

**Centerra Gold Inc.**

**Condensed Consolidated Interim Financial Statements**

**For the Quarter Ended March 31, 2011  
(Unaudited)**

**(Expressed in United States Dollars)**

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

		March 31 2011	December 31 2010	January 1 2010
<b>(Expressed in Thousands of United States Dollars)</b>				
<b>Assets</b>				
Current assets				
Cash and cash equivalents		\$ 342,692	\$ 330,737	\$ 176,904
Short-term investments		151,244	82,278	145,971
Restricted cash		835	795	-
Amounts receivable	8	61,574	100,562	44,281
Inventories	9	209,703	181,633	151,822
Prepaid expenses		11,020	22,221	11,718
		<u>777,068</u>	<u>718,226</u>	<u>530,696</u>
Property, plant and equipment	10	567,447	519,019	382,250
Goodwill		129,705	129,705	129,705
Long-term receivables and other	11	17,858	17,299	6,554
Long-term inventories	9	12,694	12,877	23,120
Deferred income tax asset		3,301	3,367	62
		<u>731,005</u>	<u>682,267</u>	<u>541,691</u>
<b>Total assets</b>		<u>\$ 1,508,073</u>	<u>\$ 1,400,493</u>	<u>\$ 1,072,387</u>
<b>Liabilities and Shareholders' Equity</b>				
Current liabilities				
Accounts payable and accrued liabilities	12	\$ 58,887	\$ 70,909	\$ 49,098
Taxes payable		10,239	27,354	35,066
Current portion of provision	15	10,830	9,553	7,399
		<u>79,956</u>	<u>107,816</u>	<u>91,563</u>
Provision	15	29,202	30,880	26,546
Deferred income tax liability		-	-	8,700
		<u>29,202</u>	<u>30,880</u>	<u>35,246</u>
<b>Shareholders' equity</b>				
Share capital		655,447	655,178	646,081
Contributed surplus		34,053	33,827	35,376
Retained earnings		709,415	572,792	264,121
		<u>1,398,915</u>	<u>1,261,797</u>	<u>945,578</u>
<b>Total liabilities and shareholders' equity</b>		<u>\$ 1,508,073</u>	<u>\$ 1,400,493</u>	<u>\$ 1,072,387</u>

Commitments and contingencies (note 17)

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  
March 31      March 31  
2011            2010

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

	Notes		
<b>Revenue from Gold Sales</b>		<b>\$ 250,179</b>	<b>\$ 255,486</b>
Cost of sales	5	61,794	78,366
Regional office administration		4,813	4,944
<b>Earnings from mine operations</b>		<b>183,572</b>	<b>172,176</b>
Revenue based taxes		32,188	31,266
Exploration and business development		7,557	5,521
Corporate administration		7,768	11,138
<b>Earnings from operations</b>		<b>136,059</b>	<b>124,251</b>
Other (income) and expenses	6	(1,048)	436
Finance costs	7	390	326
<b>Earnings before income taxes</b>		<b>136,717</b>	<b>123,489</b>
Income tax expense (recovery)	13	94	(373)
<b>Net earnings and comprehensive income</b>		<b>\$ 136,623</b>	<b>\$ 123,862</b>
<b>Basic and diluted earnings per common share</b>	<b>16</b>	<b>\$ 0.58</b>	<b>\$ 0.53</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)

(Expressed in Thousands of United States Dollars)	Notes	Three months ended	
		March 31 2011	March 31 2010
<b>Operating activities</b>			
Net earnings		\$ 136,623	\$ 123,862
Items not requiring (providing) cash:			
Depreciation, depletion and amortization		14,956	21,377
Finance costs		390	326
Loss on disposal of plant and equipment		109	143
Stock - based compensation expense		324	361
Change in long-term inventory		183	(1,549)
Long-term other assets		(559)	(1,006)
Income tax expense	13	94	(373)
Other operating items		(29)	326
		<u>152,091</u>	<u>143,467</u>
Change in operating working capital		(8,437)	(56,213)
Income tax paid		(1,092)	(4,882)
<b>Cash provided by operations</b>		<u>142,562</u>	<u>82,372</u>
<b>Investing activities</b>			
Additions to property, plant and equipment		(61,685)	(21,036)
Purchase of short-term investments		(68,966)	(37,323)
Proceeds from disposition of fixed assets		-	42
<b>Cash used in investing</b>		<u>(130,651)</u>	<u>(58,317)</u>
<b>Financing activities</b>			
Payment of transaction costs related to borrowing	14	(127)	(17)
Proceeds from common shares issued for cash		171	-
<b>Cash provided by (used in) financing</b>		<u>44</u>	<u>(17)</u>
Increase in cash during the period		11,955	24,038
Cash and cash equivalents at beginning of the period		330,737	176,904
<b>Cash and cash equivalents at end of the Period</b>		<u>\$ 342,692</u>	<u>\$ 200,942</u>
<i>Cash and cash equivalents consist of:</i>			
Cash		\$ 45,074	\$ 62,770
Cash equivalents		297,618	138,172
		<u>\$ 342,692</u>	<u>\$ 200,942</u>

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

Centerra Gold Inc.  
Condensed Consolidated Statements of 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>	235,857,228	\$ 646,081	\$ 35,376	\$ 264,121	\$ 945,578
Stock-based compensation expense	-	-	361	-	361
Net earnings for the period	-	-	-	123,862	123,862
<b>Balance at March 31, 2010</b>	235,857,228	\$ 646,081	\$ 35,737	\$ 387,983	\$ 1,069,801
<b>Balance at January 1, 2011</b>	235,869,397	\$ 655,178	\$ 33,827	\$ 572,792	\$ 1,261,797
Stock-based compensation expense	-	-	324	-	324
Shares issued on exercised of stock options	34,498	269	(98)	-	171
Net earnings for the period	-	-	-	136,623	136,623
<b>Balance at March 31, 2011</b>	235,903,895	\$ 655,447	\$ 34,053	\$ 709,415	\$ 1,398,915

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)**

---

**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 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. As these interim financial statements are the Company’s first financial statements prepared using International Financial Reporting Standards (“IFRS”), certain disclosures that are required to be included in annual financial statements prepared in accordance with IFRS that were not included in the Company’s most recent annual financial statements prepared in accordance with Canadian Generally Accepted Accounting Principles (“Canadian GAAP”) have been included in these financial statements for the comparative annual period. These interim financial statements should be read in conjunction with the Company’s 2010 annual financial statements and with the IFRS transition disclosures included in Note 20 to these financial statements. Note 20 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 December 31, 2010, March 31, 2010 and January 1, 2010, and the consolidated statement of earnings and comprehensive income for the year ended December 31, 2010 and the three-month period ended March 31, 2010.

These financial statements were authorized for issuance by the Board of Directors of the Company on April 29, 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)**  
**(Expressed in thousands of United States Dollars)**

---

**3. Summary of Significant Accounting Policies**

This summary of significant accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRS and is presented to assist the reader in interpreting the statements contained herein.

**a. Consolidation principles**

The consolidated financial statements include the accounts of Centerra, its operating subsidiaries, and its jointly controlled entities. Subsidiaries are entities over which the Company has control, where control is defined as the power to govern financial and operating policies. Subsidiaries are fully consolidated from the date control is transferred to the Company, and are de-consolidated from the date control ceases.

Inter-company transactions between subsidiaries are eliminated in consolidation.

Joint ventures are entities over whose activities the Company has joint control under a contractual agreement. The consolidated financial statements include the Company's proportionate share of the entity's assets, liabilities, revenues and expenses with items of a similar nature on a line-by-line basis, from the date that joint control commences until the date that joint control ceases.

