

**Centerra Gold Inc.**

**Condensed Consolidated Interim Financial Statements**

**For the Quarter Ended September 30, 2011  
(Unaudited)**

**(Expressed in United States Dollars)**

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

		September 30 2011	December 31 2010
<b>(Expressed in Thousands of United States Dollars)</b>			
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 271,696	\$ 330,737
Short-term investments		265,696	82,278
Restricted cash		198	795
Amounts receivable	9	53,756	100,562
Inventories	8	243,426	181,633
Prepaid expenses		22,166	22,221
		<u>856,938</u>	<u>718,226</u>
Property, plant and equipment	10	582,782	519,019
Goodwill		129,705	129,705
Long-term receivables and other		27,332	17,299
Long-term inventories	8	12,174	12,877
Deferred income tax asset		-	3,367
		<u>751,993</u>	<u>682,267</u>
<b>Total assets</b>		<u>\$ 1,608,931</u>	<u>\$ 1,400,493</u>
<b>Liabilities and Shareholders' Equity</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	11	\$ 73,428	\$ 70,909
Taxes payable		19,643	27,354
Current portion of provisions	13	21,073	9,553
		<u>114,144</u>	<u>107,816</u>
Provisions	13	34,773	30,880
Deferred income tax liability		1,770	-
		<u>36,543</u>	<u>30,880</u>
<b>Shareholders' equity</b>			
Share capital	14	659,656	655,178
Contributed surplus		33,652	33,827
Retained earnings		764,936	572,792
		<u>1,458,244</u>	<u>1,261,797</u>
<b>Total liabilities and shareholders' equity</b>		<u>\$ 1,608,931</u>	<u>\$ 1,400,493</u>

Commitments and contingencies (note 15)

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)

	Notes	Three months ended		Nine months ended	
		September 30	September 30	September 30	September 30
		2011	2010	2011	2010
<b>(Expressed in Thousands of United States Dollars, except per share amounts)</b>					
<b>Revenue from Gold Sales</b>		<b>\$ 278,395</b>	<b>\$ 119,870</b>	<b>\$ 772,382</b>	<b>\$ 527,528</b>
Cost of sales	4	110,506	94,448	278,212	252,579
Mine standby costs		48	-	212	-
Regional office administration		5,925	6,108	16,969	16,025
<b>Earnings from mine operations</b>		<b>161,916</b>	<b>19,314</b>	<b>476,989</b>	<b>258,924</b>
Revenue-based taxes	12	35,039	11,510	98,193	58,145
Other operating expenses	5	10,000	-	10,000	-
Exploration and business development		11,862	8,045	31,825	20,701
Corporate administration		14,388	16,407	34,623	33,616
<b>Earnings from operations</b>		<b>90,627</b>	<b>(16,648)</b>	<b>302,348</b>	<b>146,462</b>
Other (income) and expenses	6	2,942	(1,746)	622	380
Finance costs	7	1,414	393	3,024	1,027
Gain on sale of REN property		-	(34,866)	-	(34,866)
<b>Earnings before income taxes</b>		<b>86,271</b>	<b>19,571</b>	<b>298,702</b>	<b>179,921</b>
Income tax expense	12	2,545	2,635	7,236	8,389
<b>Net earnings and comprehensive income</b>		<b>\$ 83,726</b>	<b>\$ 16,936</b>	<b>\$ 291,466</b>	<b>\$ 171,532</b>
<b>Basic and diluted earnings per common share</b>	14	<b>\$ 0.35</b>	<b>\$ 0.07</b>	<b>\$ 1.23</b>	<b>\$ 0.73</b>

