspection of the Kumtor Project by SIETS (for the purposes of furthering the State Commission) violated Section 6.3 of the Restated Investment Agreement that provides for national treatment and non-discrimination. Among other guarantees provided therein, Section 6.3 of the Restated Investment Agreement provides that Centerra, KGC, and KOC shall, in no event, be subject to legislation that is, either by its terms or in its effect, discriminatory.

5. Non-Discrimination of Foreign Investors is also guaranteed in the KR Investment Law. Discrimination is also prohibited by Article 4 of the KR Law #66 "On Investments in the KR" stipulating that the KR grants foreign investors investing in the territory of the KR, with national treatment, and equal rights for local and foreign investors.

Basis #2 – The Restated Investment Agreement governs the activity in question and provides a complete regime of payments to be made directly to the Government. Accordingly, no additional fees are payable for the concession area.

1. The Restated Investment Agreement provides a complete regime for direct payments to the Kyrgyz Republic. Section 5.1 of the Restated Investment Agreement expressly provides that except for the payments provided in Article 5 thereof, "the Project Companies [KOC and KGC] shall be exempt from all other present or future Taxes...in respect of the New Tax Regime Activities". Taxes are defined in Annex 1 (Definitions) of the Restated Investment Agreement as:

> "...means taxes, duties, rates, royalties, withholding obligations, deductions or other governmental charges whatsoever, however characterized, and whether assessed by the Kyrgyz Republic or by any national, regional, municipal, local or administrative instrumentality of the Kyrgyz Republic":

2. The use of land (irrespective of whether topsoil is removed) for construction of buildings and facilities for the operations of the Kumtor Project is a New Tax Regime Activity, and therefore covered under the New Tax Regime. New Tax Regime Activities is defined in Annex 1 (Definitions) of the Restated Investment Agreement as:

> ... "means all of the business, undertakings and activities of any Project Company [includes KOC and KGC] in relation to the Kumtor Project, contemplated in or authorized by this Agreement [the Restated Investment

Agreement] and the Restated Concession Agreement, including without limitation:

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(a) exploration (including feasibility studies) for, mining, production, milling, processing and sale of Products [as defined in the Restated Investment Agreement] within the Concession Area [as defined in the Restated Investment Agreement]

(b) construction, installation, improvement, operation and maintenance of mines, and all manner of buildings and facilities sited within the Concession Area or for the purposes of access to the Concession Area and used exclusively or primarily for the activities described in this definition;

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(p) activities directly related to those activities listed in (a)-(o) above.

The Claim lists 20 areas within the Concession Area that are allegedly damaged due to the deterioration of the land. We submit that these areas were all affected as part of the New Tax Activities, being namely the construction and installation (and maintenance) of infrastructure that is integral to the operation of the Kumtor Project. Any impact on the land resources is directly related to New Tax Regime Activities and therefore no further payments other than that provided in the New Tax Regime should be applied. In addition, we note that some of the infrastructure has been in place at the Kumtor mine for many years, such as the "sediment/settling pond" which was constructed in 1996-1998 and the air field/runway and storage containers which were constructed in 1995-1996.

3. The construction and installation of the infrastructure at the Kumtor Project is also subject to regulatory approval and commissioning. We note construction and installation of infrastructure at the Kumtor mine are subject to regulatory approvals and commissioning, which in some cases involve receipt of expert opinions on matters relating to safety and environment.

4. The amount requested by SIETS is a essentially an additional government charge for activities that are integral to the Kumtor Project and that the Government was aware of. The amount being requested to be paid is a fee/charge with respect to construction and installation of infrastructure necessary for the operation of the Kumtor Project. Pursuant to the Restated Investment Agreement, Kumtor has a complete financial regime that sets out all direct payments to the Kyrgyz Republic with respect to the operation of the mine. The amounts requested by SIETS are attempts to obtain further charges in favour of the Government and are inappropriate.

5. The Restated Investment Agreement prevails over KR legislation where there is a conflict. As contemplated in the Restated Investment Agreement (and endorsed by the Parliament pursuant to the New Kumtor Law dated as of April 30, 2009, as defined in the Restated Investment Agreement) if the Agreement of New Terms for the Kumtor Project dated April 24, 2009 among the Government, Centerra, KOC,

KGC and Kyrgyzaltyn, or any restated project agreement, one of which is the Restated Investment Agreement, specify different rules than the legislation promulgated by the KR, the rules of the agreements shall apply to the relations so regulated.

