Centerra Gold Inc.

Condensed Consolidated Interim Financial Statements

For the Quarter Ended June 30, 2011
(Unaudited)

(Expressed in United States Dollars)

Centerra Gold Inc.
Condensed Consolidated Statement of Financial Position
(Unaudited)

(Expressed in Thousands of United States Dollars)	Notes	June 30 2011	December 31 2010
Assets			
Current assets			
Cash and cash equivalents		**$ 256,375**	$ 330,737
Short-term investments		**208,332**	82,278
Restricted cash		**198**	795
Amounts receivable	**8**	**55,900**	100,562
Inventories	**7**	**217,664**	181,633
Prepaid expenses		**11,855**	22,221
		750,324	718,226
Property, plant and equipment	**9**	**587,855**	519,019
Goodwill		**129,705**	129,705
Long-term receivables and other		**22,652**	17,299
Long-term inventories	**7**	**11,926**	12,877
Deferred income tax asset		**58**	3,367
		752,196	682,267
Total assets		**$ 1,502,520**	$ 1,400,493
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities	**10**	**$ 61,376**	$ 70,909
Taxes payable		**17,597**	27,354
Current portion of provisions	**12**	**16,620**	9,553
		95,593	107,816
Provisions	**12**	**33,229**	30,880
Deferred income tax liability		**1,334**	-
		34,563	30,880
Shareholders' equity			
Share capital	**13**	**657,239**	655,178
Contributed surplus		**33,915**	33,827
Retained earnings		**681,210**	572,792
		1,372,364	1,261,797
Total liabilities and shareholders' equity		**$ 1,502,520**	$ 1,400,493

Commitments and contingencies (note 14)

The accompanying notes form an integral part of these unaudited condensed consolidated interim financial statements

Centerra Gold Inc.
Condensed Consolidated Statements of Earnings and Comprehensive Income
(Unaudited)

		Three months ended		Six months ended	
		June 30	June 30	**June 30**	June 30
		2011	2010	**2011**	2010
(Expressed in Thousands of United States Dollars, except per share amounts)					
	Notes				
Revenue from Gold Sales		**$ 243,808**	$ 152,172	**$ 493,987**	$ 407,658
Cost of sales	**4**	**105,912**	79,765	**167,706**	158,131
Mine standby costs		**164**	-	**164**	-
Regional office administration		**6,231**	4,973	**11,044**	9,917
Earnings from mine operations		**131,501**	67,434	**315,073**	239,610
Revenue-based taxes		**30,966**	15,369	**63,154**	46,635
Exploration and business development		**12,406**	7,135	**19,963**	12,656
Corporate administration		**12,467**	6,071	**20,235**	17,209
Earnings from operations		**75,662**	38,859	**211,721**	163,110
Other (income) and expenses	**5**	**(1,272)**	1,690	**(2,320)**	2,126
Finance costs	**6**	**1,220**	308	**1,610**	634
Earnings before income taxes		**75,714**	36,861	**212,431**	160,350
Income tax expense	**11**	**4,597**	6,127	**4,691**	5,754
Net earnings and comprehensive income		**$ 71,117**	$ 30,734	**$ 207,740**	$ 154,596
Basic and diluted earnings per common share	**13**	**$ 0.30**	$ 0.13	**$ 0.88**	$ 0.66

The accompanying notes form an integral part of these unaudited condensed consolidated interim financial statements

Centerra Gold Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

(Expressed in Thousands of United States Dollars)	Notes	Three months ended June 30 2011	Three months ended June 30 2010	Six months ended June 30 2011	Six months ended June 30 2010
Operating activities					
Net earnings		**$ 71,117**	$ 30,734	**$ 207,740**	$ 154,596
Items not requiring (providing) cash:					
Depreciation, depletion and amortization		**25,423**	17,072	**40,379**	38,449
Finance costs	**6**	**1,220**	308	**1,610**	634
Loss on disposal of plant and equipment		**-**	847	**109**	990
Stock - based compensation expense		**477**	268	**801**	629
Change in long-term inventory		**768**	(898)	**951**	(2,447)
Long-term other assets		**(4,794)**	14	**(5,353)**	(992)
Change in provisions		**5,784**	-	**5,784**	-
Income tax expense	**11**	**4,597**	6,127	**4,691**	5,754
Other operating items		**280**	(855)	**251**	(529)
		104,872	53,617	**256,963**	197,084
Change in operating working capital		**11,623**	31,612	**3,186**	(24,601)
Income tax recovery (paid)		**1,984**	(8,774)	**892**	(13,656)
Cash provided by operations		**118,479**	76,455	**261,041**	158,827
Investing activities					
Net movement in restricted cash		**(597)**	-	**(597)**	-
Additions to property, plant and equipment		**(48,457)**	(57,171)	**(110,142)**	(78,207)
Purchase of short-term investments		**(57,088)**	22,627	**(126,054)**	(14,696)
Advance for long-term assets		**-**	(5,152)	**-**	(5,152)
Proceeds from disposition of fixed assets		**-**	2	**-**	44
Cash used in investing		**(106,142)**	(39,694)	**(236,793)**	(98,011)
Financing activities					
Dividends paid		**(99,322)**	-	**(99,322)**	-
Transaction costs related to borrowing	**6**	**(509)**	-	**(636)**	(17)
Proceeds from common shares issued for cash		**1,177**	1,477	**1,348**	1,477
Cash (used in) provided by financing		**(98,654)**	1,477	**(98,610)**	1,460
(Decrease) Increase in cash during the period		**(86,317)**	38,238	**(74,362)**	62,276
Cash and cash equivalents at beginning of the period		**342,692**	200,942	**330,737**	176,904
Cash and cash equivalents at end of the Period		**$ 256,375**	$ 239,180	**$ 256,375**	$ 239,180
Cash and cash equivalents consist of:					
Cash		**$ 45,710**	$ 95,314	**$ 45,710**	$ 95,314
Cash equivalents		**210,665**	143,866	**210,665**	143,866
		$ 256,375	$ 239,180	**$ 256,375**	$ 239,180

The accompanying notes form an integral part of these unaudited condensed consolidated interim financial statements.