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)**

	Notes	Three months ended		Nine months ended	
		September 30 2011	September 30 2010	September 30 2011	September 30 2010
<b>(Expressed in Thousands of United States Dollars)</b>					
<b>Operating activities</b>					
Net earnings		\$ 83,726	\$ 16,936	\$ 291,466	\$ 171,532
Items not requiring (providing) cash:					
Depreciation, depletion and amortization		28,095	17,845	68,474	56,294
Finance costs	7	1,414	393	3,024	1,027
Disposal of plant and equipment		813	376	922	1,366
Gain on disposal of REN property		-	(34,866)	-	(34,866)
Stock - based compensation expense		475	196	1,276	825
Change in long-term inventory		(248)	(4,741)	703	(7,188)
Long-term other assets		(2,099)	(10,989)	(7,452)	(11,981)
Change in provisions		6,697	-	12,481	-
Income tax expense	12	2,545	2,635	7,236	8,389
Other operating items		(2,433)	(498)	(2,182)	(1,027)
		<b>118,985</b>	<b>(12,713)</b>	<b>375,948</b>	<b>184,371</b>
Change in operating working capital		(6,776)	(3,246)	(3,590)	(27,847)
Income tax recovery (paid)		(6,094)	(3,277)	(5,202)	(16,933)
<b>Cash provided by operations</b>		<b>106,115</b>	<b>(19,236)</b>	<b>367,156</b>	<b>139,591</b>
<b>Investing activities</b>					
Net movement in restricted cash		-	-	(597)	-
Additions to property, plant and equipment		(35,180)	(70,894)	(145,322)	(149,101)
Net purchase of short-term investments		(57,364)	108,412	(183,418)	93,716
Advance for long-term assets		-	-	-	(5,152)
Proceeds from disposition of REN property		-	34,866	-	34,866
Proceeds from disposition of fixed assets		8	-	8	44
<b>Cash used in investing</b>		<b>(92,536)</b>	<b>72,384</b>	<b>(329,329)</b>	<b>(25,627)</b>
<b>Financing activities</b>					
Dividends paid		-	(13,620)	(99,322)	(13,620)
Revolver credit facility fees		63	(85)	(573)	(102)
Proceeds from common shares issued for cash		1,679	3,780	3,027	5,257
<b>Cash (used in) provided by financing</b>		<b>1,742</b>	<b>(9,925)</b>	<b>(96,868)</b>	<b>(8,465)</b>
(Decrease) Increase in cash during the period		15,321	43,223	(59,041)	105,499
Cash and cash equivalents at beginning of the period		256,375	239,180	330,737	176,904
<b>Cash and cash equivalents at end of the Period</b>		<b>\$ 271,696</b>	<b>\$ 282,403</b>	<b>\$ 271,696</b>	<b>\$ 282,403</b>
<i>Cash and cash equivalents consist of:</i>					
Cash		\$ 86,748	\$ 36,144	\$ 86,748	\$ 36,144
Cash equivalents		184,948	246,259	184,948	246,259
		<b>\$ 271,696</b>	<b>\$ 282,403</b>	<b>\$ 271,696</b>	<b>\$ 282,403</b>

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
<b>Balance at January 1, 2010</b>	234,857,228	\$ 646,081	\$ 35,376	\$ 264,121	\$ 945,578
Stock-based compensation expense	-	-	825	-	825
Shares issued on exercised of stock options	898,260	7,460	(2,203)	-	5,257
Dividend paid	-	-	-	(13,620)	(13,620)
Net earnings for the period	-	-	-	171,532	171,532
<b>Balance at September 30, 2010</b>	235,755,488	\$ 653,541	\$ 33,998	\$ 422,033	\$ 1,109,572
<b>Balance at January 1, 2011</b>	235,869,397	\$ 655,178	\$ 33,827	\$ 572,792	\$ 1,261,797
Stock-based compensation expense	-	-	1,276	-	1,276
Shares issued on exercised of stock options	438,136	4,478	(1,451)	-	3,027
Dividend paid	-	-	-	(99,322)	(99,322)
Net earnings for the period	-	-	-	291,466	291,466
<b>Balance at September 30, 2011</b>	236,307,533	\$ 659,656	\$ 33,652	\$ 764,936	\$ 1,458,244

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

**Centerra Gold Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**(Unaudited)**  
**(Expressed in thousands of United States Dollars)**

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**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 extraction and sale 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 18 to these financial statements. Note 18 contains reconciliations and descriptions of the effect of the transition from Canadian Generally Accepted Accounting Principles (“CGAAP”) to IFRS on equity, earnings and comprehensive income along with line-by-line reconciliations of the consolidated statement of financial position as at September 30, 2010 and the consolidated statement of earnings and comprehensive income for the three and nine months ended September 30, 2010

These financial statements were authorized for issuance by the Board of Directors of the Company on November 3, 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.

**Centerra Gold Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**(Unaudited)**  
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**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*, IFRS 13 *Fair Value Measurement* and IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*.

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 requires accounting for 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.

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**3. Future changes in accounting policies (continued)**

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.

IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine. The new Interpretation clarifies when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods. It considers when and how to account separately for benefits arising from the stripping activity and how to measure these benefits both initially and subsequently. The benefit include usable ore that can be used to produce inventory and improved access to further quantities of material that will be mined in future periods. It prescribes that the costs of stripping activity be accounted for in accordance with the principles of IAS 2 *Inventories* to the extent that the benefit from the stripping activity is realized in the form of inventory produced. On the other hand, the costs of stripping activity which provides a benefit in the form of improved access to ore is recognized as a non-current 'stripping activity asset' when specified criteria are met. 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 IFRIC 20 to have a material impact on the financial statements.



**Centerra Gold Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**(Unaudited)**  
**(Expressed in thousands of United States Dollars)**

**4. Cost of sales**

(Thousands of U.S. Dollars)	Three Months Ended		Nine months Ended	
	Sept 30, 2011	Sept 30, 2010	Sept 30, 2011	Sept 30, 2010
Operating costs:				
Salaries and benefits <sup>(a)</sup>	\$ 16,706	\$ 12,579	\$ 48,401	\$ 36,461
Consumables	56,788	51,753	151,052	150,890
Third party services	1,545	1,655	3,803	4,205
Other operating costs	12,848	4,030	25,556	10,849
Royalties, levies & production taxes	1,479	1,934	3,819	5,823
Changes in inventories and impairment (note 8)	(7,048)	4,677	(23,148)	(11,892)
	<b>82,318</b>	76,628	<b>209,483</b>	196,336
Inventories obsolescence (note 8)	197	91	609	313
Depreciation, depletion and amortization	27,991	17,729	68,120	55,930
	<b>\$ 110,506</b>	\$ 94,448	<b>\$ 278,212</b>	\$ 252,579

<sup>(a)</sup> Included in the amounts shown for the three months and nine months ended September 30, 2011, are \$8.3 million and \$14.1 million, accrued for the settlement of the Kyrgyz Social Fund assessment between Kumtor and the Kyrgyz Government.