The Company's significant subsidiaries include its wholly-owned Kumtor Gold Company ("KGC" operating as "Kumtor"), Boroo Gold Company ("BGC" operating as "Boroo") and Centerra Gold Mongolia LLC (owner of the Gatsuurt property).

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

---

**3. Summary of Significant Accounting Policies (continued)**

**b. Foreign currency**

*(i) Functional and presentation currency*

The functional currency of the Company and each of its subsidiaries is the U.S. Dollar, which is also the presentation currency of the consolidated financial statements.

*(ii) Transactions and balances*

Foreign currency transactions are translated into the entity's functional currency using the exchange rate prevailing on the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. Translation differences on financial assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

**c. Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and short-term investments with original maturities of 90 days or less. Bank overdrafts that are repayable on demand and form an integral part of the Centerra's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flow. Cash and cash equivalents are classified as a financial instrument carried at fair value through profit or loss.

**d. Short-term investments**

Short-term investments consist of marketable securities with maturities of more than 90 days, but no longer than 12 months, at the date of purchase. Short-term investments consist mostly of U.S. and Canadian government treasury bills and agency notes. Short-term investments are classified as a financial instrument carried at fair value through profit or loss.



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

---

**3. Summary of Significant Accounting Policies (continued)**

**e. Inventories**

Inventories of broken ore, heap leach ore, in-circuit gold, and gold doré are valued at the lower of average production cost and net realizable value, based on contained ounces of gold. The production cost of inventories is determined on a weighted-average basis and includes direct materials, direct labour, mine-site overhead expenses and depreciation, depletion and amortization of mining interest.

Costs are added to ore on heap leach pads based on current mining and leaching costs, including applicable depreciation, depletion and amortization relating to the mining process. Costs are removed from ore on leach pads as ounces of gold are recovered based on the weighted-average cost per recoverable ounce of gold on the leach pad. Estimates of recoverable gold on the leach pads are calculated from the quantities and the grade of ore placed on the pad.

When inventories are sold, the carrying amount is recognized as an expense in the period in which the related revenue is recognized. Any write-down of inventories to net realizable value or reversals of previous write-downs are recognized in income in the period the write-down or reversal occurs. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale.

Consumable supplies and spare parts are valued at the lower of weighted-average cost and net realizable value, which is the approximate replacement cost. Replacement cost includes expenditures incurred to acquire the inventories and bring them to their existing location and condition. Any provision for obsolescence is determined by reference to specific stock items identified as obsolete. A regular and ongoing review is undertaken to establish the extent of surplus items and a provision is made for any potential loss on their disposal.

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

---

**3. Summary of Significant Accounting Policies (continued)**

**f. Property, plant and equipment**

**i. General**

Property, plant and equipment are recorded at cost less accumulated depreciation, depletion and impairment charges. Where an item of plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of plant and equipment.

Major overhaul expenditures and the cost of replacement of a component of plant and mobile equipment are capitalized and amortized over the average expected life between major overhauls. All other replacement spares and other costs relating to maintenance of mobile equipment are charged to the cost of production if it is not probable that significant future economic benefits generated by the item overhauled will flow to the Company.

Directly attributable costs incurred for major capital projects and site preparation are capitalized until the asset is in a location and condition necessary for the operation intended by management. These costs include dismantling and site restoration costs to the extent these are recognized as a provision.

Management reviews annually the estimated useful lives, residual values and depreciation methods of the Company's property, plant and equipment and also when events and circumstances indicate that such a review should be made. Changes to estimated useful lives, residual values or depreciation methods resulting from such review are accounted for prospectively.

All direct costs related to the acquisition of mineral property interests are capitalized, at their cost at the date of acquisition.

An item of property, plant and equipment is derecognized upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognized.

**3. Summary of Significant Accounting Policies (continued)**

**f. Property, plant and equipment (continued)**

**ii. Exploration, evaluation and pre-development expenditure**

All exploration and evaluation expenditures of the Company within an area of interest are expensed until management concludes that the technical feasibility and commercial viability of extracting a mineral resource are demonstrable and that future economic benefits are probable. In making this determination, the extent of exploration, as well as the degree of confidence in the mineral resource is considered. Once a project has been established as commercially viable and technically feasible, further expenditure is capitalized as pre-development costs.

Exploration and evaluation assets acquired in a business combination are initially recognized at fair value as exploration rights within tangible assets.

Pre-development assets are tested for impairment when there is an indicator of impairment.

**iii. Development properties (underground and open pit)**

A property, either open pit or underground, is classified as a development property when a mine plan has been prepared and a decision is made to commercially develop the property. Development expenditure is accumulated separately for each area of interest in which economically recoverable mineral reserves and resources have been identified and are reasonably assured.

All expenditure incurred prior to the commencement of commercial levels of production from each development property is capitalized.

No amortization is provided in respect of development properties until they are reclassified as mine property assets following the achievement of commercial levels of production.

**iv. Mine properties**

After a mine property has been brought into commercial production, costs of any additional mining, drilling and related work on that property are expensed as incurred, except for large development programs, which will be deferred and depleted over the remaining life of the related assets. Mine development costs, including the stripping of waste material, incurred to expand operating capacity, develop new ore bodies or develop mine areas in advance of current production are deferred and then amortized on a unit-of-production basis.

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

---

**3. Summary of Significant Accounting Policies (continued)**

**f. Property, plant and equipment (continued)**

**v. Deferred Stripping costs**

Stripping costs incurred in the production phase of a mining operation are accounted for as production costs and are included in the costs of inventory produced, unless the stripping activity can be shown to be a betterment of the mineral property, in which case the stripping costs are capitalized. Betterment occurs when stripping activity increases future output of the mine by providing access to additional reserves. Capitalized stripping costs are amortized on a unit-of-production basis over the economically recoverable proven and probable reserve ounces of gold to which they relate.

**g. Goodwill**

Goodwill represents the difference between the sum of the cost of acquisition and the fair value of the identifiable net assets acquired and is not amortized. For non wholly-owned subsidiaries, the Company has a choice for each transaction to record non-controlling interests based on the non-controlling interest's proportion of the fair values of the identifiable net assets recognized at acquisition or fair value.

Goodwill, upon acquisition, is allocated to the cash generating unit or group of cash-generating units expected to benefit from the related business combination for the purposes of impairment testing. A cash-generating unit, in accordance with IAS 36, '*Impairment of Assets*', is identified as the smallest identifiable group of assets that generates cash inflows, which are largely independent of the cash inflows from other assets.

The Company evaluates, on at least an annual basis, the carrying amount of goodwill to determine whether events and circumstances indicate that such carrying amount may no longer be recoverable. To accomplish this, the Company compares the recoverable amount (which is the greater of value-in-use and fair value less costs to sell) of a cash-generating unit, to which goodwill was allocated, to its carrying amount. If the carrying amount of a cash-generating unit was to exceed its recoverable amount, the Company would first apply the difference to reduce goodwill and then any further excess is applied to the cash-generating unit's other long-lived assets. Assumptions, such as gold price, discount rate, and expenditures underlying the fair value estimates are subject to risks and uncertainties.

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

---

**3. Summary of Significant Accounting Policies (continued)**

**h. Impairment**

Property, plant and equipment is reviewed for impairment if there is any indication that the carrying amount may be impaired. Impairment is assessed at the level of cash-generating units. An impairment loss is recognized for any excess of carrying amount over the recoverable amount.