Centerra Gold Inc.
Condensed Consolidated Statements of Changes in Shareholders' Equity
(Unaudited)

(Expressed in Thousands of United States Dollars, except share information)

	Number of Common Shares	Amount	Contributed Surplus	Retained Earnings	Total
Balance at January 1, 2010	234,857,228	$ 646,081	$ 35,376	$ 264,121	$ 945,578
Stock-based compensation expense	-	-	629	-	629
Shares issued on exercised of stock options	288,741	2,056	(579)	-	1,477
Net earnings for the period	-	-	-	154,596	154,596
Balance at June 30, 2010	235,145,969	$ 648,137	$ 35,426	$ 418,717	$ 1,102,280
Balance at January 1, 2011	235,869,397	$ 655,178	$ 33,827	$ 572,792	$ 1,261,797
Stock-based compensation expense	-	-	801	-	801
Shares issued on exercised of stock options	234,347	2,061	(713)	-	1,348
Dividend paid	-	-	-	(99,322)	(99,322)
Net earnings for the period	-	-	-	207,740	207,740
Balance at June 30, 2011	236,103,744	$ 657,239	$ 33,915	$ 681,210	$ 1,372,364

The accompanying notes form an integral part of these unaudited condensed consolidated interim financial statements.

1. General business description

Centerra Gold Inc. ("Centerra" or the "Company") was incorporated under the Canada Business Corporations Act on November 7, 2002. Centerra has common shares listed on the Toronto Stock Exchange ("TSX"). The Company is domiciled in Canada and the registered office is 1 University Avenue, Suite 1500, Toronto, Ontario, M5J 2P1. The Company is engaged in the production of gold and related activities including exploration, development, mining and processing in the Kyrgyz Republic, Mongolia, Turkey, the Russian Federation, China and the United States of America.

2. Basis of presentation

a. Statement of Compliance

These consolidated financial statements of the Company have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34"), as issued by the International Accounting Standards Board ("IASB") and using the accounting policies the Company expects to adopt in its consolidated financial statements as at and for the year ending December 31, 2011. These interim financial statements should be read in conjunction with the Company's 2010 annual financial statements, the condensed consolidated interim financial statements for the three months ended March 31, 2011 and with the International Financial Reporting Standards ("IFRS") transition disclosures included in Note 17 to these financial statements. Note 17 contains reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on equity, earnings and comprehensive income along with line-by-line reconciliations of the consolidated statement of financial position as at June 30, 2010 and the consolidated statement of earnings and comprehensive income for the three and six months ended June 30, 2010

These financial statements were authorized for issuance by the Board of Directors of the Company on July 28, 2011.

b. Basis of measurement

These financial statements were prepared under the historical cost basis, except for available for sale financial assets and derivative financial instruments, which are measured at fair value, liabilities for cash settled share-based compensation, which are measured at fair value and inventories which are measured at the lower of cost and net realizable value.

These financial statements are presented in U.S. dollars with all amounts rounded to the nearest thousand, except for share and per share data, or as otherwise noted.

3. Future changes in accounting policies

Recently issued but not adopted accounting guidance includes, IFRS 9 *Financial Instruments,* IFRS 10 *Consolidated Financial Statements* IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities* and IFRS 13 *Fair Value Measurement.*

IFRS 9 *Financial Instruments* replaces the guidance in IAS 39 *Financial Instruments Recognition and Measurement* on the classification and measurement of financial assets. Financial assets will be classified into one of two categories on initial recognition: financial assets measured at amortized cost or financial assets measured at fair value. IFRS 9 also adds guidance on the classification and measurement of financial liabilities. Under IFRS 9 financial liabilities measured at fair value under the fair value option, changes in fair value attributable to changes in credit risk will be recognized in other comprehensive income ("OCI"), with the remainder of the change recognized in profit or loss. However, if this requirement creates or enlarges an accounting mismatch in profit or loss, the entire change in fair value will be recognized in profit or loss. Amounts presented in OCI will not be reclassified to profit or loss at a later date. IFRS 9 also requires derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument to be measured at fair value. This new standard is applicable, for accounting periods beginning January 1, 2013. The Company is assessing the impact of IFRS 9 on its results of operations and financial position and will adopt IFRS 9 in its financial statements effective from January 1, 2013.

IFRS 10 *Consolidated Financial Statements* builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. IFRS 10 replaces SIC-12 *Consolidation - Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statements*. 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 the financial statements.

IFRS 11 *Joint Arrangements*: IFRS 11 provides for reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. Under IFRS 11 joint ventures are stripped of the free choice of equity accounting or proportionate consolidation; these entities must now use the equity method. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities - Non-monetary Contributions by Venturers*. This new standard is applicable for accounting periods beginning January 1, 2013. The Company is assessing the impact of IFRS 11 on its results of operations and financial position and will adopt IFRS 11 in its financial statements effective from January 1, 2013.