**5. Other operating expenses**

(Thousands of U.S. Dollars)	Three Months Ended		Nine months Ended	
	Sept 30, 2011	Sept 30, 2010	Sept 30, 2011	Sept 30, 2010
Social development <sup>(a)</sup>	\$ 10,000	\$ -	\$ 10,000	\$ -
	<b>\$ 10,000</b>	\$ -	<b>\$ 10,000</b>	\$ -

<sup>(a)</sup> During the three month ended September 30, 2011, the Company, through its subsidiary, Kumtor, contributed \$10 million to be used for the refurbishment of schools through the Subsidiary's Community Development and Initiatives program in Kyrgyz Republic.

**Centerra Gold Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
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**6. Other (income) and expenses**

(Thousands of U.S. Dollars)	<b>Three Months Ended</b>		<b>Nine months Ended</b>	
	<b>Sept 30, 2011</b>	Sept 30, 2010	<b>Sept 30, 2011</b>	Sept 30, 2010
Interest income	\$ (277)	\$ (183)	\$ (758)	\$ (369)
Disposal of equipment	492	191	509	539
Other (income) and expenses	358	(35)	355	(326)
Foreign exchange loss (gain)	2,369	(1,719)	516	536
	<b>\$ 2,942</b>	<b>\$ (1,746)</b>	<b>\$ 622</b>	<b>\$ 380</b>

**7. Finance Costs**

(Thousands of U.S. Dollars)	<b>Three Months Ended</b>		<b>Nine months Ended</b>	
	<b>Sept 30, 2011</b>	Sept 30, 2010	<b>Sept 30, 2011</b>	Sept 30, 2010
Revolver credit facility costs <sup>(a)</sup>	\$ 1,116	\$ 85	\$ 1,750	\$ 102
Accretion of provision for reclamation	298	308	1,274	925
	<b>\$ 1,414</b>	<b>\$ 393</b>	<b>\$ 3,024</b>	<b>\$ 1,027</b>

<sup>(a)</sup>Included in the expense for the three months and nine months ended September 30, 2011, are amortization of deferred credit facility transaction costs of \$0.3 million and \$0.5 million and commitment fee charges of \$0.3 million and \$0.6 million.

**Centerra Gold Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
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**(Expressed in thousands of United States Dollars)**

**8. Inventories**

(Thousands of U.S. Dollars)	September 30, 2011	December 31, 2010
Stockpiles <sup>(i)</sup>	\$ 101,444	\$ 64,523
Gold in-circuit	11,250	6,881
Heap leach in circuit	3,359	3,687
Gold doré	5,211	6,023
	<b>121,264</b>	81,114
Supplies	<b>134,336</b>	113,396
Total Inventories (net of provisions for obsolescence)	<b>255,600</b>	194,510
Less: Long-term inventory (heap leach stockpiles)	<b>(12,174)</b>	(12,877)
Total Inventories-current portion (net of provisions for obsolescence)	<b>\$ 243,426</b>	\$ 181,633

- i. During the first half of 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 decreased cost of sales. As at September 30, 2011, \$5.2 million of the reversed amount remained in inventory of stockpiled ore.

The amount of the provision for obsolescence of mine operating supplies compared to net realizable value, as presented in the table below, increased by \$0.2 million and \$0.6 million for the three and nine months ended September 30, 2011 (\$0.1 million and \$0.3 million for the three and nine months ended September 30, 2010). Such amounts are recognized as expense. This expense is included in cost of sales which is disclosed in note 4.

(Thousands of U.S. Dollars)	September 30, 2011	December 31, 2010
Total inventories	\$ 245,339	\$ 182,937
Less : provision for obsolescence	<b>(1,913)</b>	(1,304)
	<b>\$ 243,426</b>	\$ 181,633

**Centerra Gold Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
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**9. Amounts receivable**

(Thousands of U.S. Dollars)	September 30, 2011	December 31, 2010
Gold sales receivable from related party (note 16)	\$ 43,051	\$ 88,997
Gold sales receivable from third party	5,578	3,760
Other receivables	5,127	7,805
	<b>\$ 53,756</b>	<b>\$ 100,562</b>

**10. 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	<b>Total</b>
Balances as at:						
December 31, 2010	\$ 21,659	\$ 114,092	\$ 69,260	\$ 149,869	\$ 164,139	\$ 519,019
<b>September 30, 2011</b>	<b>\$ 19,992</b>	<b>\$ 109,748</b>	<b>\$ 89,028</b>	<b>\$ 183,688</b>	<b>\$ 180,326</b>	<b>\$ 582,782</b>

**11. Accounts payable and accrued liabilities**

(Thousands of U.S. Dollars)	September 30, 2011	December 31, 2010
Trade creditors and accruals <sup>(i)</sup>	\$ 35,900	\$ 34,095
Liability for share-based compensations	37,528	36,814
	<b>\$ 73,428</b>	<b>\$ 70,909</b>

- i. As at September 30, 2011, amounts shown include the accrued amount for the funding of the maternity hospital, agreed with the Ministry of Health in Mongolia, is \$3.7 million (December 31, 2010 - \$6.4 million).

