

**Centerra Gold Inc.**

**Consolidated Financial Statements**

**For the Years Ended December 31, 2010, 2009 and, 2008**  
**(Expressed in United States Dollars)**

## Report of Management's Accountability

The Consolidated Financial Statements and related Management's Discussion and Analysis ("MD&A") presented in this Annual Report have been prepared by the management of the Company. Management is responsible for the integrity, consistency and reliability of all such information presented. The Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in Canada and applicable securities legislation. The MD&A has been prepared in accordance with National Instrument 51-102, Part 5.

The preparation of the Consolidated Financial Statements and information in the MD&A involves the use of estimates and assumptions based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. Estimates and assumptions are based on historical experience, current conditions and various other assumptions believed to be reasonable in the circumstances, with critical analysis of the significant accounting policies followed by the Company as described in Note 3 to the Consolidated Financial Statements. The preparation of the Consolidated Financial Statements and the MD&A includes information regarding the estimated impact of future events and transactions. The MD&A also includes information regarding sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from the present assessment of this information because future events and circumstances may not occur as expected.

In meeting its responsibility for the reliability of financial information, management maintains and relies on a comprehensive system of internal control and internal audit. The system of internal control includes a written corporate conduct policy; implementation of a risk management framework; effective segregation of duties and delegation of authorities; and sound and conservative accounting policies that are regularly reviewed. This structure is designed to provide reasonable assurance that assets are safeguarded and that reliable information is available on a timely basis. In addition internal and disclosure controls have been documented, evaluated, tested and identified consistent with National Instrument 52-109. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit Committee of the Company's Board of Directors.

The Consolidated Financial Statements have been examined by KPMG LLP, independent external auditors appointed by the Company's shareholders. The external auditors' responsibility is to express their opinion on whether the Consolidated Financial Statements are fairly presented in accordance with accounting principles generally accepted in Canada. KPMG LLP, whose report appears on page ii, outlines the scope of their examination and their opinion.

The Company's Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee met periodically with management, the internal auditors, and the external auditors to satisfy itself that each group had properly discharged its respective responsibility and to review the Consolidated Financial Statements before recommending approval by the Board of Directors. The external auditors had direct and full access to the Audit Committee, with and without the presence of management, to discuss their audit and their findings as to the integrity of the financial reporting and the effectiveness of the system of internal controls.

*Original signed by:*  
Stephen A. Lang  
President and  
Chief Executive Officer

*Original signed by:*  
Jeffrey S. Parr  
Vice President and  
Chief Financial Officer

February 23, 2011

# INDEPENDENT AUDITORS' REPORT

To the Shareholders of Centerra Gold Inc.

We have audited the accompanying consolidated financial statements of Centerra Gold Inc. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2010 and December 31, 2009, the consolidated statements of earnings and comprehensive income, cash flows and shareholders' equity for each of the years in the three year period ended December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

## *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinions.

## *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Centerra Gold Inc. and its subsidiaries as at December 31, 2010 and December 31, 2009 and the results of their operations and their cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Original signed by:

KPMG LLP

*Chartered Accountants, Licensed Public Accountants*

Toronto, Canada

February 23, 2011

**Centerra Gold Inc.**  
**Consolidated Balance Sheets**

As at December 31, (Expressed in Thousands of United States Dollars)	Notes	2010	2009
<b>Assets</b>			
Current assets			
Cash and cash equivalents		\$ 330,737	\$ 176,904
Short-term investments		82,278	145,971
Restricted cash	5	795	-
Amounts receivable		97,281	44,281
Current portion of future income tax asset	17	1,601	1,555
Inventories	6	183,207	151,822
Prepaid expenses		22,221	11,718
		<u>718,120</u>	<u>532,251</u>
Property, plant and equipment	8	515,949	380,979
Goodwill	9	129,705	129,705
Long-term receivables and other	10	17,299	6,554
Long-term inventories	6	12,877	23,120
Future income tax asset	17	2,722	1,418
		<u>678,552</u>	<u>541,776</u>
<b>Total assets</b>		<u>\$ 1,396,672</u>	<u>\$ 1,074,027</u>
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities			
Accounts payable and accrued liabilities		\$ 65,221	\$ 49,178
Taxes payable		27,354	35,066
Current portion of provision for reclamation	11	9,728	8,169
Current portion of future income tax liability	17	-	7,662
		<u>102,303</u>	<u>100,075</u>
Provision for reclamation	11	24,891	21,533
<b>Shareholders' equity</b>			
Share capital	18	655,178	646,081
Contributed surplus		33,240	34,298
Retained earnings		581,060	272,040
		<u>1,269,478</u>	<u>952,419</u>
<b>Total liabilities and shareholders' equity</b>		<u>\$ 1,396,672</u>	<u>\$ 1,074,027</u>

Commitments and contingencies (notes 19)

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

**Approved by the Board of Directors**

*Original signed by:*

Patrick M. James , Director

Ian G. Austin , Director

**Centerra Gold Inc.**  
**Consolidated Statements of Earnings and Comprehensive Income**

For the years ended December 31,	2010	2009	2008
<b>(Expressed in Thousands of United States Dollars, except per share amounts)</b>			
	<b>Notes</b>		
<b>Revenue from Gold Sales</b>		<b>\$ 846,473</b>	<b>\$ 685,490</b>
		<b>\$ 635,980</b>	
<b>Expenses</b>			
Cost of sales <sup>(i)</sup>		263,895	295,944
Mine standby costs	7	1,280	4,081
Depreciation, depletion and amortization		77,002	103,748
Accretion and reclamation expense	11	1,912	2,363
Revenue based taxes	17	98,597	60,179
Impairment charge	9	-	-
Exploration and business development	12	32,446	25,826
Other (income) and expenses	13	(330)	(1,711)
General and administration		76,282	56,219
		<u>551,084</u>	<u>546,649</u>
		<u>295,389</u>	<u>138,841</u>
Gain on sale of REN property	14	(34,866)	-
<b>Earnings before unusual items and income taxes</b>		<b>330,255</b>	<b>138,841</b>
Unusual items - Kyrgyz settlement	16	-	49,333
		<u>330,255</u>	<u>168,854</u>
<b>Earnings before income taxes</b>		<b>330,255</b>	<b>168,854</b>
Income tax expense	17	7,615	29,195
<b>Net earnings and comprehensive income</b>		<b>\$ 322,640</b>	<b>\$ 60,313</b>
		<u>\$ 134,765</u>	
<b>Basic and diluted earnings per common share</b>	18	<b>\$ 1.37</b>	<b>\$ 0.27</b>
		<u>\$ 0.62</u>	
(i)- Excludes depreciation, depletion and amortization expenses of		<b>\$ 76,506</b>	<b>\$ 102,999</b>
		<u>\$ 77,315</u>	