3. Future changes in accounting policies

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

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

(Expressed in thousands of United States Dollars)

4. Cost of sales

(Thousands of U.S.Dollars)	Three Months Ended **June 30, 2011**	June 30, 2010	Six Months Ended **June 30, 2011**	June 30, 2010
Operating costs:				
Salaries and benefits	**$ 16,432**	$ 11,939	**$ 31,695**	$ 23,883
Consumables	**52,057**	50,546	**94,265**	99,137
Third party services	**1,348**	1,571	**2,258**	2,550
Other operating costs	**9,238**	3,512	**12,707**	6,819
Royalties, levies & production taxes	**1,239**	2,181	**2,339**	3,888
Changes in inventories and impairment (note 7)	**122**	(7,055)	**(16,100)**	(16,570)
	80,436	62,694	**127,164**	119,707
Inventories obsolescence (note 7)	**178**	121	**413**	222
Depreciation, depletion and amortization	**25,298**	16,950	**40,129**	38,202
	$ 105,912	$ 79,765	**$ 167,706**	$ 158,131

5. Other (income) and expenses

(Thousands of U.S.Dollars)	Three Months Ended **June 30, 2011**	June 30, 2010	Six Months Ended **June 30, 2011**	June 30, 2010
Interest income	**$ (254)**	$ (125)	**$ (481)**	$ (186)
Loss on sales of assets	**-**	309	**17**	348
Bank charges	**18**	18	**36**	37
Other (income) and expenses	**(116)**	(317)	**(39)**	(329)
Foreign exchange loss (gain)	**(920)**	1,805	**(1,853)**	2,256
	$ (1,272)	$ 1,690	**$ (2,320)**	$ 2,126

6. Finance Costs

(Thousands of U.S.Dollars)	Three Months Ended **June 30, 2011**	June 30, 2010	Six Months Ended **June 30, 2011**	June 30, 2010
Transaction costs related to Revolver facilities	**$ 509**	$ -	**$ 636**	$ 17
Accretion of provision for reclamation	**711**	308	**974**	617
	$ 1,220	$ 308	**$ 1,610**	$ 634

(Expressed in thousands of United States Dollars)

7. Inventories

(Thousands of U.S. Dollars)		**June 30, 2011**		**December 31, 2010**
Stockpiles [(i)]	**$**	**79,790**	$	64,523
Gold in-circuit		**8,580**		6,881
Heap leach in circuit		**3,613**		3,687
Gold doré		**11,475**		6,023
		103,458		81,114
Supplies		**126,132**		113,396
Total Inventories (net of provisions for obsolescence)		**229,590**		194,510
Less: Long-term inventory (heap leach stockpiles)		**(11,926)**		(12,877)
Total Inventories-current portion (net of provisions for obsolescence)	**$**	**217,664**	$	181,633

i. During the six months ended June 30, 2011, the Company recorded an adjustment of $6.5 million to reverse the write down previously incurred on sub-grade ore stockpiles at Kumtor, as the market and operational conditions causing the write down have improved. The reversal of the write down increased inventory and decrease to cost of sales. As at June 30, 2011, $5.2 million of the reversed amount remained in inventory of stockpile ore.

The amount of the provisions for obsolescence, as presented in the table below, of mine operating supplies compared to net realizable value, increased by $0.2 million and $0.4 million for the three and six months ended June 30, 2011 ($0.1 million and $0.2 million for the three and six months ended June 30, 2010) recognised as expense. This expense is included in cost of sales which is disclosed in note 4.

(Thousands of U.S. Dollars)		**June 30, 2011**		**December 31, 2010**
Total inventories	**$**	**219,381**	$	182,937
Less : provisions for obsolescence		**(1,717)**		(1,304)
Total Inventories	**$**	**217,664**	$	181,633

(Expressed in thousands of United States Dollars)

8. Amounts receivable

(Thousands of U.S. Dollars)	**June 30, 2011**	**December 31, 2010**
Gold sales receivable from related party	**$ 44,102**	$ 88,997
Gold sales receivable from third party	**3,428**	3,760
Other receivables	**8,370**	7,805
	$ 55,900	$ 100,562

9. Property, plant and equipment

The following is a summary of the carrying value of property, plant and equipment:

(Thousands of U.S. Dollars)	Mine buildings	Plant and equipment	Mineral properties	Mobile equipment	Construction in process	**Total**
Balances as at:						
December 31, 2010	21,659	114,092	69,260	149,869	164,139	519,019
June 30, 2011	**$ 20,489**	**$ 110,873**	**$ 107,653**	**$ 182,177**	**$ 166,663**	**$ 587,855**

10. Accounts payable and accrued liabilities

(Thousands of U.S. Dollars)	**June 30, 2011**	**December 31, 2010**
Trade creditors and accruals (i)	**$ 31,123**	$ 34,095
Liability for share-based compensations	**30,253**	36,814
Total	**$ 61,376**	$ 70,909

i. As at June 30, 2011, the accrued amount for the funding of the maternity hospital, agreed with the Ministry of Health in Mongolia, is $4.0 million (December 31, 2010 - $6.4 million).

(Expressed in thousands of United States Dollars)

11. Taxes

a. Revenue Based Taxes - Kumtor

During the three and six-months ended June 30, 2011, the 13% revenue-based tax expense recorded by Kumtor was $28.8 million and $58.6 million ($14.3 million and $43.3 million for the three and six months ended June 30, 2010), while the Issyk-Kul Oblast Development Fund of 1% of gross revenue for the three and six months ended June 30, 2011 totalled $2.2 million and $4.5 million ($1.1 million and $3.3 million for three and six months ended June 30, 2010).

b. Income Tax Expense

(Thousands of U.S.Dollars)	**Three Months Ended June 30, 2011**	Three Months Ended June 30, 2010	**Six Months Ended June 30, 2011**	Six Months Ended June 30, 2010
Current tax	**$ 37**	$ 5,034	**$ 37**	$ 8,430
Deferred tax	**4,560**	1,093	**4,654**	(2,676)
Income Tax Expense	**$ 4,597**	$ 6,127	**$ 4,691**	$ 5,754

During the three and six months ended June 30, 2011, the Mongolian segment recorded income tax expense of $4.6 million and $4.7 million ($6.1 million and $5.8 million income tax expense for three and six months ended June 30, 2010).