**Centerra Gold Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
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**12. Taxes**

**a. Revenue Based Taxes - Kumtor**

During the three and nine months ended September 30, 2011, the total revenue based tax recorded by Kumtor was \$35.0 million (\$32.5 million for the 13% revenue-based tax expense and \$2.5 million for the Issyk-Kul Oblast Development Fund contribution of 1% of gross revenue) and \$98.2 million (\$91.2 million for the 13% revenue-based tax expense and \$7.0 million for the Issyk-Kul Oblast Development Fund contribution of 1% of gross revenue).

For the three and months ended September 30, 2010, the total revenue based tax recorded was \$11.5 million (\$10.7 million for the 13% revenue-based tax expense and \$0.8 million for the Issyk-Kul Oblast Development Fund contribution of 1% of gross revenue) and \$58.1 million (\$54.0 million for the 13% revenue-based tax expense and \$4.1 million for the Issyk-Kul Oblast Development Fund contribution of 1% of gross revenue).

**b. Income Tax Expense**

(Thousands of U.S. Dollars)	Three Months Ended		Nine months Ended	
	Sept 30, 2011	Sept 30, 2010	Sept 30, 2011	Sept 30, 2010
Current tax	\$ 2,052	\$ 5,158	\$ 2,089	\$ 13,588
Deferred tax	493	(2,523)	5,147	(5,199)
	\$ 2,545	\$ 2,635	\$ 7,236	\$ 8,389

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

**Centerra Gold Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
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**13. Provisions**

(Thousands of U.S. Dollars)	Asset retirement obligation	Other provisions	Total
Balance, December 31, 2010	\$ 40,433	\$ -	\$ 40,433
Social development provision (note 15)	-	14,181	14,181
Liabilities paid	(2,181)	(1,700)	(3,881)
Revision in estimates	4,155	-	4,155
Accretion expense	998	-	998
<b>Balance, September 30, 2011</b>	<b>\$ 43,365</b>	<b>\$ 12,481</b>	<b>\$ 55,846</b>

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

(Thousands of U.S. Dollars)	September 30, 2011	December 31, 2010
Asset retirement obligations	\$ 8,592	\$ 9,553
Other provisions (note 15)	12,481	-
Current	21,073	9,553
Non-current: Asset retirement obligations	34,773	30,880
	<b>\$ 55,846</b>	<b>\$ 40,433</b>

**a. Asset retirement obligations**

(Thousands of U.S. Dollars)	September 30, 2011	December 31, 2010
Kumtor gold mine	\$ 26,927	\$ 22,088
Boroo gold mine	16,438	18,345
	<b>43,365</b>	<b>40,433</b>
Less: current portion	<b>(8,592)</b>	<b>(9,553)</b>
Non-current portion	<b>\$ 34,773</b>	<b>\$ 30,880</b>

**Centerra Gold Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**(Unaudited)**  
**(Expressed in thousands of United States Dollars)**

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**13. 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 September 30, 2011 to be \$54.9 million.

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

(Thousands of U.S. Dollars)	<b>Three Months Ended</b>		<b>Nine months Ended</b>	
	<b>Sept 30,</b>	<b>Sept 30,</b>	<b>Sept30,</b>	<b>Sept 30,</b>
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Balance, beginning of period	<b>\$ 44,065</b>	\$ 34,073	<b>\$ 40,433</b>	\$ 33,946
Liabilities paid	<b>(998)</b>	(541)	<b>(2,181)</b>	(1,031)
Revisions in estimated timing and amount of cash flow	-	-	<b>3,839</b>	-
Impact of revisions in estimated timing and amount of cash flow recorded in earnings	-	-	<b>316</b>	-
Accretion expense	<b>298</b>	308	<b>958</b>	925
	<b>43,365</b>	33,840	<b>43,365</b>	33,840
Less: current portion	<b>(8,592)</b>	(7,557)	<b>(8,592)</b>	(7,557)
Balance end of period, non-current portion	<b>\$ 34,773</b>	\$ 26,283	<b>\$ 34,773</b>	\$ 26,283

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 of \$4.3 million was recorded during the second quarter of 2011.

The scheduled update of the closure study at the Boroo mine site is ongoing and is expected to be completed in the fourth quarter of 2011. Necessary adjustment, if any, will be reflected in the present value of the closure cost estimate at Boroo on completion of the study.

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 September 30, 2011 was \$9.1 million (December 31, 2010 - \$7.4 million).