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

**Centerra Gold Inc.**  
**Consolidated Statements of Cash Flows**

For the years ended December 31, (Expressed in Thousands of United States Dollars)	Notes	2010	2009	2008
<b>Operating activities</b>				
Net earnings		\$ 322,640	\$ 60,313	\$ 134,765
Items not requiring (providing) cash:				
Depreciation, depletion and amortization		77,002	103,748	78,332
Accretion and reclamation expense	11	1,912	2,363	1,404
Impairment charge		-	-	18,835
Loss on disposal of plant and equipment		1,964	831	3,939
Gain on disposal of REN property		(34,866)	-	-
Stock - based compensation expense		1,598	1,724	2,137
Unusual items-Kyrgyz settlement		-	31,616	(37,710)
Future income tax expense (recovery)		(9,012)	6,727	10,630
Change in long-term inventory		10,243	(5,111)	1,481
Long-term other assets		(10,745)	-	-
Other operating items		(1,623)	(1,724)	146
		<u>359,113</u>	<u>200,487</u>	<u>213,959</u>
Change in operating working capital	24	(87,685)	45,079	(47,649)
<b>Cash provided by operations</b>		<u>271,428</u>	<u>245,566</u>	<u>166,310</u>
<b>Investing activities</b>				
Additions to property, plant and equipment	24	(208,224)	(92,073)	(95,104)
Contribution to social development project	5	(795)	-	-
Short-term investments matured (purchased)		63,693	(128,190)	(17,781)
Proceeds from disposition of property, plant and equipment		44	74	676
Net proceed from disposition of REN property		34,866	-	-
<b>Cash used in investing</b>		<u>(110,416)</u>	<u>(220,189)</u>	<u>(112,209)</u>
<b>Financing activities</b>				
Repayment of short term debt		-	-	(10,000)
Issuance of common shares for cash		6,441	1,944	-
Dividends paid		(13,620)	-	-
<b>Cash provided by (used in) financing</b>		<u>(7,179)</u>	<u>1,944</u>	<u>(10,000)</u>
Increase (decrease) in cash during the year		153,833	27,321	44,101
Cash and cash equivalents at beginning of the year		176,904	149,583	105,482
<b>Cash and cash equivalents at end of the year</b>		<u>\$ 330,737</u>	<u>\$ 176,904</u>	<u>\$ 149,583</u>
<b>Cash and cash equivalents consist of:</b>				
Cash		\$ 81,314	\$ 102,204	\$ 91,227
Cash equivalents		249,423	74,700	58,356
		<u>\$ 330,737</u>	<u>\$ 176,904</u>	<u>\$ 149,583</u>

Supplemental cash flow disclosure (note 24)

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

Centerra Gold Inc.  
Consolidated Statements of Shareholders' Equity

Years ended December 31

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

	Number of Common Shares	Amount	Contingent Common Shares Issuable	Contributed Surplus	Retained Earnings	Total
<b>Balance at December 31, 2007</b>	216,318,188	\$ 523,107	\$ 126,794	\$ 30,767	\$ 60,350	\$ 741,018
Contingent common shares issuable revalued	-	-	(37,710)	-	-	(37,710)
Contingent common shares issuable reclassified	-	-	(89,084)	-	-	(89,084)
Stock-based compensation expense	-	-	-	2,137	-	2,137
Inventory adjustments, on adoption of accounting standard net of tax	-	-	-	-	16,612	16,612
Net earnings for the year	-	-	-	-	134,765	134,765
<b>Balance at December 31, 2008</b>	216,318,188	\$ 523,107	\$ -	\$ 32,904	\$ 211,727	\$ 767,738
Shares issued:						
Agreement on New Terms (note 16)	18,232,615	120,700	-	-	-	120,700
Options exercised by employees	306,425	2,274	-	(330)	-	1,944
Stock-based compensation expense	-	-	-	1,724	-	1,724
Net earnings for the year	-	-	-	-	60,313	60,313
<b>Balance at December 31, 2009</b>	234,857,228	\$ 646,081	\$ -	\$ 34,298	\$ 272,040	\$ 952,419
Shares issued:						
Options exercised by employees	1,012,169	9,097	-	(2,656)	-	6,441
Stock-based compensation expense	-	-	-	1,598	-	1,598
Dividends declared	-	-	-	-	(13,620)	(13,620)
Net earnings for the year	-	-	-	-	322,640	322,640
<b>Balance at December 31, 2010</b>	235,869,397	\$ 655,178	\$ -	\$ 33,240	\$ 581,060	\$ 1,269,478

The accompanying notes are an integral part of the consolidated financial statements.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2009 and 2008

(Expressed in United States Dollars)

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### 1. Nature of operations

Centerra Gold Inc. (“Centerra” or the “Company”) is engaged in the production of gold and related activities including exploration, development, mining and processing in Mongolia, the Kyrgyz Republic, Turkey, the Russian Federation and the United States of America.

### 2. Significant accounting policies

The consolidated financial statements are prepared by management in accordance with accounting principles generally accepted in Canada. Management makes various estimates and assumptions in determining the reported amounts of assets and liabilities, revenues and expenses for each year presented, and in the disclosure of commitments and contingencies.

The most significant estimates are related to the recoverability of receivables and investments, the quantities of material on heap leach pads and in circuit, the useful lives of assets, proven and probable reserves, recoverability of mineral properties and the valuation of goodwill, impairment testing of mineral properties, 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 inventories, the accounting for stock-based compensation, provisions for decommissioning and reclamation of assets, future income taxes and fair value of the financial instruments. Changes in estimates and assumptions will occur based on the passage of time and the occurrence of certain future events. This summary of significant accounting policies is a description of the accounting methods and practices that have been used in the preparation of these consolidated financial statements and is presented to assist the reader in interpreting the statements contained herein.

### 3. Summary of Significant Accounting Policies

#### a. Consolidation principles

The consolidated financial statements include the accounts of Centerra and its subsidiaries. Interests in joint ventures are accounted for by the proportionate consolidation method. Under this method, the Company includes in its accounts the Company’s proportionate share of assets, liabilities, revenues and expenses.

The Company’s significant wholly-owned subsidiaries include Kumtor Gold Company (“KGC” operating as “Kumtor”) and Boroo Gold LLC (“BGC” operating as “Boroo”) and Centerra Gold Mongolia LLC (owner of the Gatsuert property).

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2009 and 2008

(Expressed in United States Dollars)

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

#### b. Foreign currency

The majority of the Company's business is transacted in United States dollars and, accordingly, the United States dollar is the Company's functional and presentational currency.

Monetary assets and liabilities denominated in currencies other than the United States dollar are translated into United States dollars at year end rates of exchange, while non-monetary assets and liabilities are translated at their historical rates of exchange. Revenue and expense items denominated in foreign currencies are translated at rates in effect at the time of the transaction. Any gains and losses are reflected in earnings.

#### c. Cash and cash equivalents

Cash and cash equivalents consist of balances with financial institutions and investments in money market instruments which have a term to maturity of three months or less at the time of purchase. These assets are classified as assets held-for-trading and are recorded at fair value.

#### 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, term deposits or banker's acceptances with highly rated financial institutions and corporate direct credit issues. These assets are classified as assets held-for-trading and are recorded at fair value.

#### 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 pad.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2009 and 2008

(Expressed in United States Dollars)

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

#### e. Inventories (continued)

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 realisable 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 spares are valued at the lower of weighted-average cost and net realisable 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.

#### f. Exploration and development properties

The decision to develop a mine property within a project area is based on an assessment of the commercial viability of the property, technical feasibility, availability of financing and the existence of markets for the product. Exploration activities are expensed until a decision to proceed to development is made and, from that point, development and other expenditures relating to the area to be developed are deferred and carried at cost with the intention that these will be depleted by charges against earnings from future mining operations. No depreciation or depletion is charged against the property until commercial production commences.

#### g. Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation, depletion and amortization. Costs of additions and improvements are capitalized. When assets are retired or sold, the resulting gains or losses are reflected in current earnings.

Major overhaul expenditure on mobile equipment, including replacement spares and labour costs, is 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 embodied within the item overhauled will flow to the Company.

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 Consolidated Financial Statements

For the years ended December 31, 2010, 2009 and 2008

(Expressed in United States Dollars)

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

#### **h. 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.

#### **i. Capitalization of interest**

Interest is capitalized on expenditures related to construction or development projects actively being prepared for their intended use. Capitalization is discontinued when the asset enters commercial operation or development ceases.

#### **j. Goodwill**

Acquisitions are accounted for using the purchase method whereby acquired assets and liabilities are recorded at fair value as of the date of acquisition. The excess of the purchase price over such fair value is recorded as goodwill. Goodwill is assigned to the reporting units and is not amortized.