No entities, other than those in the Mongolian segment, reported an income tax expense in the three and six months ended June 30, 2011.

(Expressed in thousands of United States Dollars)

12. Provisions

(Thousands of U.S.Dollars)	Asset retirement obligation	Other provisions	Total
Balance, December 31, 2010	40,433	-	40,433
Liabilities paid	(1,181)	-	(1,181)
Revision in estimates	3,839	-	3,839
New provision (note 14)	-	5,784	5,784
Amount charged to earnings	974	-	974
Balance, June 30, 2011	**$ 44,065**	**$ 5,784**	**$ 49,849**

Provisions have been analysed between current and non-current as follows

(Thousands of U.S.Dollars)	June 30, 2011	December 31, 2010
Asset retirement obligation	**$ 10,836**	$ 9,553
Other provisions (note 14)	**5,784**	-
Current	**16,620**	9,553
Non-current: Asset retirement obligation	**33,229**	30,880
Total	**$ 49,849**	$ 40,433

a. Asset retirement obligations

(Thousands of U.S.Dollars)	June 30, 2011	December 31, 2010
Kumtor gold mine	**$ 26,719**	$ 22,088
Boroo gold mine	**17,346**	18,345
	44,065	40,433
Less: current portion	**(10,836)**	(9,553)
Total	**$ 33,229**	$ 30,880

(Expressed in thousands of United States Dollars)

12. Provisions (continued)

a. Asset retirement obligations (continued)

Centerra's estimates of future asset retirement obligations are based on reclamation standards that meet regulatory requirements. Elements of uncertainty in estimating these amounts include potential changes in regulatory requirements, reclamation plans and cost estimates, discount rates and timing of expected expenditures.

The Company estimates its total undiscounted future decommissioning and reclamation costs as at June 30, 2011 to be $57.1 million.

The following is a reconciliation of the total discounted liability for asset retirement obligations:

(Thousands of U.S.Dollars)	**Three Months Ended June 30, 2011**	**Three Months Ended June 30, 2010**	**Six Months Ended June 30, 2011**	**Six Months Ended June 30, 2010**
Balance, beginning of period	**$ 40,032**	$ 34,220	**$ 40,433**	$ 33,946
Liabilities paid	**(1,062)**	(455)	**(1,181)**	(490)
Revisions in estimated timing and amount of cash flow	**4,384**	-	**3,839**	-
Impact of revisions in estimated timing and amount of cash flow recorded in earnings	**316**	-	**316**	-
Accretion expense	**395**	308	**658**	617
	44,065	34,073	**44,065**	34,073
Less: current portion	**(10,836)**	(7,505)	**(10,836)**	(7,505)
Balance, end of period	**$ 33,229**	$ 26,568	**$ 33,229**	$ 26,568

During the second quarter ended June 30, 2011, the Company completed the regular update of its closure study for the Kumtor mine site. As a result an increase to the present value of the closure cost estimate at Kumtor, $4.3 million was recorded during the second quarter of 2011.

In 1998, a Reclamation Trust Fund was established to cover the future costs of reclamation at the Kumtor gold mine, net of salvage values which are now estimated to be $8.4 million. This restricted cash is funded on the units of production method, annually in arrears, over the life of the mine and on June 30, 2011was $9.2 million (December 31, 2010 - $7.4 million).

(Expressed in thousands of United States Dollars)

13. Shareholders' Equity

a. Share Capital

Centerra is authorized to issue an unlimited number of common shares, class A non-voting shares and preference shares with no par value.

b. Earnings per Share

	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	**June 30, 2011**	June 30, 2010
Basic weighted average number of common shares outstanding (thousands)	**236,021**	234,992	**235,951**	234,926
Effect of stock options (thousands)	**332**	575	**330**	586
Diluted weighted average number of common shares outstanding (thousands)	**236,353**	235,567	**236,281**	235,512
Anti-dilutive number of common share equivalents excluded (thousands) [(a)]	**323**	45	**67**	50

(a) Common share equivalents consist of stock options granted to eligible employee of the Company.

c. Share-Based Compensation

The impact of Stock-Based Compensation is summarized as follows:

(Millions of U.S. dollars except as indicated)	Number outstanding	Expense/(Income) Three Months Ended		Expense/(Income) Six Months Ended		Liability	
	June 30/11	**June 30/11**	June 30/10	**June 30/11**	June 30/10	**June 30/11**	Dec 31/10
(i) Stock options	**978,639**	**$ 0.5**	$ 0.2	**$ 0.8**	$ 0.6	**$ -**	$ -
(ii) PSU [(1)]	**1,310,122**	**3.9**	0.3	**5.3**	4.2	**24.0**	28.4
(iii) Annual-PSU [(2)]	**85,275**	**0.3**	0.3	**0.7**	1.2	**0.7**	6.4
(iv) Deferred share units	**353,322**	**(0.3)**	(0.6)	**(0.9)**	0.7	**5.9**	6.9
(v) Restricted share units	**28,881**	**0.3**	-	**0.5**	-	**0.5**	-
		$ 4.7	$ 0.2	**$ 6.4**	$ 6.7	**$ 31.1**	$ 41.7

1) Performance share units.
2) Annual performance share units

(Expressed in thousands of United States Dollars)