When an impairment review is undertaken, the recoverable amount is assessed by reference to the higher of a “value in use” (being the net present value of expected future cash flows of the relevant cash-generating unit) and “fair value less costs to sell”. The best evidence of fair value is the value obtained from an active market or binding sale agreement. Where neither exists, fair value is based on the best information available to reflect the amount the Company could receive for the cash-generating unit in an arm’s length transaction. This is often estimated using discounted cash flow techniques. Where recoverable amount is assessed using discounted cash flow techniques, the resulting estimates are based on detailed mine and/or production plans.

For value in use, recent cost levels are considered together with expected changes in costs that are compatible with the current condition of the business. The cash flow forecasts are based on best estimates of expected future revenues and costs, including the future cash costs of production, sustaining capital expenditure, closure, restoration and environmental clean up.

Expected future cash flows reflect long term mine plans, which are based on detailed research, analysis and iterative modeling to optimize the level of return from investment, output and sequence of extraction.

The mine plan takes account of all relevant characteristics of the ore body, including waste to ore ratios, ore grades, haul distances, chemical and metallurgical properties of the ore impacting on process recoveries and capacities of processing equipment that can be used. The mine plan is therefore the basis for forecasting production output in each future year and for forecasting production costs.

The Company’s cash flow forecasts are based on estimates of future commodity prices which are derived from the general consensus gathered from third-party mining analysts’ expectations. These assessments can differ from current price levels and are updated periodically.

The discount rates applied to the future cash flow forecasts represent an estimate of the rate the market would apply having regard to the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted. The Company’s weighted average cost of capital is used as a starting point for determining the discount rates, with appropriate adjustments for the risk profile of the countries in which the individual cash-generating units operate.

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

---

**3. Summary of Significant Accounting Policies (continued)**

**h. Impairment (continued)**

Non-financial assets other than goodwill that have previously been impaired are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

**i. Income taxes**

Tax expense for the period comprises current and deferred taxes. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In that case, the related tax impact is also recognized in other comprehensive income, or directly in equity, respectively.

Deferred income tax is recognized in the consolidated financial statements, using the liability method, on temporary differences arising between the tax bases of assets and liabilities, and their carrying amounts. However, deferred income tax is not recognized if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable profit or loss.

Deferred income tax is determined using tax rates, and laws, that have been enacted, or substantively enacted, by the balance sheet date, and with rates that are expected to apply at the time when the related deferred income tax asset is realized, or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that deferred taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and joint ventures interests, except where the timing of the reversal of the temporary difference is controlled in the group, and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same tax authority on either the same taxable entity or in different taxable entities, and, where there is the intent to settle the balance on a net basis.

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

---

**3. Summary of Significant Accounting Policies (continued)**

**j. Provisions**

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation estimated at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. A provision is measured using the present value of cash flows estimated to settle the present obligation.

**k. Environmental protection and reclamation costs**

Closure and restoration costs include the dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas. Estimated closure and restoration costs are provided for in the accounting period when the obligation arising from the related disturbance occurs based on the net present value of estimated future costs.

The amount of any provision recognized is estimated based on the risk-adjusted costs required to settle present obligations, discounted using a pre-tax risk-free discount rate consistent with the time period of expected cash flows.

When the liability is initially recorded, a corresponding asset is recognized. At each reporting date the restoration and rehabilitation provisions are remeasured in line with changes in discount rates and timing or amounts of the costs to be incurred.

Changes in the liability relating to mine rehabilitation and restoration obligations are added to or deducted from the related asset, other than the unwinding of the discount which is recognized as a finance cost in the Statements of Earnings and Comprehensive Income. Changes to capitalized cost result in an adjustment to future depreciation charges.

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

---

**3. Summary of Significant Accounting Policies (continued)**

**l. Depreciation and depletion**

Mine buildings, plant and equipment used in production and mineral properties are depreciated or depleted according to the unit-of-production method over proven and probable ore reserves, or if their estimated useful life is shorter, on a straight-line basis over the useful lives of the particular assets. Under this process, depreciation commences when the ore is extracted from the ground. The depreciation charge is allocated to inventory throughout the production process from the point at which ore is extracted from the pit until the ore is processed into its final form, gold doré. Where a change in estimated recoverable gold ounces contained in proven and probable ore reserves is made, adjustments to depreciation are accounted for prospectively.

Mobile equipment and other assets, such as offsite roads, buildings, office furniture and equipment are depreciated according to the straight-line method based on estimated useful lives which range from two years to seven years.

**m. Earnings per share**

Basic earnings per share is calculated by dividing net earnings by the weighted-average number of common shares outstanding during the year. The calculation of diluted earnings per share uses the treasury stock method which adjusts the weighted-average number of shares for the dilutive effect of stock options.

**n. Revenue recognition**

Revenue associated with the sale of gold is recognized when all significant risks and rewards of ownership are transferred to the customer. Usually the transfer of risks and rewards associated with ownership is at the point when the customer has taken delivery and the revenue received, or to be received, in respect of the sale can be reliably measured.



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

---

**3. Summary of Significant Accounting Policies (continued)**

**o. Share-based compensation**

The Company has five share-based compensation plans: the Share Option Plan, Performance Share Units Plan, Annual Performance Share Units Plan, Deferred Share Units Plan, and effective as of December 9, 2010, a Restricted Share Unit Plan, which are all described in note 16.

*Stock Option Plan*

Share options granted are accounted for using the fair value method. The fair value of an option is estimated on the date of the grant using the Black-Scholes option pricing model and is amortized as compensation expense over the vesting period. These expenses are included in stock-based compensation expense and credited to contributed surplus. When options are exercised, the proceeds received by the Company, together with the fair value amount in contributed surplus, are credited to common shares.

*Performance Share Units Plan and Annual Performance Share Units Plan*

Under these two plans, performance share units granted by Centerra for eligible employees that are intended to be settled in cash are accounted for under the liability method using the Monte Carlo option pricing model. Under this method, the fair value of the performance share units is determined, at each reporting period, based on the pro-rated number of days the eligible employees are in the employment of the Company as compared to the vesting period of each series granted and is recorded as a liability with a corresponding compensation expense. The consideration paid to employees on exercise of these performance share units is recorded as a reduction of the accrued obligation.

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

---

**3. Summary of Significant Accounting Policies (continued)**

**o. Share-based compensation (continued)**

*Deferred Share Units Plan*

Deferred share units granted to eligible members of the Board of Directors are settled in cash and are therefore accounted for under the liability method. The deferred share units vest immediately upon granting. A liability is recorded at grant date equal to the fair value of the deferred share units. The liability is adjusted to fair value at each reporting period and any resulting adjustment to the accrued obligation is recognized as an expense or, if negative, a recovery. The cash paid to eligible members of the Board of Directors on exercise of these deferred share units is recorded as a reduction of the accrued obligation.

*Restricted Share Units Plan*

Restricted share units granted to eligible members of the Board of Directors and designated officers and employees of Centerra can be settled in equity or cash at the option of the holder and are therefore accounted for under the liability method. The restricted share units vest immediately upon grant and are redeemed on a date chosen by the participant (subject to certain restrictions as set out in the plan). The liability is adjusted to fair value at each reporting period and any resulting adjustment to the accrued obligation is recognized as an expense or, if negative, a recovery. The cash paid on exercise of these restricted share units is recorded as a reduction of the accrued obligation.

An assumption on potential forfeiture of awards is made at the time of grant for purposes of valuing the share-based compensation and adjusted at the quarterly re-valuation.

**p. Financial Instruments**

**i. Hedging relationships and derivative financial instruments**

The Company utilizes forward foreign exchange contracts to economically hedge certain anticipated cash flows. These exchange contracts are classified and accounted for as instruments “held for trading”. The forward foreign exchange contracts are recorded at fair value at the reporting date with the resulting gain or loss recognized in the income statement. The Company does not enter into derivatives for speculative purposes and the only derivatives the Company utilizes for economic hedging are forward foreign exchange contracts.