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 be impaired. To accomplish this, the Company compares the fair value of reporting units, to which goodwill was allocated, to their carrying amounts. If the carrying amount of a reporting unit were to exceed its fair value, the Company would compare the implied fair value of the reporting unit's goodwill to its carrying amount and any excess of the carrying amount over the fair value would be charged to earnings. Assumptions, such as gold price, discount rate, and expenditures underlying the fair value estimates are subject to risks and uncertainties.

#### **k. Property and equipment impairment**

The Company reviews the carrying values of its properties periodically and whenever changes in circumstances indicate that those carrying values may not be recoverable. Estimated future net cash flows are calculated using estimates of future recoverable reserves and resources, future commodity prices and the expected future operating and capital costs. An impairment loss is recognized when the carrying value of an asset held for use exceeds the sum of the estimated undiscounted future net cash flows from its use. An impairment loss is measured as the amount by which the asset's carrying amount exceeds its fair value. 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 Consolidated Financial Statements

For the years ended December 31, 2010, 2009 and 2008

(Expressed in United States Dollars)

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

#### **l. Depreciation and depletion**

Mine buildings, plant and equipment, mineral properties including capitalized interest and commissioning charges during the pre-operating period are depreciated or depleted according to the unit-of-production method. This method allocates the costs of these assets to each future accounting period. For mining assets, the amount of depreciation or depletion is measured by the portion of the mine's economically recoverable proven and probable reserve ounces of gold that are recovered during the period.

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 three to seven years.

#### **m. Future income taxes**

Future income taxes are recognized for the future income tax consequences attributable to differences between the carrying values of assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be reversed. The effect on future income tax assets and liabilities of a change in rates is included in earnings in the period which includes the enactment date. Future income tax assets are recorded in the financial statements if realization is considered more likely than not.

#### **n. Environmental protection and reclamation costs**

The fair value of the liability for an asset retirement obligation is recognized in the period incurred. The fair value is added to the carrying amount of the associated asset and depreciated over the asset's useful life. The liability, using the credit - adjusted risk-free rate, is accreted over time through periodic charges to earnings and it is reduced by actual costs of decommissioning and reclamation. Centerra's estimates of reclamation costs could change as a result of changes in regulatory requirements, reclamation plans and cost estimates and timing of expected expenditures.

#### **o. Revenue recognition**

Centerra records revenue on the sale of gold when title passes, delivery is effected and when the Company has reasonable assurance with respect to measurement and collectability.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2009 and 2008

(Expressed in United States Dollars)

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

#### p. Stock-based compensation

The Company has five stock-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 18(c). Participation by Centerra employees in the Cameco Stock Option Plan was terminated on December 30, 2009.

##### *Stock Option Plan*

Stock options granted with share appreciation rights are accounted for using the liability method. Under this method, the options granted and also vested are marked to market at each reporting period and any resulting adjustment to the accrued obligation is recognized as an expense or, if negative, a recovery. Other Centerra options granted without share appreciation rights 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*

Performance share units granted by Centerra for eligible employees that are intended to be settled in cash are accounted for under the liability method. Under this method, the fair value of the performance share units at each reporting period is determined 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 established at the marked-to-market amount. The consideration paid to employees on exercise of these performance share units is recorded as a reduction of the accrued obligation.

##### *Deferred Share Units plan*

Deferred share units granted by Centerra to eligible members of the Board of Directors are intended to be settled in cash and are therefore accounted for under the liability method. The deferred share units vest immediately upon granting. The liability is marked to market at each reporting period and any resulting adjustment to the accrued obligation is recognized as an expense or, if negative, a recovery. The consideration 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.

Forfeitures of any of the awards granted for the above mentioned plans are accounted for in the period in which they occur.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2009 and 2008

(Expressed in United States Dollars)

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

#### q. 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.

#### r. Transaction costs for financial assets and financial liabilities

For a financial asset or financial liability classified other than as held for trading, the Company adds the transaction costs that are directly attributable to the acquisition or issue of a financial asset or financial liability to the fair value of that asset or liability established when that asset or liability is recognized.

#### s. Financial Instruments

Section 3855 *Financial Instruments – Recognition and Measurements*, establishes standards for the recognition and measurement of all financial instruments, provides characteristics based definition of a derivative financial instrument, provides criteria to be used to determine when a financial instrument should be recognized, and provides criteria to be used when a financial instrument is to be extinguished. Under this standard, all financial instruments are initially recognized and subsequently measured based on their classification as held for trading, held to maturity, available for sale, loans and receivables, or other financial liabilities. The Company has elected the following classification for its 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 marked-to-market 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.

##### 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 as follows:

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2009 and 2008

(Expressed in United States Dollars)

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

#### s. Financial Instruments (continued)

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

- i Cash and cash equivalents have been classified as held-for-trading and they are measured at fair value and changes in fair value are recognized in earnings.
- ii Short-term investment has been classified as held-for-trading and they are measured at fair value and changes in fair value are recognized in earnings.
- iii Amounts receivable and long-term receivable have been classified as loans and receivables. They are initially measured at fair value, subsequent measurements are at amortized cost.
- iv Accounts payable and accrued liabilities have been classified as other financial liabilities and measured at amortized cost.

In management's opinion, the fair value approximates their carrying values.

### 4. Changes in accounting policies:

#### a. New pronouncements

The CICA issued three new accounting standards in January 2009: Section 1582, *Business Combinations*, Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non-Controlling Interests*. Section 1582 established standards for the accounting of a business combination. Sections 1601 established standards for the preparation of consolidated financial statements as it applied to interim and annual consolidated financial statements. Section 1602 established standards for accounting of a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination.

These new standards substantially harmonized the existing Canadian standards with their IFRS counterparts and were to be adopted for reporting periods beginning on or after January 1, 2011. Although early adoption of these standards was permitted, the Company did not adopt the above new accounting standards prior to January 1, 2011.

#### b. IFRS

Canada's Accounting Standards Board ("AcSB") ratified a plan that will result in Canadian GAAP being converged with IFRS by 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. In the period leading up to the conversion, the AcSB has continued to issue accounting standards that are converged with IFRS, thus mitigating the impact of adopting IFRS at the mandatory transition date. Commencing with the interim period ended March 31, 2011 the Company will present restated comparative fiscal 2010 financial statements for annual and interim periods to be prepared in accordance with IFRS including the restatement of the opening balance sheet as at January 1, 2010.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

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### 5. Restricted cash

Restricted cash of \$0.8 million consists of cash deposited by Boroo in an escrow bank account, created in compliance with a memorandum of understanding agreed with the Ministry of Health of Mongolia. The cash deposited are expected to be used to fund the design and construction of a maternal hospital in Ulaanbaatar. Further funding and release of the funds is subject to the signing of a Definitive Agreement to be entered into between Boroo and the Ministry of Health of Mongolia and after satisfaction of certain conditions.

### 6. Inventories

	2010	2009
(Thousands of US\$)		
Stockpiles	\$ 64,523	\$ 50,234
Gold in circuit	6,881	5,045
Heap leach in circuit	3,687	4,908
Gold doré	7,597	8,818
	82,688	69,005
Supplies	113,396	105,937
	196,084	174,942
Less: Long-term inventory (heap leach)	(12,877)	(23,120)
Total Inventories-current portion	\$ 183,207	\$ 151,822

### 7. Mine Standby Costs

Over a period of 10 days ended October 10, 2010 the Company's mining operations at Kumtor were temporarily suspended due to a labour dispute initiated by unionized workers of the Kumtor Operating Company. The Company incurred and expensed \$1.3 million in labour, maintenance and mine support costs directly as a result of the labour dispute at Kumtor for the year ended December 31, 2010.