Basis #3 – In the alternative, if Kumtor must pay additional amounts for land damages (which we expressly disagree with), the analysis carried by SIETS is incorrect because SIETS misinterpreted the specific KR legislation noted therein regarding top soil and Kumtor's obligations with respect thereto.

1. USSR Interstate Standard of 1985 is no longer effective. The Claims states that Kumtor violated the Inter-state Standard #1294 which requires the protection of prolific soil when conducting soil works, which standard was approved by the State Committee of the USSR on Standards dated as of May 5, 1985. We note that according to Article 36 of the KR Law #241 On Normative Legal Acts of the KR dated as of July 20, 2009 all legal acts of the former USSR shall not be applicable beginning from January 1, 2010. Thus, as of January 1, 2010, the above Standard shall not be applicable and SIETS does not have a right to apply it now.

2. The Claim includes many areas that do not contain prolific soil and others in which Kumtor in fact has removed and stored topsoil. Article 96 of the KR Land Code (June 25, 1999) refers to the requirement to remove and store prolific soil (which we assume to mean: adequate topsoil to support vegetation). Many parcels of land indicated in the Claim, and for which damages are being sought, do not qualify as having prolific soil (ie: topsoil) which requires the special removal and storage thereof. We refer you to the map developed by Kyrgyziprosem Land Allocation Plan which demonstrates this case **(see exhibit A to this response).** This is confirmed by multiple sources.

   At the very outset, the Feasibility Study for the Kumtor Project dated November 1993 (revised April 1994) stated:

   > ...[T]he Kumtor mine site is a high altitude area with glaciers, flat valleys and side till hills. Soil in the area predominantly consists of silted till and granular peneplains and detrital rocks.

   KOC specialists also have noted that the height of the soil layer in most areas with top soil does not exceed 15 cm, which is exposed to solifluction and is not prolific soil.

   For example the soil and vegetation layer is lacking on the Portal 1 Area (Item 18) (the area is represented by rocks, moraine and glaciers). With regard to the parcels indicated in Item 13, 19 and 20 thickness of soil and vegetation layer is insignificant (inarable lands) or is lacking completely (rock, moraines, glaciers).

Furthermore, parcels indicated in Items 2-5, 11, 14, 17 and part of item 12 of the Claim are located in the alluvial zone of the Chon-Sary-Tor, Kumtor and Lysyi rivers and cannot be considered as lands with prolific soil. With regard to the parcels indicated item 13, 19 and 20 of the Claim, thickness of soil and vegetation layer in these parcels is insignificant (inarable lands) or is lacking completely (rocks, moraines and glaciers.)

Moreover, Kumtor has in fact removed and stored approximately 187,560 m^3 of top soil and vegetation layers from areas that had prolific soil. In particular, the majority of the land referenced in the Claim (approximately 56%) falls within the area covered by the tailings facility. During construction operations on the tailings facility, dam raising operations, shear key and buttress construction operations, construction of Eastern Tailings Pipeline, works to remove top soil and vegetation layer were carried out on the area of 321,600 m^2 and this layer was stockpiled in dumps. Top soil and vegetation layer on the tailings basin (4,086,974 m^2) was not removed due to the following reasons:

- Pastures of this district are referred to the average and low productivity group, lithogenic, weakly developed, tundra, peat soils fallen under the category of high-altitude deserts (Kyrgyz SSR Atlas, 1987);
- Height of top soil with the vegetation layer in some places did not exceed 10 cm;

Finally, to the extent that there was prolific soil in these or other areas that might have been removed, that would have occurred prior to 2009, and any claim on that account has been released (see Basis #4 below).

Given these realities of the areas comprising the Kumtor mine, we submit that it is inappropriate and incorrect for SIETS to apply this KR legislation to such areas and to assess damages against KOC.