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

---

**3. Summary of Significant Accounting Policies (continued)**

**p. Financial Instruments (continued)**

**ii. Other non-derivative financial instruments**

Non-derivative financial instruments comprise short-term investments, reclamation trust fund, amounts receivable, cash and cash equivalents and accounts payable and accrued liabilities. Management determines the classification of its financial assets and liabilities at initial recognition.

**Financial assets**

The Company initially recognizes loans and receivables and deposits on the date that they originate. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date when the Company becomes a party to the contractual provisions of the instrument.

The Company has the following non-derivative financial assets: financial assets at fair value through profit or loss and loans and receivables.

*Financial assets at fair value through profit or loss*

A financial instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Upon initial recognition, transaction costs are recognized in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in the financial income or financial expenses in the Statements of Earnings and Comprehensive Income.

Financial instruments classified at fair value through profit or loss comprises short-term investments and cash and cash equivalents.

*Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables.

**3. Summary of Significant Accounting Policies (continued)**

**p. Financial Instruments (continued)**

**ii. Other non-derivative financial instruments (continued)**

**Financial liabilities**

The Company initially recognizes financial liabilities (including liabilities designated at fair value through profit or loss) initially on the trade date when the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire. Financial assets and liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Non-derivative financial liabilities comprise of trade and other payables. Financial liabilities are recognized initially at fair value net of any directly attributable transaction costs, which are deferred and amortized over the term of the facility.

**q. Finance costs**

Finance costs comprise mainly amortization of the capitalized transaction costs, commitment fees and interest expense associated with the credit facility with European Bank for Reconstruction and Development (“EBRD”) and accretion of provisions for reclamation.

**4. Critical Accounting Estimates And Judgements**

The preparation of consolidated financial statements in accordance with the requirements of IFRS requires management to make judgements, estimates and assumptions that affect the application of the Company’s accounting policies, which are described in note 3. Actual results may differ from these estimates.

Management’s estimates and underlying assumptions are reviewed on an ongoing basis. Any changes or revisions to estimates and underlying assumptions are recognized in the period in which the estimates are revised and in any future periods affected.

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

---

**4. Critical Accounting Estimates And Judgements (continued)**

The significant estimates and judgements used in the preparation of these consolidated financial statements include, amongst other things, the recoverability of amounts receivable, the quantities of recoverable gold on leach pads and in circuit, the proven and probable ore reserves and resources and the related depletion and amortization, the estimated tonnes of waste material to be mined and the estimated recoverable tonnes of ore from each mine area, the estimated net realizable value of inventory, the expected economic lives of and the estimated future operating results and net cash flows from mineral properties, recoverable value of property plant and equipment, the anticipated costs of environmental rehabilitation including the reclamation of mine sites, the commencement of production accounting, the provision for income taxes and composition of deferred tax assets and liabilities, the measurement of share-based compensation and the determination of functional currency.

**5. Cost of sales**

(Thousands of U.S.Dollars)	<b>Three Months Ended</b>	
	<b>March 31,</b>	<b>March 31,</b>
	<b>2011</b>	<b>2010</b>
Operating costs:		
Salaries and benefits	\$ 15,263	\$ 11,944
Consumables	42,207	48,592
Third party services	910	979
Other operating costs	3,470	3,305
Royalties, levies & production taxes	1,100	1,708
Changes in inventories	(16,222)	(9,515)
	<b>46,728</b>	<b>57,013</b>
Inventories obsolescence and impairment (note 9)	235	101
Depreciation, depletion and amortization	14,831	21,252
	<b>\$ 61,794</b>	<b>\$ 78,366</b>

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

---

**6. Other (income) and expenses**

(Thousands of U.S. Dollars)	<b>Three Months Ended</b>	
	<b>March 31, 2011</b>	<b>March 31, 2010</b>
Interest income	\$ (227)	\$ (61)
Loss on sales of assets	17	39
Bank charges	18	19
Other (income) and expenses	77	(13)
Foreign exchange loss (gain)	(933)	452
<b>Net</b>	<b>\$ (1,048)</b>	<b>\$ 436</b>

**7. Finance Costs**

(Thousands of U.S. Dollars)	<b>Three Months Ended</b>	
	<b>March 31, 2011</b>	<b>March 31, 2010</b>
Transaction costs related to Revolver facilities	\$ 127	\$ 18
Accretion of provision for reclamation	263	308
	<b>\$ 390</b>	<b>\$ 326</b>

**8. Amounts receivable**

(Thousands of U.S. Dollars)	<b>March 31, 2011</b>	<b>December 31, 2010</b>
	Gold sales receivable from related party	\$ 41,896
Gold sales receivable from third party	10,194	3,760
Other receivables	9,484	7,805
	<b>\$ 61,574</b>	<b>\$ 100,562</b>

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

**9. Inventories**

(Thousands of U.S. Dollars)	March 31, 2011	December 31, 2010
Stockpiles	\$ 76,553	\$ 64,523
Gold in-circuit	8,851	6,881
Heap leach in circuit	3,602	3,687
Gold doré	11,041	6,023
	<b>100,047</b>	81,114
Supplies	<b>122,350</b>	113,396
Total Inventories (net of provisions for obsolescence)	<b>222,397</b>	194,510
Less: Long-term inventory (heap leach stockpiles)	<b>(12,694)</b>	(12,877)
Total Inventories-current portion (net of provisions for obsolescence)	<b>\$ 209,703</b>	\$ 181,633

The amount of the provisions, as presented in the table below, of mine operating supplies to net realizable value, included amount of \$0.2 million (March 31, 2010- \$0.1 million) recognised as expense. This expense is included in cost of sales which is disclosed in note 5.

(Thousands of U.S. Dollars)	March 31, 2011	December 31, 2010
Total inventories	\$ 211,242	\$ 182,937
Less : provisions for obsolescence	<b>(1,539)</b>	(1,304)
Total Inventories	<b>\$ 209,703</b>	\$ 181,633

**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 ("CIP")	<b>Total</b>
Balances as at:						
January 1, 2010	\$ 18,945	\$ 110,673	\$ 78,200	\$ 86,426	\$ 88,006	\$ 382,250
December 31, 2010	21,659	114,092	69,260	149,869	164,139	519,019
<b>March 31, 2011</b>	<b>\$ 21,085</b>	<b>\$ 112,686</b>	<b>\$ 65,941</b>	<b>\$ 174,741</b>	<b>\$ 192,994</b>	<b>\$ 567,447</b>

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

**11. Long-term receivables and other**

(Thousands of U.S. Dollars)	March 31, 2011	December 31, 2010
Reclamation trust fund (note 15)	\$ 9,155	\$ 7,448
Other long term receivables	33	46
Deferred financing fees (note 14)	3,051	3,100
Deposit for mine equipment	5,619	6,705
<b>Total</b>	<b>\$ 17,858</b>	<b>\$ 17,299</b>

**12. Accounts payable and accrued liabilities**

(Thousands of U.S. Dollars)	March 31, 2011	December 31, 2010
Trade creditors and accruals <sup>(i)</sup>	\$ 33,592	\$ 34,095
Liability for share-based compensations	25,295	36,814
Amount payable to related parties	-	-
<b>Total</b>	<b>\$ 58,887</b>	<b>\$ 70,909</b>

- i. Included in trade creditors and accruals is an amount of \$6.4 million (December 31, 2010 - \$6.4 million) for a community development program in Mongolia. As part of the Company's Community Development and Initiatives program, the Company's Mongolian subsidiaries entered into an agreement on April 22, 2011 with the Ministry of Health in Mongolia to fund the construction of a maternity hospital in the capital city of Ulaan Baatar.