13. Shareholders' Equity (continued)

c. Share-Based Compensation

Movements in the number of options and units for the first six months of 2011 are summarized as follows:

	Number outstanding Dec 31/10	Issued	Exercised	Expired/ Forfeited	Number outstanding June 30/11	Number Vested June 30/11
(i) Stock options	903,987	308,999	(234,347)	-	978,639	271,075
(ii) PSU	1,528,209	215,199	(421,964)	(11,322)	1,310,122	-
(iii) Annual- PSU	156,571	93,741	(159,497)	(5,540)	85,275	42,638
(iv) Deferred share units	344,728	8,594	-	-	353,322	353,322
(v) Restricted share units	-	28,881	-	-	28,881	28,881

14. Commitments and Contingencies

Commitments

As at June 30, 2011, the Company had entered into contracts to purchase capital equipment and operational supplies totaling $128.6 million for Kumtor (no commitments at Boroo) that are expected to be settled over the next twelve months.

Contingencies

Kyrgyz Republic

The Company's Kyrgyz Republic operating subsidiary Kumtor Operating Company ("KOC") pays Kyrgyz Republic Social Fund ("Social Fund") contributions in respect of the base wages of its national employees. In late 2010, the Social Fund notified KOC of its position that it should pay contributions to the Social Fund not only in respect of base wages but also in respect of the premium compensation that it is required to pay employees for work at high-altitude. The position of the Social Fund is inconsistent with its past practices and with prior audits of KOC. Following the most recent audit of KOC in respect of the 2010 operating year and completed at the end of June 2011, the Social Fund issued an act (assessment) for approximately $6.7 million for the 2010 period. This amount includes a portion assessed on the employer and an amount assessed on Kumtor's employees. KOC has formally responded to the claim and will continue to vigorously dispute the Social Fund's position and the quantum of the claim. The Company has accrued in its second quarter 2011 accounts $5.8 million in respect of this claim, representing the mid-point from a host of possible outcomes covering the 2010 assessed year and an estimate for the first six months of 2011.

14. Commitments and Contingencies (continued)

Contingencies (continued)

Mongolia (continued)

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

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

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

In November 2010, Mongolia’s cabinet announced its intention to initiate the revocation of 1,782 mineral licenses under the Water and Forest Law on a staged basis, beginning with the revocation of 254 alluvial gold mining licenses. The Company has four licenses (subsequently clarified to be only three licenses) on the list of alluvial gold mining licenses that may be revoked. None of these licenses are material to the Company.

14. Commitments and Contingencies (continued)

Contingencies (continued)

Mongolia (continued)

In particular, Centerra'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 slated to be revoked. The Company has not yet received any further update from the Mongolian regulatory authorities on this matter.

In late 2010, the Mongolian Government announced that it was 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, development of which would contribute to regional social and economic development and, at the same time, require significant amounts of compensation;
- revoking all licenses for non-gold mining operations which utilize surface water;
- revoking all 460 gold exploration licenses and providing compensation ;
- revoking all 931 non-gold exploration licenses and providing compensation;
- revoking and providing compensation to all remaining affected mining licenses.

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

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

The Water and Forest Law has attracted opposition from Mongolia's alluvial miners, the Mongolian National Mining Association and other groups. A group of parliamentarians has proposed amendments to the Water and Forest Law to reduce its impact on environmentally-sound mining operations. The Company understands that if the amendments are approved in its submitted form, the Gatsuurt project would be able to proceed. The proposed amendments were discussed in the second quarter of 2011 by a Mongolian parliamentary committee which then referred it to Parliament for further discussion. The Company understands that such discussion is expected to occur in the third or fourth quarter of 2011.

14. Commitments and Contingencies (continued)

Contingencies (continued)

Mongolia (continued)

While the Company has continued to receive permits and approvals in connection with the road construction to Gatsuurt and for construction of surface facilities at the project, in November 2010, the Company received a letter from the MMRE indicating that operations at the Gatsuurt project cannot be commenced while the implementation of the Water and Forest Law is being resolved. Accordingly, it is anticipated that further approvals and regulatory commissioning of Gatsuurt will be delayed as a result of the Water and Forest Law.

Centerra is reasonably confident that the economic and development benefits resulting from its exploration and development activities will ultimately result in the Water and Forest Law having a limited impact on the Company's Mongolian activities. There can be no assurance, however, that this will be the case. Unless the Water and Forest Law is repealed or amended such that the law no longer applies to the project or Gatsuurt is designated as a "mineral deposit of strategic importance" that is exempt from the Water and Forest Law, mineral reserves at Gatsuurt may have to be reclassified as mineral resources or eliminated entirely and the Company may be required to write-off the associated investment in Gatsuurt and Boroo. As at June 30, 2011, the Company has net assets recorded amounting to approximately $36 million related to the investment in Gatsuurt and approximately $19 million remaining capitalized for the Boroo mill facility which is expected to be utilized for the processing of ore from Gatsuurt. Although the Company expects to exploit the Gatsuurt deposit, should this not be the case the Company would be required to write-off these amounts. A revocation of the Company's mineral licenses, including the Gatsuurt mineral license, or the reclassification of mineral reserves or the write-off of assets could have an adverse impact on Centerra's future cash flows, earnings, results of operations and financial condition.