3. KR Government Authorities were aware that over the years, Kumtor did not remove top soil in various areas due to the nature of the top layer not being fertile top soil. In 2005 an ad hoc committee composed of the head of the Jety-Oguz District Administration, the Officer-in-Chief of the Jety-Oguz District Land Management & Real Estate Title Registration Office for the Jety-Oguz District, and a member of KOC's exploration department inspected the Akbel land lot (total area of 22km^2 - not included in the Claim) and determined (among other things) that approximately 15,560m^2 of land was disturbed and accordingly, calculated damages of 79,083.7 KgS. We note that in its assessment of damages, they assumed a thickness of topsoil to be 15 cm. In response to this report, KOC wrote a letter dated November 30, 2005 to the Issyk-Kul Zonal Centre for Real Estate & Land Resources Management, State Agency for Real Estate Title Registration under KR Government, which (among other things), stated that the area in question is characterized by very lean topsoil and is not "fertile" as claimed in the report but rather quite thin and poor, with organic

substances only occurring in the upper 8cm stratum. The response did note that the construction of the mine installations did contemplate removal of top soil when possible. No further response was received on this matter until October 2008.

In October 2008, Kumtor received a report from the Officer-in-Chief of the Jety-Oguz District Department of Land Management and Real Estate Title Registration, and the Senior Inspector for State Control over Land Management for Jety-Oguz District. This letter reiterated the findings of the 2005 report (with respect to the Akbel land lot) and also claimed damages for failure to remove top soil with respect to other land parcels comprising the Kumtor project, including one parcel (the Sarytor land lot) that is included in the Claim. The 2008 report requested payment of damages. KOC responded to this letter in 2009, noting that the issue of damages for failure to remove top soil was previously discussed in 2005 and provided a copy of the 2005 response.

Thus, we note that from at least 2005, KR Government authorities were aware of Kumtor's practice of, and reasoning for, not removing "top soil" in all areas due to the nature of the top soil in such areas not being fertile top soil. (In any event, as set forth in Basis #4 below, this claim for damages was conclusively settled by the June 6, 2009 Release Agreement, and cannot be claimed now.)

4. The SIETS application of Regulation #304 on Reclamation of Lands and Procedure for Commissioning of 1993 is premature and incorrect. The Claim argues that Kumtor caused damages to land and thus is required to pay for the damages. We note that damages to land is an inevitable part of any mining activity, whether at the Kumtor Project or any another property in the world. We submit that Kumtor may be considered liable for damages only if it fails to reclaim the disturbed lands.

   According to Section 2 of Chapter 1 of Regulation #304 on Reclamation of Lands and Procedure for Commissioning of 1993 (the "Regulation on Reclamation") that is referred to in the Claim, the reclamation of lands shall be conducted after the lands become unnecessary. However the Kumtor Project remains ongoing and Kumtor currently uses the relevant lands. Therefore the request to pay for damages to land is premature. Kumtor is planning to complete the reclamation works according to the Final Closure Plan or earlier, upon 12 month notification of the Government as provided in Section 3.3 (c) of the Restated Investment Agreement, and ultimately no effective damages will be caused to the lands when reclaimed. Thus, as of today it is impossible to define that Kumtor caused damages to lands as Kumtor is still in the process of using the lands and has not completed the reclamation which will be made at the completion of the Project.

   We further note that Kumtor is currently in compliance with the land reclamation requirements stipulated in the Restated Investment Agreement. Namely, as provided in Section 3.3 (Reclamation) of the Restated Investment Agreement, KGC every three years is required by the Environmental Management Action Plan [or EMAP as defined in the Restated Investment Agreement] to prepare a conceptual closure plan

for the Kumtor Mine and to update them every three years. The first conceptual closure plan was included into the feasibility study of 1994, the second conceptual closure plan was developed by the consulting company Conor Pacific in 1999, the third – by Lorax in 2004, the fourth by Golder Associates in 2007 and the fifth - by Lorax in 2011. Funds for reclamation activities are deposited annually into a trust fund, based on the ounces produced in the preceding year. This practice will continue for the life of mine at the Kumtor project.