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**14. 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**

	<b>Three Months Ended</b>		<b>Nine months Ended</b>	
	<b>Sept 30, 2011</b>	<b>Sept 30, 2010</b>	<b>Sept 30, 2011</b>	<b>Sept 30, 2010</b>
Basic weighted average number of common shares outstanding (thousands)	<b>236,126</b>	235,406	<b>236,009</b>	235,088
Effect of dilutive potential common shares:				
Stock options (thousands)	<b>258</b>	343	<b>239</b>	343
Restricted share units (thousands)	<b>29</b>	-	<b>15</b>	-
Diluted weighted average number of common shares outstanding (thousands)	<b>236,413</b>	235,793	<b>236,263</b>	235,431

No adjustments were made to reported earnings attributable to shareholders in the computation of diluted earnings due to the anti-dilutive impact of the common share equivalent of Performance Share Units granted to eligible employees of the Company.

Certain common share equivalents for Stock Options and Performance Share Units granted to eligible employees of the Company were not included in the above calculation of diluted EPS because they are anti dilutive for the three months and nine months ended September 30, 2011.

**c. Share-Based Compensation**

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

(Millions of U.S. dollars except as indicated)	Number outstanding Sept 30/11	Expense/(Income)		Expense/(Income)		Liability	
		Three Months Ended		Nine Months Ended		Sept 30/11	Dec 31/10
		Sept 30/11	Sept 30/10	Sept 30/11	Sept 30/10		
(i) Stock options	<b>783,957</b>	\$ 0.5	\$ 0.2	\$ 1.2	\$ 0.8	\$ -	\$ -
(ii) PSU <sup>(1)</sup>	<b>1,313,994</b>	<b>4.6</b>	6.2	<b>12.3</b>	10.8	<b>30.3</b>	28.3
(iii) Annual-PSU <sup>(2)</sup>	<b>77,900</b>	<b>0.4</b>	1.7	<b>1.1</b>	2.8	<b>1.1</b>	6.4
(iv) Deferred share units	<b>353,882</b>	<b>0.7</b>	2.1	<b>(0.3)</b>	2.9	<b>6.6</b>	6.9
(v) Restricted share units	<b>41,707</b>	<b>0.3</b>	-	<b>0.8</b>	-	<b>0.8</b>	-
		\$ 6.5	\$ 10.2	\$ 15.1	\$ 17.3	\$ 38.8	\$ 41.6

<sup>1)</sup> Performance share units.

<sup>2)</sup> Annual performance share units



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**14. Shareholders' Equity (continued)**

**c. Share-Based Compensation**

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

	Number outstanding Dec 31/10	Issued	Exercised	Expired/ Forfeited	Number outstanding Sept 30/11	Number Vested Sept 30/11
(i) Stock options	903,987	318,106	(438,136)	-	783,957	143,579
(ii) PSU	1,528,209	219,071	(421,964)	(11,322)	1,313,994	-
(iii) Annual- PSU	156,571	95,354	(159,497)	(14,528)	77,900	51,933
(iv) Deferred share units	344,728	9,154	-	-	353,882	353,882
(v) Restricted share units	-	41,707	-	-	41,707	41,707

**(i) Stock Options.**

On March 7, 2011, Centerra granted 308,999 stock options at a strike price of Cdn \$18.31 per share. The fair value of the stock options was determined using the Black-Scholes valuation model, assuming a weighted average expected life of 3-years, 75.66% volatility, dividend yield of 0.35% and a risk-free rate of return of 2.09%. The resulting weighted average fair value per option granted was Cdn \$8.70. The estimated fair value of the options is expensed over the graded vesting period for each tranche, which range from 1 year to 3 years.

On September 14, 2011, Centerra granted 9,107 stock options at a strike price of Cdn \$22.28 per share. The fair value of the stock options was determined using the Black-Scholes valuation model, assuming a weighted average expected life of 3-years, 60.87% volatility, dividend yield of 0.30% and a risk-free rate of return of 1.19%. The resulting weighted average fair value per option granted was Cdn \$8.87. The estimated fair value of the options is expensed over the graded vesting period for each tranche, which range from 1 year to 3 years.

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## **15. Commitments and Contingencies**

### **Commitments**

As at September 30, 2011, the Company had entered into contracts to purchase capital equipment and operational supplies totaling \$117.2 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 subsidiary 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 Kumtor of its position that Kumtor 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 Kumtor. Following the most recent audit 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.

Kumtor filed a claim in September 2011 to invalidate the assessment, however, withdrew this claim upon reaching an agreement with the Social Fund to voluntarily pay the \$6.7 million assessment without penalties, fines and financial sanctions and to apply the social fund contribution to the high altitude premium. The assessment for the 2010 year is to be paid in four equal instalments by December 31, 2011. Kumtor has paid \$1.7 million during the third quarter 2011 and accrued \$12.4 million which covers the remaining balance owed on the 2010 assessed year and the amount owed for the first nine months of 2011. Going forward, Kumtor has agreed to pay contribution to the Social Fund in respect of the high-altitude premium, a portion of which will be paid by the employer and a portion of which will be paid by its employees.