**13. Taxes**

**a. Revenue Based Taxes - Kumtor**

Revenue based taxes are payable to the Kyrgyz Government under the Restated Investment Agreement entered into in 2009 ("RIA"). Under the terms of the RIA, taxes are imposed on gross revenue at a rate of 13% plus a contribution of 1% of gross revenue to the Issyk-Kul Oblast Development Fund.

During the three-month period ended March 31, 2011, the 13% revenue-based tax expense recorded by Kumtor was \$29.9 million (three-month period ended March 31, 2010- \$29.1 million), while the Issyk-Kul Oblast Development Fund of 1% of gross revenue totalled \$2.3 million (three-month period ended March 31, 2010- \$2.2 million).



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

---

**13. Taxes (continued)**

**b. Income Tax Expense (Recovery)**

(Thousands of U.S.Dollars)	Three Months Ended	
	March 31, 2011	March 31, 2010
Current tax	\$ 18	\$ 3,396
Deferred tax	76	(3,769)
<b>Income Tax Expense (Recovery)</b>	<b>\$ 94</b>	<b>\$ (373)</b>

The income tax rate for Boroo is 25% for taxable income in excess of 3 billion Tugriks (about \$2.5 million as at the balance sheet date), and 10% for income up to that amount.

During the three-month period ended March 31, 2011, the Mongolian segment recorded income tax expense of \$0.1 million (\$0.4million income tax recovery for the three-month ended March 31, 2010).

No entities, other than those in the Mongolian segment, reported an income tax expense (recovery) in the quarter.

**14. Borrowings**

On April 15, 2011, the Company, completed and satisfied all conditions precedent related to the \$150 million revolving credit facility (the "Facility"). This facility is governed under a three year agreement with the EBRD as sole lender.

During the year ended December 2010, the Company incurred \$3.1 million in origination fees relating to the facility. These costs were deferred and will be amortized over the term of the facility. For the three months ended March 31, 2011, the Company expensed commitment fees of \$0.1 million.

As at March 31, 2011, the facility remained undrawn.

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

---

**15. Provision for asset retirement obligations**

(Thousands of U.S.Dollars)	March 31, 2011	December 31, 2010
Kumtor gold mine	\$ 21,713	\$ 22,088
Boroo gold mine	18,319	18,345
	<b>40,032</b>	40,433
Less: current portion	<b>(10,830)</b>	(9,553)
Total	<b>\$ 29,202</b>	\$ 30,880

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 March 31, 2011 to be \$49.6 million. The following is a summary of the key assumptions on which the carrying amount of the asset retirement obligations is based:

- i. Expected timing of payment of the cash flows is based on the life of mine plans.
- ii. Reclamation spending continues at Boroo and is expected to start at the end of the mine life at Kumtor in 2021.
- iii. Risk-free discount rates of 3.18% at Kumtor and 2.0% at Boroo at March 31, 2011.

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

---

**15. Provisions for asset retirement obligations (continued)**

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

(Thousands of U.S. Dollars)	Three Months Ended	
	March 31, 2011	March 31, 2010
Balance, beginning of year	\$ 40,433	\$ 33,946
Liabilities incurred	(119)	(34)
Revisions in estimated timing	(545)	-
Accretion expense	263	308
	<b>40,032</b>	34,220
Less: current portion	<b>(10,830)</b>	(7,452)
Balance, end of period	\$ <b>29,202</b>	\$ 26,768

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 March 31, 2011 was \$9.2 million (December 31, 2010 - \$7.4 million)(note 11).

**16. 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**

Basic net earnings per share is computed by dividing the net earnings applicable to common shares by the weighted average number of common shares outstanding during the year.

Diluted net earnings per share is computed by dividing the net earnings applicable to common shares by the weighted average number of common shares outstanding during the year, plus the effects of dilutive common share equivalents such as stock options. Diluted net earnings per share is calculated using the treasury method, where the exercise of options is assumed to be at the beginning of the period, and the proceeds from the exercise of options and the amount of compensation expense measured but not yet recognized in income are assumed to be used to purchase common shares of the Company at the average market price during the period.

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

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

**b. Earnings per Share (continued)**

The incremental number of common shares (the difference between the number of shares assumed issued and the number of shares assumed purchased) is included in the denominator of the diluted earnings per share computation.

Stock options to purchase common shares are not included in the computation of diluted net earnings (loss) per share in years when net losses are recorded given that they are anti-dilutive.

	<b>Three Months Ended</b>	
	<b>March 31,</b>	<b>March 31,</b>
	<b>2011</b>	<b>2010</b>
Basic weighted average number of common shares outstanding (thousands)	<b>235,880</b>	234,857
Effect of stock options (thousands)	<b>434</b>	730
Diluted weighted average number of common shares outstanding (thousands)	<b>236,314</b>	235,587
Anti-dilutive number of common share equivalents excluded (thousands) <sup>(a)</sup>	<b>50</b>	45

<sup>(a)</sup> 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 Mar 31/11	Expense/(Income)		Liability	
		Mar 31/11	Mar 31/10	Mar 31/11	Dec 31/10
(i) Stock options	<b>1,178,488</b>	\$ 0.3	\$ 0.4	\$ -	\$ -
(ii) PSU <sup>(1)</sup>	<b>1,284,272</b>	<b>1.5</b>	3.9	<b>20.1</b>	<b>28.4</b>
(iii) Annual-PSU <sup>(2)</sup>	<b>84,252</b>	<b>0.3</b>	0.9	<b>0.3</b>	<b>6.4</b>
(iv) Deferred share units	<b>345,389</b>	<b>(0.7)</b>	1.3	<b>6.2</b>	<b>6.9</b>
(v) Restricted share units	<b>13,826</b>	<b>0.2</b>	-	<b>0.2</b>	-
		<b>\$ 1.6</b>	<b>\$ 6.5</b>	<b>\$ 26.8</b>	<b>\$ 41.7</b>

1) Performance share units.

2) Annual performance share units

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

---

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

**c. Share-Based Compensation – Centerra Plan (continued)**

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

	Number outstanding Dec 31/10	Issued	Exercised	Expired/ Forfeited	Number outstanding March 31/11	Number Vested March 31/11
(i) Stock options	903,987	308,999	(34,498)	-	1,178,488	346,283
(ii) PSU	1,528,209	182,895	(421,964)	(4,868)	1,284,272	-
(iii) Annual- PSU	156,571	90,450	(159,497)	(3,272)	84,252	20,774
(iv) Deferred share units	344,728	661	-	-	345,389	345,389
(v) Restricted share units	-	13,826	-	-	13,826	13,826

**(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 their graded vesting periods, which range from 1 year to 3 years.

**(ii) Performance Share Unit Plan**

Centerra granted 182,895 performance share units during the first quarter of 2011, at a grant price of Cdn \$19.36 per share. The fair value of the performance share unit was determined using the Monte Carlo option pricing model.

The principal assumptions used in applying the Monte Carlo option pricing model as at March 31, 2011 were as follows:

Share price	\$ 17.40
S&P/TSX Global Gold Index	428.59
Expected life	2.5 years
Expected volatility- Centerra's share price	71.9%
Expected volatility- S&P/TSX Global Gold Index	66.6%
Risk-free rate of return	2.0%
Forfeiture rate	1.8%

The resulting weighted average fair value per performance share unit granted was Cdn \$16.20.