New Graduated Royalty Fee
In November 2010, the Mongolian Parliament enacted a graduated royalty tax that applies to all mining projects as of January 1, 2011, including the Gatsuurt project when commissioned, the Ulaan Bulag and the ATO prospects. This graduated royalty replaces the previous flat 5% royalty fee on gold. Pursuant to the graduated royalty fee, the royalty rate is tied to the price of gold such that there is a 1% increase in the royalty fee for every $100 increase in the price of gold per ounce above a certain price. In the case of gold, there is a basic 5% royalty fee that applies while gold is less than $900 per ounce. At $900 per ounce the royalty fee increases to 6%, at $1,000 per ounce the royalty is 7%, at $1,100 the royalty is 8%, and at $1,200 the royalty is 9%. The highest royalty fee rate is reached at 10% at $1,300 per ounce and above. For example an ounce of gold sold at $1,000 per ounce would be subject to a royalty of 7% or $70.

14. Commitments and Contingencies (continued)

Contingencies (continued)

Mongolia (continued)

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 Government which, among other things, resolved to direct the Government to enter into negotiations to have the graduated royalty structure apply to business entities that have already entered into a stability and/or an investment agreement. This would include the Company's Boroo mine which is currently operating pursuant to a stability agreement entered with the Mongolian government. To date, the Company has not received any further word regarding this resolution and whether the Government will act on it. In any event, the Company is of the opinion that the Boroo stability agreement provides, among other things, legislative stabilization for its Boroo operations and accordingly the graduated royalty fee is not applicable to Boroo's remaining operations. However, the Company cannot provide any guarantees that Boroo will not be made subject to the graduated royalty fee. If the graduated royalty fee does apply, 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 operation, it will apply to gold produced from the Gatsuurt mine, when developed.

Corporate

In March 2011, Centerra was served by a Turkish company, Sistem Muhenkislik Insaat Sanayi Ticaret SA ("Sistem"), with a notice of enforcement to seize any shares and dividends in Centerra held in the name of the Kyrgyz Republic, followed by a notice of garnishment in April 2011 for any debts owed by Centerra to the Kyrgyz Republic (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, Centerra paid its May 18, 2011 dividend in the total amount of approximately Cdn$31 million to Kyrgyzaltyn JSC.

14. Commitments and Contingencies (continued)

Contingencies (continued)

Corporate (continued)

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 May 18, 2011 dividend after service of the notice of garnishment. However, Centerra believes it has a strong defense to that claim based on the facts and the law. Kyrgyzaltyn JSC is aware of these Ontario proceedings and, when necessary, may elect protect its own interest in respect of the shares.

15. Related Party Transactions

a. Kyrgyzaltyn and the Government of the Kyrgyz Republic

Revenues from the Kumtor gold mine are subject to a management fee of $1.00 per ounce based on sales volumes, payable to Kyrgyzaltyn 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 or the Government of the Kyrgyz Republic and the amounts paid and accrued by Kyrgyzaltyn to Kumtor according to the terms of a Gold and Silver Sale Agreement between Kumtor Operating Company (“KOC”), Kyrgyzaltyn and the Government of the Kyrgyz Republic and which was restated in June 2009.

(Expressed in thousands of United States Dollars)

15. Related Party Transactions (continued)

a. Kyrgyzaltyn and the Government of the Kyrgyz Republic (continued)

The breakdown of the sales transactions and expenses with the related parties are as follows:

Related parties in the Kyrgyz Republic

(Thousands of U.S. Dollars)	**Three Months Ended June 30, 2011**	June 30, 2010	**Six Months Ended June 30, 2011**	June 30, 2010
Management fees to Kyrgyzaltyn	**$ 145**	91	**311**	292
Gross gold and silver sales to Kyrgyzaltyn	**$ 221,938**	$ 110,193	**$ 452,685**	$ 334,405
Deduct: refinery and financing charges	**(751)**	(417)	**(1,586)**	(1,298)
Net sales revenue received from Kyrgyzaltyn	**$ 221,187**	$ 109,776	**$ 451,099**	$ 333,107

Related party balances
The assets and liabilities of the Company include the following amounts due from and to related parties:

(Thousands of U.S. Dollars)	**June 30, 2011**	**December 31, 2010**
Other receivable from Kyrgyzaltyn	**$ 337**	$ 12
Gold sale receivable from Kyrgyzaltyn	**44,102**	88,997
Amount included in Amounts receivable	**$ 44,439**	$ 89,009

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 Gold and Silver Sale Agreement. Under this agreement, which was restated in June 2009, 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.

15. Related Party Transactions (continued)

b. Kyrgyzaltyn and the Government of the Kyrgyz Republic (continued)

Based on movements of Centerra's share price, and the value of individual or unsettled gold shipments, over the course of the three and six months ended June 30, 2011, the maximum exposure reflecting the shortfall in the value of the security as compared to the value of any unsettled shipments, was nil and $44.8 million, respectively.

As at June 30, 2011, $44.1 million was outstanding under these arrangements (December 31, 2010 - $89.0 million)

16. Segmented Information

In accordance with IFRS 8, *Operating Segments*, the Company's operations are segmented on a regional basis and are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The Chief Executive Officer has authority for resource allocation and assessment of the Company's performance and is therefore the CODM.

The Kyrgyz Republic segment involves the operations of the Kumtor Gold project and local exploration activities, and the Mongolian segment involves the operations of the Boroo Gold project, activities related to the Gatsuurt project and local exploration activities. The Corporate and other segment involve the head office located in Toronto and exploration activities in North American and other international projects. The segments' accounting policies are the same as those described in the March 31, 2011 condensed interim financial statements except that inter-company loan interest income and expenses, which eliminate on consolidation, are presented in the individual operating segments where they are generated when determining earnings or loss.

Geographic Segmentation of Revenue

The Company's only product is gold doré, produced from mines located in the Kyrgyz Republic and Mongolia. All production from the Kumtor Gold Project is sold to the Kyrgyzaltyn refinery in the Kyrgyz Republic while production from the Boroo Gold project is sold to the Johnson Matthey Limited refinery that is located in Ontario, Canada.