#### **Mongolia**

Except as set out expressly below, matters referred to in the Company's most recently interim disclosure documents published on July 28, 2011 regarding (i) outstanding issues in Mongolia arising from the inspection by the Mongolian General Department of Specialized Inspection (the "SSIA") at Boroo in mid-2009, including the issuance of a final heap leach permit and the resolution of a significant claim for compensation from the SSIA regarding state alluvial reserves covered by the Boroo mining licenses; (ii) the Mongolian Water and Forest Law and its impact on the Boroo project, Gatsuurt project and certain non-material alluvial gold mining licenses, and the proposed amendments to such law; (iii) the suspension of negotiations on a Gatsuurt investment agreement in light of the Water and Forest Law, and (iv) the new graduated royalty fee and its impact (if any) on the Company's Boroo operations, have not materially changed since such date. Management continues to work with applicable Mongolian regulatory authorities to resolve these matters.

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**15. Commitments and Contingencies (continued)**

**Contingencies (continued)**

**Mongolia (continued)**

Management understands that the proposed amendments to the Water and Forest Law may be discussed in the fall session of Parliament. Centerra remains 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 September 30, 2011, the Company has net assets recorded amounting to approximately \$36 million related to the investment in Gatsuurt and approximately \$28 million remaining capitalized for the Boroo mill facility and other surface structures which 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.

The heap leach operation remained idle during the third quarter of 2011 awaiting issuance of the final operating permit from the Mongolian Government. At September 30, 2011 the net assets associated with the heap leach operation totalled \$15.9 million, which may need to be written-off should the heap leach operating permit not be issued.

## **15. Commitments and Contingencies (continued)**

### **Contingencies (continued)**

#### **Corporate**

In March 2011, Centerra was served by a Turkish company, Sistem Muhendislik Insaat Sanayi Ticaret SA (“Sistem”), with a notice of enforcement to seize any shares and dividends in Centerra held in the name of the Kyrgyz Republic, followed by a notice of garnishment in April 2011 for any debts owed by Centerra to the Kyrgyz Republic (the “Republic”). These notices were served by Sistem through the Sheriff in Toronto as part of the enforcement proceedings brought by Sistem in the Ontario Superior Court to collect approximately US\$11 million with additional interest, owed to Sistem by the Republic in accordance with a judgment of the Ontario Superior Court enforcing an international arbitration award against the Republic. In these Ontario proceedings, Sistem alleges that the shares in Centerra owned by Kyrgyzaltyn JSC, and any dividends paid in respect of those shares, are in fact legally and beneficially owned by the Republic and are therefore subject to execution to pay the judgment. Based on legal advice received, Centerra disputes those allegations and maintains that Kyrgyzaltyn JSC alone is the legal and beneficial owner of the shares and any dividends in respect of those shares, based on the applicable legal principles and the binding agreements with Kyrgyzaltyn JSC.

As a result and notwithstanding such notices of enforcement and garnishment, Centerra paid its May 18, 2011 dividend in the total amount of approximately Cdn\$31 million to Kyrgyzaltyn JSC. Sistem is continuing with its claim regarding the Centerra shares owned by Kyrgyzaltyn JSC. If this claim is successful in the Ontario court proceedings, Sistem may have a right to execute its judgment against those shares and may assert a claim against Centerra in respect of the payment of the dividends to Kyrgyzaltyn JSC. However, Centerra believes it has a strong defence to that claim based on the facts and the law. At a motion in September 2011, Kyrgyzaltyn JSC was formally added as a party to the proceeding.

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**16. 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.

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)	<b>Three Months Ended</b>		<b>Nine months Ended</b>	
	<b>Sept 30, 2011</b>	<b>Sept 30, 2010</b>	<b>Sept 30, 2011</b>	<b>Sept 30, 2010</b>
Management fees to Kyrgyzaltyn	<b>\$ 147</b>	66	<b>458</b>	358
Gross gold and silver sales to Kyrgyzaltyn	<b>\$ 250,982</b>	\$ 82,547	<b>\$ 703,668</b>	\$ 416,952
Deduct: refinery and financing charges	<b>(706)</b>	(331)	<b>(2,292)</b>	(1,629)
Net sales revenue received from Kyrgyzaltyn	<b>\$ 250,276</b>	\$ 82,216	<b>\$ 701,376</b>	\$ 415,323

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**16. Related Party Transactions (continued)**

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

**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)	September 30, 2011	December 31, 2010
Other receivable from Kyrgyzaltyn	\$ 232	\$ 12
Gold sale receivable from Kyrgyzaltyn	43,051	88,997
Amount included in Amounts receivable	\$ 43,283	\$ 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.

Based on movements of Centerra's share price, and the value of individual or unsettled gold shipments, over the course of the three and nine months ended September 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 September 30, 2011, \$43.1 million was outstanding under these arrangements (December 31, 2010 - \$89.0 million)

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**17. 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.