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

---

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

**c. Share-Based Compensation – Centerra Plan (continued)**

**(iii) Annual Performance Share Unit Plan**

Centerra granted 90,450 annual performance share units during the first quarter of 2011, at a grant price of Cdn \$19.36 per share. The fair value of the annual performance share unit was determined using the Monte Carlo option pricing model.

The principal assumptions used in applying the Monte Carlo option pricing model as at March 31, 2011 were as follows:

Share price	\$ 17.40
S&P/TSX Global Gold Index	428.59
Expected life	1 year
Expected volatility- Centerra's share price	47.6%
Expected volatility- S&P/TSX Global Gold Index	25.7%
Risk-free rate of return	1.74%
Forfeiture rate	8.71%

The resulting weighted average fair value per annual performance share unit granted was Cdn \$15.10.

**(iv) Deferred Share Unit Plan**

During the quarter ended March 31, 2011, Centerra granted 661 deferred share units, which vest immediately, at a grant price of Cdn \$17.02 per unit to eligible members of the Board of Directors. The deferred share units, which are intended to be settled in cash, were accounted for under the liability method as described in note 3(o).

**(v) Restricted Share Unit Plan**

During the quarter ended March 31, 2011, Centerra granted 13,826 restricted share units, which vest immediately, at a grant price of Cdn \$17.02 per unit to eligible members of the Board of Directors. The deferred share units, which are intended to be settled in cash, were accounted for under the liability method as described in note 3(o).

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

---

**17. Commitments and Contingencies**

**Commitments**

As at March 31, 2011, the Company had entered into contracts to purchase capital equipment and operational supplies totalling \$146.9 million (Kumtor - \$146.7 million and Boroo - \$0.2 million) these are expected to be settled over the next twelve months.

**Contingencies**

**Kyrgyz Republic**

At the Kumtor project, the Company's Kyrgyz Republic operating 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 the Company of its position that the Company should pay contributions to the Social Fund not only in respect of base wages but also in respect of the premium compensation that the Company is required to pay employees for work at high-altitude.

A potential adjustment to the Social Fund contribution for the 2010 year as a result of this matter could require an additional payment ranging from zero to \$7.4 million. The position of the Social Fund is inconsistent with its past practices and with prior audits of the Company's Kyrgyz Republic operating subsidiary, completed as recently as 2009. The Company continues to vigorously dispute the Social Fund's position. At this time, the liability is unlikely and as a result, no amounts have been accrued in the Company's financial statements in respect of this matter.

**Mongolia**

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.

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

---

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

**Contingencies (continued)**

**Mongolia**

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. 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.



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

---

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

**Contingencies (continued)**

**Mongolia (continued)**

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. The Company also understands that a group of parliamentarians has proposed amendments to the Water and Forest Law to reduce its impact on environmentally-sound mining operations. The amendments are expected to be discussed in the spring 2011 session of the Mongolian Parliament.

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

---

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

**Contingencies (continued)**

**Mongolia (continued)**

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. A revocation of the Company's mineral licenses, including the Gatsuurt mineral licenses, 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 and the Ulaan Bulag Prospect. 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.

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 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.

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

---

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

**Contingencies (continued)**

**New Graduated Royalty Fee (continued)**

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.

**18. 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>March 31, 2011</b>	<b>March 31, 2010</b>
Management fees to Kyrgyzaltyn	\$ 166	\$ 201
Gross gold and silver sales to Kyrgyzaltyn	\$ 230,747	\$ 224,212
Deduct: refinery and financing charges	(835)	(881)
Net sales revenue received from Kyrgyzaltyn	\$ 229,912	\$ 223,331

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

---

**18. 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)	March 31, 2011	December 31, 2010
Other receivable from Kyrgyzaltyn	\$ 153	\$ 12
Gold sale receivable from Kyrgyzaltyn	41,896	88,997
Amount included in Amounts receivable	\$ 42,049	\$ 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 (note 16), 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 2011, the maximum exposure during the quarter, reflecting the shortfall in the value of the security as compared to the value of any unsettled shipments, was approximately \$44.8 million.

As at March 31, 2011, \$41.9 million was outstanding under these arrangements (December 31, 2010 - \$89.0 million)

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

---

**19. 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 summary of significant accounting policies (note 3) 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.

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

**19. Segmented Information (continued)**

<b>Three months ended March 31, 2011</b>				
<b>(Millions of U.S. Dollars)</b>	<b>Kyrgyz Republic</b>	<b>Mongolia</b>	<b>Corporate and other</b>	<b>Total</b>
<b>Revenue from Gold Sales</b>	\$ 229.9	\$ 20.3	\$ -	\$ 250.2
Cost of sales	48.3	13.5	-	61.8
Regional office administration	3.3	1.5	-	4.8
<b>Earnings from mine operations</b>	<b>178.3</b>	<b>5.3</b>	<b>-</b>	<b>183.6</b>
Revenue based taxes	32.2	-	-	32.2
Exploration and business development	4.1	0.8	2.6	7.5
Corporate administration	0.5	0.2	7.1	7.8
<b>Earnings from operations</b>	<b>141.5</b>	<b>4.3</b>	<b>(9.7)</b>	<b>136.1</b>
Other (income) and expenses				(1.0)
Finance costs				0.4
<b>Earnings before income taxes</b>				<b>136.7</b>
Income tax expense				0.1
<b>Net earnings and comprehensive income</b>				<b>\$ 136.6</b>
<b>Capital expenditure for the period</b>	<b>\$ 71.9</b>	<b>\$ 0.1</b>	<b>\$ 0.2</b>	<b>\$ 72.2</b>
<b>Assets(excluding Goodwill)</b>	<b>\$ 845.2</b>	<b>\$ 278.6</b>	<b>\$ 254.6</b>	<b>\$ 1,378.4</b>
<b>Three Months ended March 31, 2010</b>				
<b>(Millions of U.S. Dollars)</b>	<b>Kyrgyz Republic</b>	<b>Mongolia</b>	<b>Corporate and other</b>	<b>Total</b>
<b>Revenue from Gold Sales</b>	\$ 223.3	\$ 32.2	\$ -	\$ 255.5
Cost of sales	66.9	14.5	-	81.4
Regional office administration	3.3	1.6	-	4.9
<b>Earnings from mine operations</b>	<b>153.1</b>	<b>16.1</b>	<b>-</b>	<b>169.2</b>
Revenue based taxes	31.3	-	-	31.3
Exploration and business development	1.9	1.2	2.4	5.5
Corporate administration	0.5	0.1	10.5	11.1
<b>Earnings from operations</b>	<b>119.4</b>	<b>14.8</b>	<b>(12.9)</b>	<b>121.3</b>
Other (income) and expenses				0.5
Finance costs				0.3
<b>Earnings before income taxes</b>				<b>120.5</b>
Income tax expense				(0.4)
<b>Net earnings and comprehensive income</b>				<b>\$ 120.9</b>
<b>Capital expenditure for the period</b>	<b>\$ 23.4</b>	<b>\$ 5.7</b>	<b>\$ 0.1</b>	<b>\$ 29.2</b>
<b>Assets(excluding Goodwill)</b>	<b>\$ 594.0</b>	<b>\$ 409.3</b>	<b>\$ 41.5</b>	<b>\$ 1,044.8</b>

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

---

**20. First time adoption of IFRS**

**a. Transition to IFRS**

The Company has adopted IFRS effective January 1, 2011 with a transition date of January 1, 2010. Prior to the adoption of IFRS the Company prepared its financial statements in accordance with Canadian GAAP.