5. Incorrect application of Resolution of the Government #668 On Damages Caused to Land dated as of September 7, 2004. Lastly, we note that the Claim references Resolution #668 for the rates of payment for damages to land. If it was determined that KOC violated applicable KR legislation with respect to top soil removal and treatment, and/or reclamation obligations, a fact that KOC does not concede and in fact expressly disagrees with, the manner of calculating damages is incorrect. It is unclear why SIETS applied a co-efficient E1 equal to 3, which is applicable in the case of illegal evacuation of the prolific soil. Kumtor has never illegally evacuated prolific soil and the Claim does not assert otherwise. In addition, as discussed above, many of the parcels of land used at the Kumtor Project are not areas where prolific soil fertility is evident.

Basis #4 – In the further alternative, SIETS, a governmental agency, cannot commence action for the damages requested due to the Release Agreement and Statute of Limitation, and the proper procedure for resolving disputes with respect to the Kumtor Project is expressly provided in the Restated Investment Agreement.

1. The claim relates to activity prior to June 6, 2009. Except for Items listed under #9 (bypass road to Portal 1), 18 (Mill road section), and 19 (land parcel above the Administrative building and below the waste dump), all other items listed in the Claim Annex were constructed or otherwise developed before June 6, 2009.

2. All matters before June 6, 2009 are released and cannot be claimed. Pursuant to the terms of the Release Agreement entered into between and among Centerra, KGC, KOC, Cameco Corporation, Cameco Gold Inc., Kumtor Mountain Corporation, the Government and Kyrgyzaltyn JSC dated as of June 6, 2009 (the "Release Agreement"), the parties agreed to release each other from any claims, including any legal, tax and fiscal matters, in respect of any matter arising or existing prior to June 6, 2009, whether such matters were known or unknown as of June 6, 2009 (except for unknown environmental damages, which is not applicable in this case (see paragraph 2 below)). The parties also agreed never to arbitrate or litigate, directly or indirectly, on any of the matters so released. Accordingly, even if the basis for the Claim was valid (which we do not agree with), SIETS is restricted from commencing such Claim, and Centerra respectfully submits that an arbitrator will summarily dismiss such Claim.

   We note that Section 3 of the Release Agreement provides the following:

> This Agreement [Release Agreement] is deemed breached and a cause of action accrued thereon immediately upon the commencement or continuation of any action based upon any claim, demand, action or cause of action released by this Agreement. In any such action, this Agreement may be pleaded as a defence, or by way of counterclaim.

3. The matters at issue in the Claim are not "Unknown Environmental Damages". Unknown Environmental Damages is defined as:

> Material damage to natural environment and/or human health caused by Kumtor Project operations that arises or is discovered after the date of execution of this Agreement of New Terms [April 24, 2009], but only to the extent that such damage was not reported or actually known to any governmental authority in the Kyrgyz Republic as of the date of execution of this Agreement of New Terms [April 29, 2009]

As noted above under Basis #2, from as early as 2005, a government entity (being the Jety-Oguz District Administration and the Jety-Oguz District Land Management & Real Estate Title Registration Office) was aware of Kumtor's practice of not removing the "topsoil" at various parts of the Kumtor project and the rationale for such decision. This is evident in the correspondence referred to above, which we point out predates April 24, 2009. Accordingly, the subject matter of the Claim does not meet the definition of "Unknown Environmental Damages".

4. In addition, claims in respect of 2009 are also barred due to the limitation period. As per Article 212 of the KR Civil Code, the limitation period for commencing a claim is three years from the event (the "Statute of Limitation"). The Claim is dated December 11, 2012. Accordingly, any claim for Unprocessed Rock from and before 2009 are barred from being commenced.

5. Dispute Resolution for matters relating to Kumtor Project is provided for in the Restated Investment Agreement and should be complied with by SIETS and the Government. All disputes or claims relating to the Kumtor Project, its operations or regulation thereof by the Government or Government instrumentality (the "Disputes") shall be resolved through good faith negotiations or, if not resolved, through arbitration in accordance with Article 11 of the Restated Investment Agreement. Accordingly, if SIETS is to continue with this Claim (or any portion thereof), the proper forum for such Dispute (assuming that good faith negotiations do not result in a resolution satisfactory to both parties) is arbitration in accordance with Article 11 of the Restated Investment Agreement. We remind SIETS that the Restated Investment Agreement was reviewed and approved by the Government and Parliament, and supported by a decision of the KR Constitutional Court dated June 2, 2009 and a legal opinion from the KR Ministry of Justice dated June 9, 2009. The Restated Investment Agreement is a valid, legally binding and enforceable obligation of the Government.