Over a nine-week period ended July 27, 2009, the Company's mining operations at Boroo were temporarily suspended due to labour disputes initiated by unionized workers, followed by the suspension of the main operating licenses initiated by the Minerals Resources Authority of Mongolia. The Company incurred and expensed \$4.1 million in labour, maintenance and mine support costs directly as a result of the labour disputes and suspension of the main operating licenses at Boroo for the year ended December 31, 2009.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

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### 8. Property, plant and equipment

(Thousands of US\$)	Cost	Accumulated Depreciation and Depletion	Dec 31, 2010 Net book value
Mine buildings	\$ 53,915	\$ 32,256	\$ 21,659
Plant and equipment	310,939	196,846	114,093
Mineral properties	165,628	115,866	49,762
Capitalized stripping costs	71,351	40,272	31,079
Mobile equipment	264,782	114,913	149,869
Construction in process	149,487	-	149,487
<b>Total</b>	<b>\$ 1,016,102</b>	<b>\$ 500,153</b>	<b>\$ 515,949</b>

(Thousands of US\$)	Cost	Accumulated Depreciation and Depletion	Dec 31, 2009 Net book value
Mine buildings	\$ 47,318	\$ 28,372	\$ 18,946
Plant and equipment	295,187	184,513	110,674
Mineral properties	159,101	107,808	51,293
Capitalized stripping costs	56,700	31,066	25,634
Mobile equipment	168,220	81,794	86,426
Construction in process	88,006	-	88,006
<b>Total</b>	<b>\$ 814,532</b>	<b>\$ 433,553</b>	<b>\$ 380,979</b>

The following table summarizes the movements in capitalized stripping at December 31:

(Thousands of US\$)	2010			2009		
	Kumtor	Boroo	Total	Kumtor	Boroo	Total
Opening balance	\$ 18,345	\$ 7,289	\$ 25,634	\$ 26,503	\$ 16,863	\$ 43,366
Additions	14,651	-	14,651	-	-	-
Amortized	(5,617)	(3,589)	(9,206)	(8,158)	(9,574)	(17,732)
<b>Ending balance</b>	<b>\$ 27,379</b>	<b>\$ 3,700</b>	<b>\$ 31,079</b>	<b>\$ 18,345</b>	<b>\$ 7,289</b>	<b>\$ 25,634</b>

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2009 and 2008

(Expressed in United States Dollars)

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### 9. Goodwill

Goodwill represents the excess of the acquisition cost of a business over the fair value of the identifiable net assets acquired. Goodwill is tested for impairment annually as at September 1 or more frequently if changes in circumstances indicate a potential impairment. The goodwill impairment test consists of a comparison of the fair value of a reporting unit compared with its carrying amount, including goodwill, in order to identify a potential impairment. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. When the carrying amount of a reporting unit exceeds its fair value, the fair value of the reporting unit's goodwill (on a discounted basis) should be compared with its carrying amount to measure the amount of the impairment loss.

During the year ended December 31, 2010 and December 31, 2009, the Company undertook its normal annual review of goodwill. As a result, management concluded that current circumstances did not indicate that the carrying value of the Kyrgyz reporting unit exceeded its fair value.

Therefore, the goodwill balance of \$129.7 million, which is associated with the Kyrgyz reporting unit, has remained unchanged for 2010 and 2009.

### 10. Long-term receivables and other

(Thousands of US\$)	2010	2009
Reclamation trust fund [note 11]	\$ 7,448	\$ 6,443
Other long term receivables	46	111
Other assets	6,705	-
Deferred financing fees [note 15]	3,100	-
Total	\$ 17,299	\$ 6,554

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2009 and 2008

(Expressed in United States Dollars)

### 11. Asset Retirement Obligations

(Thousands of US\$)	2010	2009
Kumtor gold mine	\$ 17,003	\$ 14,135
Boroo gold mine	17,616	15,567
	<b>34,619</b>	<b>29,702</b>
Less: current portion	<b>(9,728)</b>	<b>(8,169)</b>
Total	<b>\$ 24,891</b>	<b>\$ 21,533</b>

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 to be \$49.7 million (2009-\$44.2 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. The expenditures are expected to occur over the next 1 to 10 years.
- (ii) Weighted average discount rates of 6.34% at Kumtor and 6.95% at Boroo at December 31, 2010 (December 31, 2009 -6.99% at Kumtor and 8.0% at Boroo).

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

(Thousands of US\$)	2010	2009	2008
Balance, beginning of year	\$ 29,702	\$ 32,780	\$ 20,868
Liabilities incurred	<b>(1,626)</b>	(1,091)	(918)
Revisions in estimated timing and amount of cash flows	<b>4,631</b>	(1,571)	11,426
Impact of revisions in estimated timing and amount of cash flows recorded in earnings	<b>127</b>	(2,779)	-
Gain on liabilities incurred	<b>(423)</b>	-	-
Accretion expense	<b>2,208</b>	2,363	1,404
	<b>34,619</b>	29,702	32,780
Less: current portion	<b>(9,728)</b>	(8,169)	(3,458)
<b>Balance, end of year</b>	<b>\$ 24,891</b>	<b>\$ 21,533</b>	<b>\$ 29,322</b>

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2009 and 2008

(Expressed in United States Dollars)

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### 11. Asset Retirement Obligations (continued)

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 December 31, 2010 was \$7.4 million (2009 - \$6.4 million) (note 10).

In December 2010, the Company revised the estimated mine life at Kumtor with the effect of deferring the reclamation spending at the site and updated the closure cost plans for Kumtor and Boroo. As a result of the increased in estimated mine life and update to closure plan the present value of the obligation at Kumtor was increased by \$1.8 million, \$0.1 million of the increase was charged to earnings and \$1.7 million recorded as an increase in the reclamation asset, included as part of property plant and equipment. A similar update to Boroo's closure cost plan resulted in an increase to the obligation of \$2.9 million with an offsetting increase in the reclamation asset.

In December 2009, the Company updated its reserves and resources resulting in significant new reserves at Kumtor and an extension in the estimated mine life with the effect of deferring the reclamation spending at the site. As a result of the increased reserves, the present value of the obligation at Kumtor was reduced by \$3.2 million, \$0.4 million of the reduction was applied to eliminate the remaining balance of the reclamation asset and \$2.8 million recorded to depreciation, depletion and amortization expense. In 2009, Boroo updated its closure cost plan which resulted in a decrease to the obligation of \$1.2 million with an offsetting decrease in the reclamation asset. The resulting decrease in the estimated cash flows was \$1.6 million (\$0.4 million at Kumtor and \$1.2 million at Boroo).

### 12. Exploration and business development costs

(Thousands of US\$)	2010	2009	2008
Exploration	\$ 31,296	\$ 25,012	\$ 23,508
Business development	1,150	814	120
Total	\$ 32,446	\$ 25,826	\$ 23,628

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# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

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### 13. Other (income) and expenses

(Thousands of US\$)	2010	2009	2008
Interest income	\$ (721)	\$ (246)	\$ (1,985)
Sundry Income <sup>(i)</sup>	(726)	(1,649)	-
Loss on disposal of assets	1,127	667	3,572
Interest expense on short-term debt	-	-	551
Financing charges and other interest	86	97	845
Other expenses	269	244	408
Foreign exchange loss (gain)	(365)	(824)	1,067
<b>Net</b>	<b>\$ (330)</b>	<b>\$ (1,711)</b>	<b>\$ 4,458</b>

(i) During 2009 and 2010, the Company engaged a third party to mine and process an alluvial deposit located on the Boroo mining concession. During 2010 \$0.7 million (2009-\$1.6 million) was received as the Company's share of the net income from the mining, processing and sale of gold doré from the alluvial deposit.

### 14. Disposal of interest in REN Property

On July 2, 2010, the Company closed the sale of its REN interest to Homestake Mining Company of California (a subsidiary of Barrick Gold Corporation) for gross cash proceeds of \$35.2 million resulting in a net gain of \$34.9 million.

### 15. Borrowings

On November 16, 2010 the Company entered into a three-year \$150 million revolving credit facility (the "Facility") with the European Bank for Reconstruction and Development ("EBRD") as sole lender. All related conditions precedent are to be satisfied and the agreement finalized by March 18, 2011.