The following table reconciles segment operating profit per the reportable segment information to operating profit per the consolidated income statement.

(Expressed in thousands of United States Dollars)

16. Segmented Information (continued)

Three months ended June 30, 2011

(Millions of U.S. Dollars)	Kyrgyz Republic	Mongolia	Corporate and other	Total
Revenue from Gold Sales	$ 221.2	$ 22.6	$ -	$ 243.8
Cost of sales	92.9	13.0	-	105.9
Mine standby costs	-	0.2	-	0.2
Regional office administration	4.7	1.5	-	6.2
Earnings from mine operations	123.6	7.9	-	131.5
Revenue-based taxes	31.0	-	-	31.0
Exploration and business development	3.0	4.1	5.3	12.4
Corporate administration	0.5	0.1	11.9	12.5
Earnings from operations	89.1	3.7	(17.2)	75.6
Other (income) and expenses	(0.2)	(0.2)	(0.9)	(1.3)
Finance costs	0.6	0.1	0.5	1.2
Earnings before income taxes	88.7	3.8	(16.8)	75.7
Income tax expense				4.6
Net earnings and comprehensive income				$ 71.1
Capital expenditure for the period	$ 46.0	$ 2.6	$ -	$ 48.6

Three months ended June 30, 2010

(Millions of U.S. Dollars)	Kyrgyz Republic	Mongolia	Corporate and other	Total
Revenue from Gold Sales	$ 109.8	$ 42.4	$ -	$ 152.2
Cost of sales	59.9	19.9	-	79.8
Regional office administration	3.3	1.7	-	5.0
Earnings from mine operations	46.6	20.8	-	67.4
Revenue-based taxes	15.4	-	-	15.4
Exploration and business development	2.7	1.5	2.9	7.1
Corporate administration	0.4	0.1	5.6	6.1
Earnings from operations	28.1	19.2	(8.5)	38.8
Other (income) and expenses	1.9	(0.2)	-	1.7
Finance costs	0.2	0.1	-	0.3
Earnings before income taxes	26.0	19.3	(8.5)	36.8
Income tax expense				6.1
Net earnings and comprehensive income				$ 30.7
Capital expenditure for the period	$ 39.5	$ 15.0	$ 0.1	$ 54.6

(Expressed in thousands of United States Dollars)

16. Segmented Information (continued)

Six months ended June 30, 2011

(Millions of U.S. Dollars)	Kyrgyz Republic	Mongolia	Corporate and other	Total
Revenue from Gold Sales	$ 451.1	$ 42.9	$ -	$ 494.0
Cost of sales	141.2	26.5	-	167.7
Mine standby costs	-	0.2	-	0.2
Regional office administration	8.0	3.0	-	11.0
Earnings from mine operations	301.9	13.2	-	315.1
Revenue-based taxes	63.2	-	-	63.2
Exploration and business development	7.2	4.9	7.9	20.0
Corporate administration	1.0	0.2	19.0	20.2
Earnings from operations	230.5	8.1	(26.9)	211.7
Other (income) and expenses	(1.1)	(0.9)	(0.3)	(2.3)
Finance costs	0.8	0.2	0.6	1.6
Earnings before income taxes	230.8	8.8	(27.2)	212.4
Income tax expense				4.7
Net earnings and comprehensive income				$ 207.7
Capital expenditure for the period	$ 117.9	$ 2.7	$ 0.2	$ 120.8
Assets (excluding Goodwill)	$ 824.2	$ 260.9	$ 287.7	$ 1,372.8

Six months ended June 30, 2010

(Millions of U.S. Dollars)	Kyrgyz Republic	Mongolia	Corporate and other	Total
Revenue from Gold Sales	$ 333.1	$ 74.5	$ -	$ 407.6
Cost of sales	123.8	34.3	-	158.1
Regional office administration	6.6	3.3	-	9.9
Earnings from mine operations	202.7	36.9	-	239.6
Revenue-based taxes	46.6	-	-	46.6
Exploration and business development	4.6	2.7	5.4	12.7
Corporate administration	1.0	0.1	16.1	17.2
Earnings from operations	150.5	34.1	(21.5)	163.1
Other (income) and expenses	2.4	(0.3)	-	2.1
Finance costs	0.3	0.3	-	0.6
Earnings before income taxes	147.8	34.1	(21.5)	160.4
Income tax expense				5.8
Net earnings and comprehensive income				$ 154.6
Capital expenditure for the period	$ 62.9	$ 20.7	$ 0.2	$ 83.8
Assets (excluding Goodwill)	$ 608.6	$ 426.3	$ 30.7	$ 1,065.6

17. First time adoption of IFRS

a. Reconciliation between Canadian GAAP and IFRS

IFRS 1 requires reconciliation disclosures that explain how the transition from Canadian GAAP to IFRS has affected the Company's previously reported consolidated financial statements prepared in accordance with previous Canadian GAAP for the three and six months ended June 30, 2010. An explanation of how the transition from previous Canadian GAAP to IFRSs has affected the Company's financial position, equity, statement of earnings and comprehensive income and material adjustments to cash flows and equity is set out in the following notes 17 (b) and 17 (c).