Miscellaneous Inaccuracies in the Claim

Lastly, and for the official record, we would like to point out some inaccurate statements in the Claim relating to Kumtor's development and use of sand and gravel materials from the shallow site at the confluence of Kumtor river and Chon Sari-Tor and Kichi-Sari-Tor streams being done, (i) without a license, and (ii) without a positive conclusion of the state examination body of authorized public authorities and without information being submitted regarding geological exploration, prospected or extracted sand and gravel materials and mine development plans for the subsequent years.

Kumtor submits that no permit was required for the use of sand and gravel materials from various areas within the Kumtor Project.

1) The Restated Concession Agreement and its predecessor provide rights to develop the sand and gravel materials. According to Section 1.1 of the Restated Concession Agreement dated as of June 6, 2009 ("RCA"), KGC was granted a concession which consists of the right and exclusive authority of KGC to the exploration and development of the Kumtor Deposit. Section 1.2 of the RCA defines "Kumtor Deposit" as Minerals existing in, upon or under those lands identified on the chart attached hereto as Appendix 1 (the "Concession Area"). The "Minerals" pursuant to Section 1.4 of the RCA means all nonviable substances formed by the processes of nature that occur on or under the surface of the ground regardless of chemical or physical state. Therefore, sand and gravel should be therefore considered as "Minerals" and KGC should be deemed authorized to develop sand and gravel on the basis of the RCA provided that the relevant areas are located within the Concession Area, which we confirm they are. Similar provisions are provided in the Amended and Restated Concession Agreement dated May 30, 1994 and December 31, 2003.

2) In the alternative, Kumtor did not require permits for the development of the sand and gravel areas under KR legislation. In the alternative, in accordance with Article 4 of the KR Law, "On Subsoil" as of July 2, 1997 (no longer effective as September 17, 2012) (the "Old Subsoil Law"), KR subsoil may be represented in the state, municipal, private, another ownership types. This provision was effective from August 13, 1999 until July 25, 2011. Small deposits of widespread minerals exposed on the daylight surface of proprietorship land parcels are owned by the municipality. According to Clause 3 of the "Statute on Subsoil Use Licensing" approved by Government Decree #338 dated June 14, 2000, all types of subsoil development and all types of mineral material are subject to licensing, except for small deposits of widespread minerals that are communally, privately, or otherwise owned. In the case of the areas were Kumtor obtained its sand and gravel materials, these materials fall within this exception of small deposits which are exposed on the daylight surface. Accordingly, these deposits are communal property of the Jety Oguz District Administration, and the development of such was not subject to licensing. Kumtor has operated with a land lease agreement or a certificate of land use, and in each case, such arrangement allowed Kumtor to

collect such surface materials without the requirement to obtain further permits.

We also note that it is incorrect to say that, with respect to the areas where Kumtor obtained sand and gravel materials, there was no positive conclusion of the state examination body of authorized public authorities and that no information was submitted regarding geological exploration. We note that three areas at Kumtor are the sources for sand and gravel materials. Kumtor has received commissioning acts (in 2007, 2010 and 2011) for the use of these areas. In each case, a commissioning act for the sand and gravel deposit was issued following a review by a working commission on safety and environmental matters and included members from (depending on the particular commission act) members from the Gosgortechnadzor under the KR ministry of Natural Resources ("GGTN"), the State Agency on Environment Protection and Forestry under the Government, the State Labor Inspectorate, and the Geoecology Department under the KR Ministry of Natural Resources. During such review, expert opinions on environmental and safety matters were issued.

We note that in the first commission act, there was a dissent opinion from a member of the GGTN in the working commission who believed that a member of the KR State Agency of Geology should be in the working commission. Kumtor responded officially to this dissenting opinion and outlined the arguments set out above regarding the sand and gravel pit areas not being subject to subsoil law. No further action was taken by the working group or the GGTN with respect to this request.