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**17. Segmented Information (continued)**

**Three months ended September 30, 2011**

(Millions of U.S. Dollars)	Kyrgyz Republic	Mongolia	Corporate and other	Total
<b>Revenue from Gold Sales</b>	\$ 250.3	\$ 28.1	\$ -	\$ 278.4
Cost of sales	94.6	15.9	-	110.5
Mine standby costs	-	0.1	-	0.1
Regional office administration	4.2	1.7	-	5.9
<b>Earnings from mine operations</b>	<b>151.5</b>	<b>10.4</b>	<b>-</b>	<b>161.9</b>
Revenue-based taxes	35.0	-	-	35.0
Other operating expenses	10.0	-	-	10.0
Exploration and business development	3.5	2.3	6.1	11.9
Corporate administration	0.5	0.1	13.8	14.4
<b>Earnings from operations</b>	<b>102.5</b>	<b>8.0</b>	<b>(19.9)</b>	<b>90.6</b>
Other (income) and expenses	0.8	2.8	(0.7)	2.9
Finance costs	0.2	0.1	1.1	1.4
<b>Earnings before income taxes</b>	<b>101.5</b>	<b>5.1</b>	<b>(20.3)</b>	<b>86.3</b>
Income tax expense				2.6
<b>Net earnings and comprehensive income</b>				<b>\$ 83.7</b>
<b>Capital expenditure for the period</b>	<b>\$ 34.3</b>	<b>\$ 2.8</b>	<b>\$ 0.1</b>	<b>\$ 37.2</b>

**Three months ended September 30, 2010**

(Millions of U.S. Dollars)	Kyrgyz Republic	Mongolia	Corporate and other	Total
<b>Revenue from Gold Sales</b>	\$ 82.2	\$ 37.7	\$ -	\$ 119.9
Cost of sales	76.5	17.9	-	94.4
Regional office administration	4.0	2.1	-	6.1
<b>Earnings from mine operations</b>	<b>1.7</b>	<b>17.7</b>	<b>-</b>	<b>19.4</b>
Revenue-based taxes	11.5	-	-	11.5
Exploration and business development	3.5	2.1	2.5	8.1
Corporate administration	0.5	0.1	15.8	16.4
<b>Earnings (Loss) from operations</b>	<b>(13.8)</b>	<b>15.5</b>	<b>(18.3)</b>	<b>(16.6)</b>
Other (income) and expenses	(1.4)	-	(0.3)	(1.7)
Finance costs	0.2	0.1	0.1	0.4
Gain on sale of REN property			(34.9)	(34.9)
<b>Earnings before income taxes</b>	<b>(12.6)</b>	<b>15.4</b>	<b>16.8</b>	<b>\$ 19.6</b>
Income tax expense				2.6
<b>Net earnings and comprehensive income</b>				<b>\$ 17.0</b>
<b>Capital expenditure for the period</b>	<b>\$ 70.3</b>	<b>\$ 2.5</b>	<b>\$ -</b>	<b>\$ 72.8</b>



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**17. Segmented Information (continued)**

**Nine months ended September 30, 2011**

(Millions of U.S. Dollars)	Kyrgyz Republic	Mongolia	Corporate and other	Total
<b>Revenue from Gold Sales</b>	\$ 701.4	\$ 71.0	\$ -	\$ 772.4
Cost of sales	235.8	42.4	-	278.2
Mine standby costs	-	0.2	-	0.2
Regional office administration	12.2	4.8	-	17.0
<b>Earnings from mine operations</b>	<b>453.4</b>	<b>23.6</b>	<b>-</b>	<b>477.0</b>
Revenue-based taxes	98.2	-	-	98.2
Other operating expenses	10.0	-	-	10.0
Exploration and business development	10.7	7.2	14.0	31.9
Corporate administration	1.5	0.3	32.8	34.6
<b>Earnings from operations</b>	<b>333.0</b>	<b>16.1</b>	<b>(46.8)</b>	<b>302.3</b>
Other (income) and expenses	(0.3)	1.9	(1.0)	0.6
Finance costs	1.0	0.3	1.7	3.0
<b>Earnings before income taxes</b>	<b>332.3</b>	<b>13.9</b>	<b>(47.5)</b>	<b>298.7</b>
Income tax expense				7.2
<b>Net earnings and comprehensive income</b>				<b>\$ 291.5</b>
<b>Capital expenditure for the period</b>	<b>\$ 152.3</b>	<b>\$ 5.5</b>	<b>\$ 0.2</b>	<b>\$ 158.0</b>
<b>Assets (excluding Goodwill)</b>	<b>\$ 946.3</b>	<b>\$ 267.3</b>	<b>\$ 265.6</b>	<b>\$ 1,479.2</b>

**Nine months ended September 30, 2010**

(Millions of U.S. Dollars)	Kyrgyz Republic	Mongolia	Corporate and other	Total
<b>Revenue from Gold Sales</b>	\$ 415.3	\$ 112.2	\$ -	\$ 527.5
Cost of sales	200.3	52.3	-	252.6
Regional office administration	10.7	5.3	-	16.0
<b>Earnings from mine operations</b>	<b>204.3</b>	<b>54.6</b>	<b>-</b>	<b>258.9</b>
Revenue-based taxes	58.1	-	-	58.1
Exploration and business development	8.0	4.8	7.9	20.7
Corporate administration	1.5	0.2	31.9	33.6
<b>Earnings from operations</b>	<b>136.7</b>	<b>49.6</b>	<b>(39.8)</b>	<b>146.5</b>
Other (income) and expenses	1.0	(0.3)	(0.3)	0.4
Finance costs	0.5	0.4	0.1	1.0
Gain on sale of REN property	-	-	(34.9)	(34.9)
<b>Earnings before income taxes</b>	<b>135.2</b>	<b>49.5</b>	<b>(4.7)</b>	<b>179.9</b>
Income tax expense				8.4
<b>Net earnings and comprehensive income</b>				<b>\$ 171.5</b>
<b>Capital expenditure for the period</b>	<b>\$ 133.2</b>	<b>\$ 23.2</b>	<b>\$ 0.2</b>	<b>\$ 156.6</b>
<b>Assets (excluding Goodwill)</b>	<b>\$ 558.9</b>	<b>\$ 472.2</b>	<b>\$ 55.4</b>	<b>\$ 1,086.5</b>

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**18. 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 nine months ended September 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 18 (b) and 18 (c).