This facility is for general corporate purposes, permitted acquisitions, working capital, capital expenditures and intercompany loans and/or capital contributions to finance the development of the Company's existing properties in the Kyrgyz Republic and Mongolia, and for future investments in other EBRD countries of operation.

The terms of the facility require the Company to pledge certain assets as security and maintain compliance with specified covenants including financial covenants. The Company was in compliance with covenants for the period from November 16 through the remainder of 2010.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2009 and 2008

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### 15. Borrowings (continued)

Amounts drawn on the facility bear interest at LIBOR plus 2.9%, payable in arrears at the end of each interest period of three or six months, depending on the period selected by the Company. A commitment (standby) fee is also payable, quarterly in arrears, on the undrawn amount of the facility. A fee of 0.75% is applied to the undrawn portion of the facility where less than 50% of the facility amount is drawn, or 0.50% where at least 50% of the facility amount is drawn.

During 2010, the Company incurred \$3.1 million in origination fees relating to the facility. These costs were deferred and are to be amortized over the term of the facility. As at December 31, 2010, the facility remains undrawn.

### 16. Unusual Items – Kyrgyz Settlement

On April 24, 2009, Cameco, Centerra, the Kyrgyz Government and other parties signed a new agreement to resolve all the issues related to the Kumtor mine. On April 30, 2009, the Kyrgyz Parliament ratified the agreement and enacted legislation authorizing implementation of the agreement. On June 11, 2009, the transactions were completed and resulted in, among other documents, a Restated Investment Agreement being entered into which superseded the Agreement of New Terms to the extent that the two agreements covered the same subject matters (the “Investment Agreement”).

(Thousands of US\$)	<b>2009</b>
a) Contingent common shares issuable	<b>\$ 31,616</b>
b) Legal claims settlement	<b>1,750</b>
c) Tax settlement	<b>15,024</b>
d) Legal and related costs	<b>943</b>
	<b>\$ 49,333</b>

- a. As part of the closing, the Company issued from treasury 18,232,615 common shares of Centerra valued at \$6.62 (Cdn. \$7.30) per share to Kyrgyzaltyn, a related party. As a result, the Company recorded an addition to share capital of \$120.7 million. The previously recorded liability, contingent common shares issuable of \$89.1 million, was drawn down and an additional expense of \$31.6 million was recorded in 2009.
- b. Pursuant to the Agreement on New Terms, the Company also paid and expensed \$1.75 million in full satisfaction of all liabilities or claims of any governmental authority against Centerra or any of its affiliates in respect of any matter arising before the closing of the transactions contemplated by the Agreement on New Terms.

# Centerra Gold Inc.

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### 16. Unusual Items – Kyrgyz Settlement

- c. Pursuant to the Investment Agreement, the Company and the Government agreed to replace the former tax regime applicable to the Kumtor project with a simplified tax regime with effect from January 1, 2008. Under this agreement, taxes are imposed at a rate of 13% of gross revenue, and, in addition, a contribution of 1% of gross revenue is made to the Issyk-Kul Oblast Development Fund, replacing income taxes and certain other taxes that were paid by Kumtor under the previous tax regime. The net tax settlement expense pursuant to the Investment Agreement as at April 30, 2009 totaled \$15.0 million. This net amount includes a settlement paid for the retroactive impact of the Investment Agreement to the 2008 year of \$20.7 million, a credit of \$6.4 million for taxes paid to be applied in 2009 and a tax expense of \$0.7 million representing the difference between the requirements under the new tax regime as compared to the old tax regime for the period of January to April 2009.
- d. In 2009, the Company paid and expensed \$0.9 million in legal and related expenses related to the negotiation of the Agreement on New Terms and the restated project documents with the Kyrgyz Government.

### 17. Taxes

#### a. Revenue-Based Taxes- Kyrgyzstan

Revenue-based taxes are payable to the Kyrgyz Government under the investment agreement. Under this agreement, taxes are imposed at a rate of 13% of gross revenue, and, in addition, a contribution of 1% of gross revenue is made to the Issyk-Kul Oblast Development Fund, replacing income taxes and certain other taxes that were paid by Kumtor under the previous tax regime. Separate presentation of the new revenue-based taxes in the financial statements was effective from May 1, 2009.

During the year ended December 31, 2010, the 13% revenue-based tax expense recorded by Kumtor was \$91.6 million, (\$55.9 million from May 1 to end of 2009) while the Issyk-Kul Oblast Development Fund of 1% of gross revenue totaled \$7.0 million (\$4.3 million from May 1 to end of 2009).

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

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### 17. Taxes (continued)

#### b. Corporate Income Taxes

The significant components of future income tax assets and future income tax liabilities as at December 31 are as follows:

(Thousands of US\$)

<b>Future income tax assets</b>	<b>2010</b>	<b>2009</b>
Property, plant and equipment	\$ 1,770	\$ 12,314
Foreign resource expenditures	6,022	9,343
Inventory	1,713	1,555
Deferred stock based compensation	9,468	-
Tax losses carried forward	35,419	33,010
Other	3,125	2,066
Future income tax assets before valuation allowance	57,517	58,288
Valuation allowance	(53,194)	(55,315)
<b>Future income tax assets, net of valuation allowance</b>	<b>\$ 4,323</b>	<b>\$ 2,973</b>

(Thousands of US\$)

<b>Future income tax liabilities</b>	<b>2010</b>	<b>2009</b>
Unrealized foreign exchange gains	-	\$ 7,662
<b>Future income tax liabilities</b>	<b>\$ -</b>	<b>\$ 7,662</b>

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

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(Expressed in United States Dollars)

### 17. Taxes (continued)

#### b. Corporate Income Taxes (continued)

The provision for income taxes differs from the amount computed by applying the combined expected Canadian federal and provincial income tax rates to earnings before income taxes. The reasons for these differences are as follows:

(Thousands of US\$)	2010	2009	2008
Earnings before income taxes	\$ 330,255	\$ 89,508	\$ 168,854
Combined federal and provincial tax rate	<b>31.0%</b>	33.0%	33.5%
Computed income tax expense	<b>102,379</b>	29,538	56,566
Increase (decrease) in taxes resulting from:			
Difference between Canadian rate and rates applicable to subsidiaries in other countries	<b>(94,148)</b>	(39,534)	(24,982)
Changes in tax legislation	-	4,901	-
Valuation allowance adjustment	<b>(2,121)</b>	13,121	4,153
Non-deductible contingent shares issuable	-	12,401	(12,633)
Non-deductible goodwill impairment expense	-	-	4,708
Non-deductible inter-company dividend	<b>6,512</b>	-	-
Impact of foreign currency movements	<b>(8,372)</b>	8,486	-
Other	<b>3,365</b>	282	6,277
<b>Income tax expense</b>	<b>\$ 7,615</b>	\$ 29,195	\$ 34,089

Income tax expense (recovery) is comprised of:

(Thousands of US\$)	2010	2009	2008
Current income tax expense	\$ 16,398	\$ 22,866	\$ 23,093
Future income tax expense (recovery)	<b>(8,783)</b>	6,329	10,996
Net income tax expense	<b>\$ 7,615</b>	\$ 29,195	\$ 34,089

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2009 and 2008

(Expressed in United States Dollars)

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### 17. Taxes (continued)

#### b. Corporate Income Taxes (continued)

The Company recorded income tax expense of \$7.6 million during the year ended December 31, 2010 (\$29.2 million in 2009 and \$34.1 million in 2008).