(Expressed in thousands of United States Dollars)

17. First time adoption of IFRS (continued)

b. Reconciliation between Canadian GAAP and IFRS as at June 30, 2010

Reconciliation of financial position between Canadian GAAP and IFRS

As at June 30, 2010 (Thousands of U.S. Dollars)	**Notes**	Previous Canadian GAAP	Effect of transition to IFRS	IFRS
Assets				
Current assets				
Cash and cash equivalents		$ 239,180		$ 239,180
Short-term investments		160,667		160,667
Amounts receivable		24,971		24,971
Current portion of Deferred income tax asset	**(iv)**	1,016	(1,016)	-
Inventories		165,918		165,918
Prepaid expenses		9,554		9,554
		601,306	(1,016)	600,290
Property, plant and equipment	**(ii)**	425,913	1,191	427,104
Other assets		5,152		5,152
Goodwill		129,705		129,705
Long-term receivables and other		7,546		7,546
Long-term inventories		25,567		25,567
Deferred income tax asset	**(iv)**	-		-
		593,883	1,191	595,074
Total assets		$ 1,195,189	175	$ 1,195,364
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities	**(iii)**	$ 44,146	(779)	$ 43,367
Taxes payable		9,680		9,680
Current portion of provisions	**(i)**	8,274	(769)	7,505
Current portion of deferred income tax liability	**(iv)**	4,415	(4,415)	-
		66,515	(5,963)	60,552
Provisions	**(i)**	22,043	4,525	26,568
Deferred income tax laibility	**(iv)**	-	5,962	5,962
		22,043	10,487	32,530
Shareholders' equity				
Share capital		648,137		648,137
Contributed surplus		34,602	824	35,426
Retained earnings		423,892	(5,173)	418,719
		1,106,631	(4,349)	1,102,282
Total liabilities and shareholders' equity		$ 1,195,189	175	$ 1,195,364

(Expressed in thousands of United States Dollars)

17. First time adoption of IFRS (continued)

b. Reconciliation between Canadian GAAP and IFRS as at June 30, 2010 (continued)

Reconciliation of Consolidated statement of earnings and comprehensive income

		Three months ended June 30, 2010			Six months ended June 30, 2010		
(Thousands of U.S. Dollars)	Note	Previous Canadian GAAP	Effect of transition to IFRS	IFRS	Previous Canadian GAAP	Effect of transition to IFRS	IFRS
Comprehensive income under Canadian GAAP		$ 29,765		$ 29,765	$ 151,851		$ 151,851
Provision for reclamation	**(i)**		243	243		489	489
Depreciation	**(ii)**		(34)	(34)		(80)	(80)
Share-based compensation	**(iii)**		809	809		951	951
Exchange difference on deferred income taxes	**(iv)**		-	-		260	260
Deferred income taxes	**(iv)**		(48)	(48)		1,126	1,126
Comprehensive income under IFRS		$ 29,765	970	$ 30,735	$ 151,851	2,746	$ 154,597

c. Changes in accounting policies

The following paragraphs explain the significant differences between Canadian GAAP and the current IFRS accounting policies applied by the Company. These differences result in the adjustments presented in the tables above. The descriptive caption next to each numbered item below corresponds to the same numbered and descriptive caption in the tables in 17(b).

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

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

During the three and six months ended June 30, 2010, as a result of the differences noted above, the Company recorded a decrease in accretion expense (finance cost) of $0.2 million and $0.5million.

17. First time adoption of IFRS (continued)

c. Changes in accounting policies (continued)

ii. Property, Plant and Equipment

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

As a result of the difference noted above, there was an increase to depreciation expense of $0.03 million and $0.1 million for the three and six months ended June 30, 2010 relating to depreciation on the ARO asset recognized, as noted above, was recorded.

iii. Share-based payments

IFRS 1 requires the Company to apply IFRS 2, *Share-Based Payments*, to all equity instruments of share-based payments that have not vested at the transition date. IFRS requires that cash-settled share based payments be accounted for using a fair value method, as opposed to an intrinsic value under Canadian GAAP.

IFRS 2 was applied for applicable unvested stock options granted prior to the Transition Date at January 1, 2010. Consequently, as a result of the difference in measurement of the equity-settled share-based compensation at June 30, 2010, which IFRS require different measurement for stock options that have graded vesting features compared with Canadian GAAP that value the stock options as a single grant, an adjustment of $0.2 million and $0.3 million were recorded as a decrease to expense in share based compensation relating to stock options with offset to contributed surplus for the three and six months ended June 30, 2010.

IFRS 2 was applied to liabilities arising from cash-settled share-based payment transactions that existed at June 30, 2010. Consequently, as a result of the difference in measurement, share- based compensation expense recorded under Canadian GAAP, as related to cash-settled share-based compensation was decreased by $0.6 million and $0.6 million for the three and six months ended June 30, 2010.

17. First time adoption of IFRS (continued)

c. Changes in accounting policies (continued)

iv. Taxes

IAS 12, *Taxes*, contains different guidance related to the recognition and measurement of deferred income taxes. It requires the recognition of deferred taxes in situations not required under Canadian GAAP. Specifically, a deferred tax liability (asset) is recognized for exchange gains and losses relating to foreign non-monetary assets and liabilities that are re-measured into the functional currency using historical exchange rates. Temporary differences are also recognized for the difference in tax bases between jurisdictions as a result of the intra-group transfer of assets.Furthermore, Canadian GAAP requires that the current and long term portions of deferred income tax assets, and deferred income tax liabilities, be shown separately on the financial statements, whereas IFRS does not.

As a result of differences in recognition and measurement under IFRS and Canadian GAAP, resulting from the IFRS method of determination of temporary differences related to the Mongolian segment, the reported Canadian GAAP results were adjusted to reflect additional deferred income tax expense of $0.05 million for the three months and deferred income tax recovery of $1.1 million for the six months ended June 30, 2010.

d. Statement of Cash Flows

The IFRS transition adjustments noted above did not have a material impact on the presentation of the Company’s statement of cash flows.