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**18. First time adoption of IFRS (continued)**

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

Reconciliation of financial position between Canadian GAAP and IFRS

<b>As at September 30, 2010</b> (Thousands of U.S. Dollars)	<b>Notes</b>	Previous Canadian GAAP	Effect of transition to IFRS	IFRS
<b>Assets</b>				
Current assets				
Cash and cash equivalents		\$ 282,403	-	\$ 282,403
Short-term investments		52,255	-	52,255
Amounts receivable	(v)	35,090	4,403	39,493
Current portion of Deferred income tax asset	(iv)	1,657	(1,657)	-
Inventories	(v)	153,870	(1,839)	152,031
Prepaid expenses		27,042	-	27,042
		552,317	907	553,224
Property, plant and equipment	(ii)	483,250	1,116	484,366
Goodwill		129,705	-	129,705
Long-term receivables and other		18,535	-	18,535
Long-term inventories		30,308	-	30,308
Deferred income tax asset	(iv)	45	52	97
		661,843	1,168	663,011
<b>Total assets</b>		\$ 1,214,160	2,075	\$ 1,216,235
<b>Liabilities and Shareholders' Equity</b>				
Current liabilities				
Accounts payable and accrued liabilities	(iii)	\$ 55,417	2,565	\$ 57,982
Taxes payable		11,305	-	11,305
Current portion of provisions	(i)	8,326	(769)	7,557
Current portion of deferred income tax liability	(iv)	2,362	(2,362)	-
		77,410	(566)	76,844
Provisions	(i)	22,001	4,282	26,283
Deferred income tax liability	(iv)	-	3,536	3,536
		22,001	7,818	29,819
<b>Shareholders' equity</b>				
Share capital		653,541	-	653,541
Contributed surplus		33,275	723	33,998
Retained earnings		427,933	(5,900)	422,033
		1,114,749	(5,177)	1,109,572
<b>Total liabilities and shareholders' equity</b>		\$ 1,214,160	2,075	\$ 1,216,235

**Centerra Gold Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**(Unaudited)**  
**(Expressed in thousands of United States Dollars)**

**18. First time adoption of IFRS (continued)**

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

Reconciliation of Consolidated statement of earnings and comprehensive income

(Thousands of U.S. Dollars)	Note	Three months ended September 30, 2010	Nine months ended September 30, 2010
<b>Comprehensive income under Canadian GAAP</b>		\$ 17,661	\$ 169,513
<b>Effect of transition to IFRS</b>			
Provision for reclamation	(i)	244	732
Depreciation	(ii)	(26)	(107)
Share-based compensation	(iii)	(3,242)	(2,291)
Exchange difference on deferred income taxes	(iv)	-	260
Deferred income taxes	(iv)	(217)	909
Net revenue from gold sales	(v)	2,516	2,516
		(725)	2,019
<b>Comprehensive income under IFRS</b>		\$ 16,936	\$ 171,532

**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 18(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 nine months ended September 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 \$0.7 million respectively, with corresponding offset to Provisions.

**18. 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 nine months ended September 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 September 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 \$0.1 million and \$0.4 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 nine months ended September 30, 2010.

IFRS 2 was applied to liabilities arising from cash-settled share-based payment transactions that existed at September 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 increased by \$3.2 million and \$2.3 million for the three and nine months ended September 30, 2010.

**Centerra Gold Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
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**(Expressed in thousands of United States Dollars)**

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**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 \$0.2 million for the three months and deferred income tax recovery of \$0.9 million for the nine months ended September 30, 2010.

**vi. Revenue recognition**

Under Canadian GAAP, the Company's accounting policy was to recognize revenues from the sale of gold and silver when the significant risks and rewards of ownership have passed, which had been specifically defined as when title had passed. Under IFRS, the Company's accounting policy is to recognize revenues from the sale of gold and silver when risks and rewards of ownership are transferred, which is defined by the Company to be at the point when the customer has taken delivery.

As a result of this difference in recognition and measurement under IFRS and Canadian GAAP accounting policies, the previously reported Canadian GAAP results were adjusted to reflect additional net revenue of \$2.5 million (\$4.4 million increase in revenue less \$1.9 million increase to cost of sales) for the three month and nine month period ended September 30, 2010. This resulted in an increase of \$4.4 million to amounts receivable and a \$1.8 million decrease to inventories

**d. Statement of Cash Flows**

The IFRS transition adjustments noted above did not have a material impact on the presentation of the Company's Statements of Cash Flows.