The comparative information presented in these financial statements for the three months ended March 31, 2010, year ended December 31, 2010 and the opening financial position as at January 1, 2010 (the “Transition Date”) have been prepared in accordance with the accounting policies referenced in Note 3 and IFRS 1, *First-Time Adoption of International Financial Reporting Standards* (“IFRS 1”).

**b. Initial elections upon adoption**

The Company adopted IFRS in accordance with IFRS 1, *First-time Adoption of International Financial Reporting Standards*. The IFRS 1 exemptions and exceptions applied in the conversion from Canadian GAAP to IFRS by the Company are explained as follows:

**IFRS Exemption Options**

**i. Business combinations**

The Company elected under IFRS 1 not to restate previous business combinations prior to the transition date. Consequently, any goodwill arising on such business combinations before the Transition Date has not been adjusted from the carrying value previously determined under Canadian GAAP as a result of applying these exemptions.

**ii. Share-based payments**

The Company elected under IFRS 1 not to apply IFRS 2, *Share-Based Payments*, to all equity instruments of share-based payments that had vested at the transition date. Further, the Company elected not to apply IFRS 2 for all cash-settled share-based payments that were settled before the transition date.

**iii. Borrowing costs**

The Company elected to expense borrowing costs prior to January 1, 2010, which is consistent with the Company’s accounting policy for such costs under Canadian GAAP.

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

---

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

**b. Initial elections upon adoption (continued)**

**iv. Asset retirement obligation**

The Company applied the requirements of IFRIC 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*, which retrospectively requires specified changes, in decommissioning, restoration or similar liabilities to be added to or deducted from the cost of the asset to which it relates and the adjusted depreciable amount of the asset to then be depreciated prospectively over its remaining useful life.

**v. Assets and liabilities of subsidiaries**

The Company adopted IFRS later than its subsidiaries. As a result the Company, in its consolidated financial statements, measured the assets and liabilities of the subsidiaries at the same carrying amounts as in the financial statements of the subsidiary, after adjusting for consolidation adjustments and for the effects of the business combination in which the Company acquired the subsidiary.

**IFRS mandatory exception**

**i. Estimates**

Hindsight is not used to create or revise estimates. The estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policies.

**c. Reconciliation between Canadian GAAP and IFRS**

In preparing the Company's opening IFRS statement of financial position, the Company has adjusted amounts reported previously in its consolidated financial statements prepared in accordance with previous Canadian GAAP. An explanation of how the transition from previous Canadian GAAP to IFRS has affected the Company's financial position and equity is set out in the following tables in note 20(d) and the notes that accompany the tables in note 20(g).

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 year ended December 31, 2010 and three months ended March 31, 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 tables in note 20(e) and (f) and the notes that accompany the tables in note 20(g).



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

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

**d. Reconciliation between Canadian GAAP and IFRS**

Below is the Company's consolidated statement of financial position as at the transition date of January 1, 2010 under IFRS.

As at January 1, 2010 (date of Transition) (Thousands of U.S. Dollars)	Notes	Previous Canadian GAAP	Effect of transition to IFRS	IFRS opening balance sheet
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents		\$ 176,904	-	\$ 176,904
Short-term investments		145,971	-	145,971
Amounts receivable		44,281	-	44,281
Current portion of future income tax asset	(iv)	1,555	(1,555)	-
Inventories		151,822	-	151,822
Prepaid expenses		11,718	-	11,718
		532,251	(1,555)	530,696
Property, plant and equipment	(ii)	380,979	1,271	382,250
Goodwill		129,705	-	129,705
Long-term receivables and other		6,554	-	6,554
Long-term inventories		23,120	-	23,120
Deferred income tax asset	(iv)	1,418	(1,356)	62
		541,776	(85)	541,691
<b>Total assets</b>		<b>\$ 1,074,027</b>	<b>(1,640)</b>	<b>\$ 1,072,387</b>
<b>Liabilities and Shareholders' Equity</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities	(iii)	\$ 49,178	(80)	\$ 49,098
Taxes payable		35,066	-	35,066
Current portion of provision for reclamation	(i)	8,169	(770)	7,399
Current portion of future income tax liability	(iv)	7,662	(7,662)	-
		100,075	(8,512)	91,563
Provision for reclamation	(i)	21,533	5,013	26,546
Deferred income tax liability	(iv)	-	8,700	8,700
		21,533	13,713	35,246
<b>Shareholders' equity</b>				
Share capital		646,081	-	646,081
Contributed surplus	(iii)	34,298	1,078	35,376
Retained earnings		272,040	(7,919)	264,121
		952,419	(6,841)	945,578
<b>Total liabilities and shareholders' equity</b>		<b>\$ 1,074,027</b>	<b>(1,640)</b>	<b>\$ 1,072,387</b>

Below is the reconciliation of the Company's consolidated statement of opening equity as at the transition date of January 1, 2010.

As at January 1, 2010 (date of Transition) (Thousands of U.S. Dollars)	Notes	Previous Canadian GAAP	Effect of transition to IFRS	IFRS opening balance sheet
<b>Total equity previously reported under Canadian GAAP</b>				
Provision for reclamation	(i)	\$ 952,419	-	\$ 952,419
Cash settled share-based compensations	(iii)	-	(2,973)	(2,973)
Income taxes recoverable	(iv)	-	80	80
		-	(3,948)	(3,948)
<b>Total equity under IFRS at Transition</b>		<b>\$ 952,419</b>	<b>(6,841)</b>	<b>\$ 945,578</b>

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

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

**e. Reconciliation between Canadian GAAP and IFRS as at December 31, 2010**

Reconciliation of financial position between Canadian GAAP and IFRS

As at December 31, 2010 (Thousands of U.S. Dollars)	Notes	Previous Canadian GAAP	Effect of transition to IFRS	IFRS
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents		\$ 330,737	-	\$ 330,737
Short-term investments		82,278	-	82,278
Restricted cash		795	-	795
Amounts receivable		97,281	3,281	100,562
Current portion of Deferred income tax asset	(iv)	1,601	(1,601)	-
Inventories		183,207	(1,574)	181,633
Prepaid expenses		22,221	-	22,221
		<u>718,120</u>	<u>106</u>	<u>718,226</u>
Property, plant and equipment	(ii)	515,949	3,070	519,019
Goodwill		129,705	-	129,705
Long-term receivables and other		17,299	-	17,299
Long-term inventories		12,877	-	12,877
Deferred income tax asset	(iv)	2,722	645	3,367
		<u>678,552</u>	<u>3,715</u>	<u>682,267</u>
<b>Total assets</b>		<b>\$ 1,396,672</b>	<b>3,821</b>	<b>\$ 1,400,493</b>
<b>Liabilities and Shareholders' Equity</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities	(iii)	\$ 65,221	5,688	\$ 70,909
Taxes payable		27,354	-	27,354
Current portion of provision for reclamation	(i)	9,728	(175)	9,553
		<u>102,303</u>	<u>5,513</u>	<u>107,816</u>
Provision for reclamation	(i)	24,891	5,989	30,880
<b>Shareholders' equity</b>				
Share capital		655,178	-	655,178
Contributed surplus		33,240	587	33,827
Retained earnings		581,060	(8,268)	572,792
		<u>1,269,478</u>	<u>(7,681)</u>	<u>1,261,797</u>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 1,396,672</b>	<b>3,821</b>	<b>\$ 1,400,493</b>