##### **Kumtor**

Kumtor became subject to a new tax regime in 2009 pursuant to which income and certain other taxes were replaced by taxes computed by reference to Kumtor's revenue. As a result, no income tax expense has been recorded for Kumtor in 2010 (\$2.9 million recovery recorded in 2009, and \$11.5 million expense in 2008). Prior to implementation of the new regime, income tax was computed on Kumtor's earnings at a rate of 12%, including a tax payable to the Issyk-Kul Social Fund at 2% of income.

##### **Boroo**

The corporate income tax rate for Boroo for 2010 and subsequent years is 25% of taxable income in excess of 3 billion Tugriks (\$2.4 million at the exchange rate at the balance sheet date), and 10% for income up to that amount. Boroo recorded income tax expense of \$7.6 million the year ended December 31, 2010 (\$32.0 million for 2009 and \$22.7 million for 2008).

##### **North America**

No income tax expense was recorded in respect of the sale of the REN joint venture interest, as the proceeds of sale did not exceed deductions available for income tax purposes.

##### **Tax Losses**

At December 31, 2010 the Company and its subsidiaries have non-capital losses available for carry forward to future years in the amount of \$121.9 million (2009 - \$119.8 million) and capital losses in the amount of \$32.0 million (2009 - \$30.4 million). A full valuation allowance has resulted in no tax benefit being recorded by the Company in respect of any of these losses. The table below, in thousands of United States dollars, provides details of losses that can be applied to reduce future taxable income.

<b>Country</b>	<b>Type of Loss</b>	<b>Amount</b>	<b>Expiry</b>
Canada	Non-capital loss	\$ 96,648	2014 - 2030
Canada	Capital loss	\$ 31,994	No expiry
U.S.A.	Net operating loss <sup>(1)</sup>	\$ 20,675	2024 - 2030
Barbados	Net operating loss	\$ 3,932	2016 - 2019
Other	Various	\$ 646	2013 - 2019

1- Restrictions apply to some net operating losses of the U.S. subsidiaries.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

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### 18. 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 and contingent common shares issuable classified as equity. Diluted net earnings per share is calculated using the treasury method, where the exercise of options and contingent common shares issuable 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. 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 and contingent common shares issuable are not included in the computation of diluted net earnings per share in years when net losses are recorded given that they are anti-dilutive.

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	2010	2009	2008
Basic weighted average number of common shares outstanding (thousands)	235,488	226,699	216,318
Effect of stock options (thousands)	374	102	120
Diluted weighted average number of common shares outstanding (thousands)	235,862	226,801	216,438
<b>Basic and diluted earnings per common share</b>	<b>\$ 1.37</b>	<b>\$ 0.27</b>	<b>\$ 0.62</b>
<b>Anti-dilutive number of common share equivalents excluded (thousands)</b>	<b>16</b>	<b>380</b>	<b>547</b>

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# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

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(Expressed in United States Dollars)

### 18. Shareholders' Equity (continued)

#### c. Stock-Based Compensation

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

(Millions of US\$ except as indicated)	Number outstanding Dec 31/10	Expense			Liability	
		Dec 31/10	Dec 31/09	Dec 31/08	Dec 31/10	Dec 31/09
(i) Centerra stock options	<b>903,987</b>	<b>\$ 1.6</b>	\$ 2.1	\$ 1.0	\$ -	\$ -
(ii) Centerra -PSU <sup>(1)</sup>	<b>1,528,209</b>	<b>23.8</b>	6.2	(1.8)	<b>29.0</b>	6.2
(iii) Centerra annual-PSU <sup>(2)</sup>	<b>156,571</b>	<b>6.5</b>	6.5	0.7	<b>6.2</b>	6.3
(iv) Deferred share units	<b>344,728</b>	<b>4.5</b>	2.8	(1.0)	<b>6.9</b>	3.8
(v) Restricted share units	-	-	-	-	-	-
(vi) Cameco stock options	-	-	0.7	(1.3)	-	1.3 <sup>(3)</sup>
		<b>\$ 36.4</b>	\$ 18.3	\$ (2.4)	<b>\$ 42.1</b>	\$ 17.6

<sup>1)</sup> Centerra performance share units.

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

<sup>3)</sup> Amount payable upon exercise of options

#### Centerra Plan

##### (i) Stock Options.

Centerra has established a stock option plan under which options to purchase common shares may be granted to officers and employees of the Company. Options granted under the plan have an exercise price of not less than the weighted average trading price of the common shares where they are listed for the five trading days prior to the date of the grant. The options issued prior to 2006 vest over five years while options issued in or after 2006 vest over three years, except stock options issued to the Company's Vice Chair which vest over two years. All issued options expire after eight years from the date granted. Options may be granted with a related share appreciation right. In these circumstances, the participant can either elect to receive shares by exercising the stock option or to receive payment in cash equal to the equivalent gain in the stock price. Centerra, at its discretion, can require any holder who has exercised a share appreciation right to exercise their option instead, or can elect to satisfy the cash amount owing upon exercise of a share appreciation right with common shares.

A maximum of 18,000,000 common shares are available for issuance upon the exercise of options granted under the plan. Certain restrictions on grants will apply, including that the maximum number of shares that may be granted to any individual within a 12-month period will not exceed 5% of the outstanding common shares.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

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### 18. Shareholders' Equity (continued)

#### c. Stock-Based Compensation- Centerra Plan (continued)

##### (i) Stock Options (continued)

	<b>2010</b>	<b>2009</b>	<b>2008</b>
Average award price for options granted in the year (Cdn \$/share)	<b>\$14.37</b>	\$4.81	\$8.06
Weighted average price on outstanding options (Cdn \$/share)	<b>\$7.45</b>	\$6.58	\$8.64

Centerra's stock options transactions during the year were as follows:

	<b>2010</b>		2009		2008	
	<b>Number of Options</b>	<b>Weighted Average exercise Price- Cdn\$</b>	Number of Options	Weighted Average Exercise Price- Cdn\$	Number of Options	Weighted Average Exercise Price- Cdn\$
Balance, January 1,	<b>1,816,155</b>	<b>\$ 6.58</b>	1,848,165	\$ 8.64	962,028	\$ 9.17
Granted	<b>100,000</b>	<b>14.37</b>	816,802	4.81	886,137	8.06
Exercised	<b>(1,012,168)</b>	<b>(6.58)</b>	(393,791)	(5.80)	-	-
Cancelled	-	-	(455,021)	(12.43)	-	-
Balance -December 31,	<b>903,987</b>	<b>\$ 7.45</b>	1,816,155	\$ 6.58	1,848,165	\$ 8.64

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2009 and 2008

(Expressed in United States Dollars)

### 18. Shareholders' Equity (continued)

#### c. Stock-Based Compensation – Centerra Plan (continued)

##### (i) Stock Option (continued)

The Company determines the fair value of the employee stock options using the Black-Scholes option pricing model. In determining the fair value of these employee stock options, the following weighted average assumptions were used:

	2010	2009	2008
Expected life (years)	2.50	5.00	4.31
Expected volatility	95.88	83.47%	50.38%
Risk-free rate of return	1.34%	1.74%	3.40%
Expected dividends	\$ 0.06	-	-
Weighted average fair value of options granted during the year- Cdn \$	\$ 6.89	\$ 3.61	\$ 2.87

The resulting fair value of the options granted in 2010 was \$0.7 million (2009 - \$2.3 million, 2008 - \$2.5 million).

The terms of the options outstanding as at December 31, 2010 are as follows:

Award Date	Award Price	Expiry Date	Number options outstanding	Number options vested
2006	\$12.78 (Cdn)	2014	21,789	21,789
2007	\$11.43 (Cdn)	2015	48,410	48,410
2008	\$14.29 (Cdn)	2016	97,763	65,175
2008	\$5.24 (Cdn)	2016	24,802	16,535
2008	\$4.68 (Cdn)	2016	6,397	4,265
2009	\$4.81 (Cdn)	2017	604,826	201,609
2010	\$14.37 (Cdn)	2018	100,000	-
			903,987	357,783

In 2010, \$1.6 million of compensation expense was recorded on this plan (\$2.1 million in 2009 and \$1.0 million in 2008).