Kumtor has operated, and continues to operate, in compliance with Kyrgyz Laws on environmental, safety, and health standards. Kumtor submits that SIETS must withdraw the Claim based on the reasons set out in this response. In particular, the investigation by SIETS breached KR legislation and SIETS acted outside its authority by issuing the Claim. The SIETS inspection was carried out for the purposes of the State Commission and that this is evidence of discrimination on the part of the Government against Centerra, KOC and KGC, contrary to KR legislation and contractual obligations. Next, the Claim made by SIETS is essentially a charge for additional payments to the Government, which under the Restated Investment Agreement is prohibited as the Restated Investment Agreement provides a comprehensive regime of all direct payments to the KR. Furthermore, we note that even if an additional fee or charge was to be paid to the Government for the activities in question (a fact that we expressly dispute), SIETS has incorrectly applied the KR legislation with respect to Kumtor's obligations for topsoil handling and does not take into consideration the fact that the areas are still in use and that eventual reclamation activities are planned at Kumtor. We also submit that in carrying out its calculations for the Claim, SIETS used incorrect co-efficients. Lastly, we submit that the Claims dating from or before 2009 cannot be commenced due the Release Agreement and the Statute of Limitation. For these reasons, we request that the SIETS immediately withdraw the Claim.

If SIETS fails to withdraw the Claim, we request that the Government take action to withdraw the Claim based on the arguments presented in this response. We also refer to

Section 8.2 of the Restated Investment Agreement which states that if any Public Official (as defined in the Restated Investment Agreement) takes any action that conflicts with the Restated Investment Agreement or has the effect of denying KOC, KGC or Centerra of its investment benefits under the Restated Investment Agreement, the Government shall use its best efforts to reverse, annul or otherwise terminate or remedy such action.

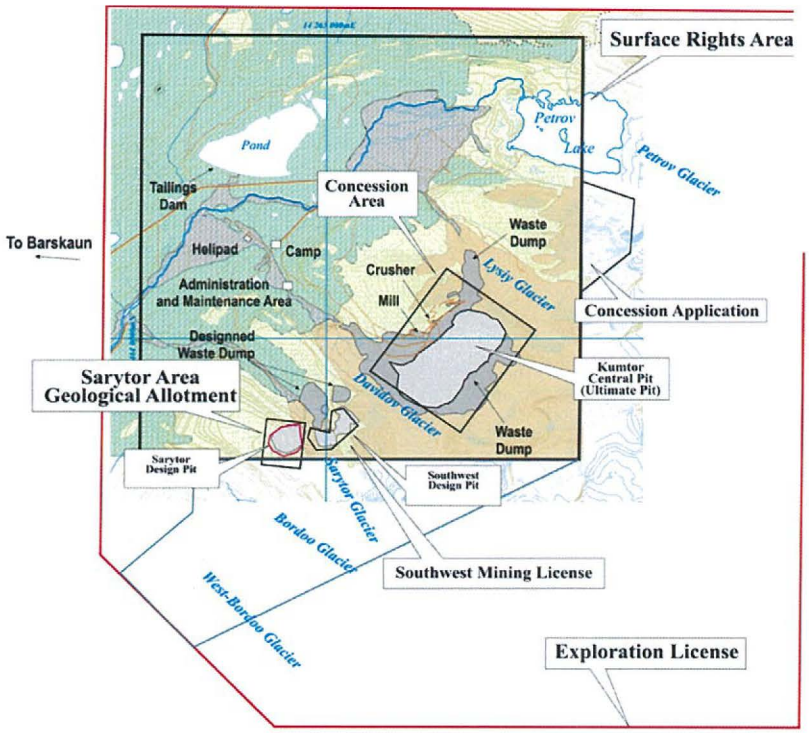
KOC, KGC and Centerra expressly reserve their rights to bring any claim to arbitration under Article 11 of the Restated Investment Agreement. As provided in Article 11, any disputes and claims relating to the Kumtor Project are subject to international arbitration.

Sincerely,

Michael Fischer,
President, Kumtor Operating Company

Copy Almambet Shykmamatov, Minister of Justice of the Kyrgyz Republic,
Ian Atkinson, President and CEO, Centerra Gold Inc.

Land use plan of JSC "Kumtor"
(Plan updated KOC in 2006, based on the materials Kyrgyzgiprozema 1994)



Road

Alluvial deposits in river beds

Other agrialturaly unusable

Summer Pastures

Areas without vegetation (rock, moraines, glaciers)

1 5

Kilometres