Reconciliation of Consolidated statement of earnings and comprehensive income

As at December 31, 2010 (Thousands of U.S. Dollars)	Note	Previous Canadian GAAP	Effect of transition to IFRS	IFRS
<b>Comprehensive income under</b>				
<b>Canadian GAAP</b>				
		\$ 322,640	-	\$ 322,640
Provision for reclamation	(i)	-	444	444
Depreciation	(ii)	-	(183)	(183)
Share-based compensation	(iii)	-	628	628
Exchange difference on deferred income taxes	(iv)	-	(194)	(194)
Deferred income taxes	(iv)	-	3,188	3,188
Provision for constructive obligation	(v)	-	(6,365)	(6,365)
Net revenue from sales of gold	(vi)	-	1,674	1,674
<b>Comprehensive income under IFRS</b>		<b>\$ 322,640</b>	<b>(808)</b>	<b>\$ 321,832</b>

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

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

**f. Reconciliation between Canadian GAAP and IFRS as at March 31, 2010**

Reconciliation of financial position between Canadian GAAP and IFRS

As at March 31, 2010 (Thousands of U.S. Dollars)	Notes	Previous Canadian GAAP	Effect of transition to IFRS	IFRS
<b>Assets</b>				
Current assets				
Cash and cash equivalents		\$ 200,942	-	\$ 200,942
Short-term investments		183,294	-	183,294
Amounts receivable		65,973	-	65,973
Current portion of Deferred income tax asset	(iv)	1,241	(1,241)	-
Inventories		154,549	-	154,549
Prepaid expenses		17,800	-	17,800
		623,799	(1,241)	622,558
Property, plant and equipment	(ii)	388,692	1,224	389,916
Goodwill		129,705	-	129,705
Long-term receivables and other		7,560	-	7,560
Long-term inventories		24,669	-	24,669
Deferred income tax asset	(iv)	830	(766)	64
		551,456	458	551,914
<b>Total assets</b>		\$ 1,175,255	(783)	\$ 1,174,472
<b>Liabilities and Shareholders' Equity</b>				
Current liabilities				
Accounts payable and accrued liabilities	(iii)	\$ 44,473	(128)	\$ 44,345
Taxes payable		21,184	-	21,184
Current portion of provision for reclamation	(i)	8,221	(770)	7,451
Current portion of deferred income tax liability	(iv)	4,415	(4,415)	-
		78,293	(5,313)	72,980
Provision for reclamation	(i)	22,001	4,769	26,770
Deferred income tax liability		-	4,922	4,922
		22,001	9,691	31,692
<b>Shareholders' equity</b>				
Share capital		646,081	-	646,081
Contributed surplus		34,754	983	35,737
Retained earnings		394,126	(6,144)	387,982
		1,074,961	(5,161)	1,069,800
<b>Total liabilities and shareholders' equity</b>		\$ 1,175,255	(783)	\$ 1,174,472

Reconciliation of Consolidated statement of earnings and comprehensive income

Three months ended March 31, 2010 (Thousands of U.S. Dollars)	Note	Previous Canadian GAAP	Effect of transition to IFRS	IFRS
<b>Comprehensive income under</b>				
<b>Canadian GAAP</b>				
		\$ 122,087	-	\$ 122,087
Provision for reclamation	(i)	-	245	245
Depreciation	(ii)	-	(47)	(47)
Share-based compensation	(iii)	-	143	143
Exchange difference on deferred income taxes	(iv)	-	260	260
Deferred income taxes	(iv)	-	1,174	1,174
<b>Comprehensive income under IFRS</b>		\$ 122,087	1,775	\$ 123,862

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

---

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

**g. 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 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 (20(d) (e) and (f)).

**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.

The use of the current discount rate for all changes in estimates combined with the requirement to re-measure the liability at each reporting date under IFRS significantly simplifies the process required to measure any restoration liabilities as there will no longer be a need to record and account for separate layers of the original liability and each subsequent upward revision in estimated cash flows. As a result, the provision for reclamation and rehabilitation under IFRS has been re-measured using the risk-free discount rate in effect at January 1, 2010 of 3.85% at Kumtor and 3.39% at Boroo, resulting in an adjustment of \$4.2 million recorded as an increase to the provision for reclamation with corresponding offset of \$2.9 million to equity and \$1.3 million to property, plant and equipment.

As at December 31, 2010, the ARO liability under IFRS has been re-measured using the risk-free discount rate in effect at December 31, 2010 of 3.18% at Kumtor and 2.0% at Boroo, resulting in an adjustment of \$2.5 million recorded as an increase to the provision for reclamation with an offsetting increase of \$0.5 million to accretion expense (finance cost) and \$2.0 million increase to ARO asset.

During the three months ended March 31, 2010, as a result of the differences noted above, the Company recorded a decrease in accretion expense (finance cost) of \$0.2 million.

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

---

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

**g. 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.

Due to the adjustments to the provision for reclamation discussed in (i) above, the book value of the property, plant and equipment at January 1, 2010 increased by \$1.3 million and additional \$2.0 million increase at December 31, 2010.

Additional depreciation expense of \$0.2 million for the year ended December 31, 2010 and \$0.01 million for the three months ended March 31, 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 January 1, 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 \$1.1 million was recorded to decrease opening retained earnings with offset to contributed surplus.

IFRS 2 was applied to liabilities arising from cash-settled share-based payment transactions that existed at January 1, 2010. Consequently, as a result of the difference in measurement, as noted in note 3(o), outstanding liability related to the Company's cash-settled share-based compensation was reduced by \$0.1 million with offset to retained earnings.

During the year ended December 31, 2010 and three months ended March 31, 2010 share-based compensation expense recorded under Canadian GAAP was increased by \$0.7 million and \$0.1 million.

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

---

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

**g. 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, as at the Transition Date of January 1, 2010, a decrease in the amount of \$ 2.9 million in the deferred income tax asset was reflected and adjusted to opening retained earnings. In addition, \$1.04 million of deferred income tax liability was recognized as the deferred income tax effect on differences between Canadian GAAP and IFRS, described in 20 (g) (i) to (iii) above. These adjustments are associated with the Mongolian segment.

Furthermore, for the year ended December 31, 2010, and for the three months ended March 31, 2010, the reported Canadian GAAP results were adjusted to reflect deferred income tax recoveries of \$3.2 million and \$1.2 million respectively, resulting from the IFRS method of determination of temporary differences related to the Mongolian segment.

**v. Provision for constructive obligation**

On transition to IFRS on January 1, 2010, there was no constructive obligation to recognize by the Company. However, as at December 31, 2010, the Company recorded \$6.4 million representing the estimated amount to potentially settle a constructive obligation through the Company's Community Development and Initiatives program. The Company may have created an expectation that it would collaborate with the Government of Mongolia to build a maternity hospital in the capital city of Ulaan Baatar even though the expectation is not legally enforceable. Under IFRS, the expectation that the Company may be required to fund its share of the maternity hospital resulted in the Company recording a provision under IFRS.

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

---

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

**g. Changes in accounting policies (continued)**

**vi. Revenue recognition**

Under Canadian GAAP, revenues from the sale of gold and silver are recognized by the Company when risks and rewards of ownership have substantially passed (interpreted to mean title transfer), delivery is effected and when the Company has reasonable assurance with respect to measurement and collectability. Under IFRS, revenues from the sale of gold and silver are recognized 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. Revenue is measured at the fair value of the consideration received or receivable, provided it is probable that economic benefit will flow to the Company and the revenue and costs, if applicable, can be measured reliably.

There is no adjustment as at the Transition Date relating to the differences in revenue recognition.

For the year ended December 31, 2010 net revenue from sales of gold under IFRS increased by \$1.7 million (\$3.3 million increase in revenue, \$2.7 million increase to cost of sales and \$1.1 million decrease to depreciation, depletion and amortization).

**h. 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.