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2009 and 2008

(Expressed in United States Dollars)

### 18. Shareholders' Equity (continued)

#### c. Stock-Based Compensation – Centerra Plan (continued)

##### (ii) Performance share unit plan

Centerra has established a performance share unit plan for employees and officers of the Company. A performance share unit represents the right to receive the cash equivalent of a common share or, at the Company's option, a common share purchased on the market. For performance share units granted before 2010, these will vest three years after December 31 of the calendar year preceding the year in which they were granted. For units granted in 2010 and after, one-half will vest on December 31 of the year succeeding the grant year, with the remaining half vesting on December 31 of the subsequent year thereafter. The number of units that will vest may be higher or lower than the number of units granted to a participant. The number of units which will vest is determined based on Centerra's total return performance (based on the preceding sixty-one trading days weighted average share price) relative to the S&P/TSX Global Gold Index Total Return Index Value during the applicable period. The number of units that vest is determined by multiplying the number of units granted to the participant by the adjustment factor, which can be as high as a factor of 1.5 for units granted before 2010, or as high as 2.0 for units granted after 2009 or potentially result in no payout.

Also in 2010, a special PSU series was granted with slightly different terms: this series vests equally one-third over three years and does not carry a multiplying factor.

If dividends are paid, each participant will be allocated additional performance share units equal in value to the dividend paid per common shares multiplied by the number of performance share units held by the participant. At December 31, 2010, the number of units outstanding was 1,528,209 with a related liability of \$29.0 million (December 31, 2009-1,201,677 units, \$6.2 million liability).

Centerra's performance share unit plan transactions during the year were as follows:

	<b>2010</b>	2009	2008
	<b>Number of Units</b>	Number of Units	Number of Units
Balance, January 1,	<b>1,201,677</b>	718,877	595,080
Granted	<b>539,546</b> <sup>(1)</sup>	663,572	353,541
Exercised	<b>(99,434)</b>	(3,073)	(212,056)
Cancelled	<b>(113,580)</b>	(177,699)	(17,688)
<b>Balance -December 31,</b>	<b>1,528,209</b>	1,201,677	718,877

(1) - The units issued during the first quarter of 2010 under Centerra's PSU plan also include 246,021 "special" performance share units.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2009 and 2008

(Expressed in United States Dollars)

### 18. Shareholders' Equity (continued)

#### c. Stock-Based Compensation – Centerra Plan (continued)

##### (ii) Performance share unit plan

In 2010, compensation cost expense of \$23.8 million was recorded on this plan (compensation cost expense of \$6.2 million in 2009 and compensation cost recovery of \$1.8 million in 2008).

##### (iii) Annual performance share unit plan

Centerra has established an annual performance share unit plan for eligible employees at its mine sites. A performance share unit represents the right to receive the cash equivalent of a common share or, at the Company's option, a common share purchased on the market. At the start of a year, an eligible employee receives a number of performance share units based on Centerra's preceding sixty-one trading days weighted average share price. The number of units which will vest at the end of the same year is determined based on Centerra's total return performance (based on the preceding sixty-one trading days weighted average share price) relative to the S&P/TSX Global Gold Index Total Return Index Value during the applicable period. The number of units that vest is determined by multiplying the number of units granted to the participant by the adjustment factor, which can be as high as a factor of 1.5 for units granted before 2010, or as high as 2.0 for units granted after 2009 or potentially result in no payout. The performance share units cannot be converted to shares.

Centerra's annual performance share unit plan transactions during the year were as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	Number of Units	Number of Units	Number of Units
Balance, January 1,	420,870	116,183	122,911
Granted	179,155	471,428	157,413
Exercised	(425,877)	(118,239)	(143,371)
Cancelled	(17,577)	(48,502)	(20,770)
<b>Balance -December 31,</b>	<b>156,571</b>	<b>420,870</b>	<b>116,183</b>

At December 31, 2010 the number of units outstanding was 156,571 with a related liability of \$6.2 million (December 31, 2009 – 420,870 units, \$6.3 million liability).

In 2010, \$6.5 million of compensation expense was recorded on this plan (\$6.5 million in 2009 and \$0.7 million in 2008).

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2009 and 2008

(Expressed in United States Dollars)

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### 18. Shareholders' Equity (continued)

#### c. Stock-Based Compensation – Centerra Plan (continued)

##### (iv) Deferred share unit plans

Centerra has established a deferred share unit plan for directors of the Company to receive all or a portion of their Director's compensation as deferred share units. A similar plan was established to provide compensation in the form of deferred share units to the Company's Vice Chair (the "Vice Chair Deferred Unit plan") for the duration of the Vice Chair tenure.

Effective as of December 9, 2010 directors could also elect to receive their compensation in the form of restricted share units.

Deferred share units are paid in full to a Director and to the Vice Chair no later than December 31 in the calendar year that immediately follows the calendar year of termination of service. A deferred share unit represents the right to receive the cash equivalent of a common share or, at the Company's option, a common share purchased on the market. Deferred share units vest immediately. If dividends are paid, each Director and the Vice Chair will be allocated additional deferred share units equal in value to the dividend paid per common shares multiplied by the number of deferred share units held by such participant. At December 31, 2010, the number of units outstanding was 344,728 with a related liability of \$6.9 million (December 31, 2009- 375,216 units, \$3.8 million liability).

Centerra's deferred share unit plan transactions during the year were as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	Number of Units	Number of Units	Number of Units
Balance, January 1,	375,216	298,077	197,351
Granted	58,443	102,352	112,717
Exercised	(88,931)	(25,213)	(11,991)
Cancelled	-	-	-
Balance -December 31,	<u>344,728</u>	<u>375,216</u>	<u>298,077</u>

In 2010, compensation cost expense of \$4.5 million was recorded on this plan (compensation cost expense of \$2.8 million in 2009 and compensation cost recovery of \$1.0 million in 2008).

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2009 and 2008

(Expressed in United States Dollars)

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### 18. Shareholders' Equity (continued)

#### c. Stock-Based Compensation – Centerra Plan (continued)

##### (v) Restricted Share Unit Plan

Effective December 9, 2010, the Company established a restricted share unit plan available for directors and designated officers and employees of Centerra. From January 1, 2011 and onwards, directors of Centerra may choose to receive all or a portion of their compensation in the form of restricted share units and/or deferred share units (as described above).

For directors participating in the plan, 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). Upon redemption, the Company will issue from treasury common shares equal to the whole number of restricted share units held by such participant, or at the election of the participant, the Company may pay the participant an amount equal to the number of redeemed restricted share units multiplied by the market value of the Company's common shares. One million common shares have been set aside for issuance under the restricted share unit plan.

The restricted share unit plan will be placed before the shareholders for approval at the next annual shareholders meeting. If the plan is not approved, all granted restricted share units will immediately be redeemed in accordance with the above.

As of December 31, 2010, there were no restricted share units granted.

#### Cameco Plan

On January 1, 2001, prior to the establishment of the Centerra stock option plan, Cameco Corporation ("Cameco", a former shareholder and parent of Centerra) established a stock-based compensation plan under which stock options ("options"), which are converted to a cash amount, were granted to eligible employees of the Company. Options granted under the plan could not be converted to shares and had an award price of not less than the closing price quoted on the Toronto Stock Exchange ("TSX") for the common shares of Cameco on the trading day prior to the date on which the option was granted. Upon redemption, the options were settled in cash based on the excess of the closing price quoted on the TSX for the common shares of Cameco on the last trading date prior to the redemption date over the award price. The options vested over three years and expired eight years from the date granted.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2009 and 2008

(Expressed in United States Dollars)

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### 18. Shareholders' Equity (continued)

#### c. Stock-Based Compensation - Cameco plan (continued)

The liability for this option plan was assumed by Centerra on Centerra's initial public offering in 2004. Options under this plan were last granted in 2004.

In December 2009, all outstanding options under this plan were exercised by the various holders as a result of the sale by Cameco of its ownership in Centerra. This plan is no longer available to employees of Centerra.

Transactions under the Cameco plan for the respective years were as follows

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	<b>2010</b>	<b>2009</b>	<b>2008</b>
(Number of options, except as indicated)			
Beginning of year	-	55,200	73,200
Options exercised		(55,200)	(17,400)
Options cancelled	-	-	(600)
End of year	-	-	55,200
Award price for options exercised – Cdn\$	-	\$5.88-\$10.52	\$5.88-\$10.52

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# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2009 and 2008

(Expressed in United States Dollars)

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### 19. Commitments and Contingencies

#### Commitments

As at December 31, 2010, the Company had entered into contracts to purchase capital equipment and operational supplies totalling \$69.8 million (Kumtor \$69.7 million, Boroo \$0.1 million) these are expected to be settled over the next twelve months.

In November 2010, the lease for the Company's corporate offices in Toronto, Canada was renewed for further period of five years ending November 30, 2016. The total obligation outstanding under this new extended lease as at December 2010 is \$2.6 million of which approximately \$0.4 million will be spent in 2011.

#### Contingencies

##### Kyrgyz Republic

Kumtor Operating Company ("KOC"), 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 KOC of its position that KOC should pay contributions to the Social Fund not only in respect of base wages but also in respect of the premium compensation that KOC 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 KOC, completed as recently as 2009. KOC plans to continue to vigorously dispute the Social Fund's position. At this time, the likelihood of liability is not determinable and as a result, no amounts have been accrued in the Company's financial statements in respect of this matter.

##### Mongolia

##### *Mongolian Regulatory Matters.*

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. As at the end of 2010, the number of outstanding issues has decreased. In 2010, the Company also worked with the SSIA and the Mongolian Specialized Minerals Council 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 Consolidated Financial Statements

For the years ended December 31, 2010, 2009 and 2008

(Expressed in United States Dollars)

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### 19. Commitments and Contingencies (continued)

#### Mongolia (continued)

##### *Mongolian Regulatory Matters (continued).*

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, the Mongolian cabinet announced its intention to initiate the revocation of 1,782 mineral licenses under the Water and Forest Law on a staged basis, beginning with the revocation of 254 alluvial gold mining licenses. The Company has four licenses on the list of alluvial gold mining license that may be revoked. None of these licenses are material to the Company. In particular, the Company’s principal Gatsuurt hardrock mining licenses are not on the list of alluvial licenses to be revoked. In accordance with the Water and Forest Law, the Company submitted in February 2011 a formal request for compensation for the four licenses to be revoked.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2009 and 2008

(Expressed in United States Dollars)

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### 19. Commitments and Contingencies (continued)

#### Mongolia (continued)

##### *Mongolian Regulatory Matters (continued)*

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

- preparing and submitting to the cabinet a proposal to designate as “strategic” those deposits, the development of which would contribute to regional social and economic development and, at the same time, require significant amounts of compensation;
- revoking all licenses for non-gold mining operations which utilize surface water;
- revoking all 460 gold exploration licenses and providing compensation;
- revoking all 931 non-gold exploration licenses and providing compensation;
- revoking and providing compensation to all remaining affected mining licenses.

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

The Company understands that Mongolia’s cabinet expects that the Water and Forest Law will take until approximately November 2012 to fully implement. According to statements by officials, the Mongolian Government estimates that the total compensation due to mining companies for the revocation of their licenses will amount to approximately US\$4 billion, 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.

While the Company has continued to receive permits and approvals in connection with the road construction to Gatsuert 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 Gatsuert 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 Gatsuert will be delayed as a result of the Water and Forest Law.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2009 and 2008

(Expressed in United States Dollars)

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### 19. Commitments and Contingencies (continued)

#### Mongolia (continued)

##### *Mongolian Regulatory Matters (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 license, could have an adverse impact on Centerra's future cash flows, earnings, results of operations and financial condition.

##### *Operations and Labour*

At the Boroo mine, mining activity ceased at the end of November 2010. The Boroo mill is expected to continue to operate for a further two years processing low grade stockpiled ores. Because of the delay in receiving the necessary approvals and regulatory commissioning of the Gatsuurt project due to the uncertainty of the Water and Forest Law, the Company laid off approximately 250 workers at the Boroo mine on December 1, 2010, which the Company had originally planned to redeploy from Boroo to Gatsuurt.

##### *New Graduated Royalty Fee*

In November 2010, the Mongolian Parliament passed amendments to its 2006 Mongolian Minerals Law that modified the existing royalty structure on mineral projects. Pursuant to the amended royalty structure, the royalty rate is no longer a fixed percentage but is graduated and dependent upon the commodity price in US dollars. In the case of gold, there is a basic 5% royalty fee that applies while gold is less than \$900 per ounce. For any increase of \$100 to the price of gold, there is a corresponding 1% increase to the royalty fee. Accordingly, at \$900 per ounce, the royalty fee increases to 6% which continues until the gold price reaches \$1,000 per ounce at which point, the royalty increases to 7%, at \$1,100, the royalty increases to 8%, and at \$1,200, the royalty increases to 9%. The highest royalty fee rate is reached at 10% when gold is \$1,300 per ounce and above. The graduated royalty became effective as of January 1, 2011 for all mining projects in Mongolia. On January 19, 2011, the Standing Committee of the State Great Hural of Mongolia issued a resolution to the Mongolian Government which, among other things, resolved to direct the Government to enter into negotiations to have the graduated royalty structure apply to business entities that have already entered into a stability 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.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2009 and 2008

(Expressed in United States Dollars)

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### 19. Commitments and Contingencies (continued)

#### Mongolia (continued)

##### *New Graduated Royalty Fee (continued)*

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. Despite this, the Company cannot provide any assurances that Boroo will not be made subject to the graduated royalty fee. If the graduated royalty fee does apply to Boroo, it may have an adverse impact on Centerra's future cash flows, earnings, results of operations or financial condition. Regardless of whether the graduated royalty fee applies to the Boroo operations, it will apply to gold produced from the Gatsuurt project, when developed.

### 20. Related Party Transactions

#### **Cameco**

Cameco owned 100% of the Company until the Company's initial public offering in 2004. Upon the completion of Centerra's initial public offering, Cameco held a 52.7% interest in Centerra. On December 30, 2009 Cameco disposed of its ownership in the Company's common stock by way of a public offering and the transfer of 25.3 million common shares to Kyrgyzaltyn JSC, a state-owned entity of the Kyrgyz Republic.

A net balance related to inter-company transactions of \$0.6 million was receivable from Cameco at December 31, 2009.

#### **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.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2009 and 2008

(Expressed in United States Dollars)

### 20. Related Party Transactions (continued)

#### Kyrgyzaltyn and the Government of the Kyrgyz Republic (continued)

The table below summarizes 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 Sales Agreement between Kumtor Operating Company, a wholly-owned subsidiary of the Company (“KOC”), Kyrgyzaltyn and the Government of the Kyrgyz Republic, which was restated in June 2009.

<b>Related parties in the Kyrgyz Republic</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
(Thousands of US\$)			
Management fees to Kyrgyzaltyn	\$ 568	\$ 575	\$ 828
Concession payments to the Kyrgyz Republic	-	(116)	2,209
	<b>\$ 568</b>	<b>\$ 459</b>	<b>\$ 3,037</b>
Gross gold and silver sales to Kyrgyzaltyn	\$ 706,823	\$ 526,066	\$ 470,759
Deduct: refinery and financing charges	(2,558)	(2,362)	(2,465)
Net sales revenue received from Kyrgyzaltyn	<b>\$ 704,265</b>	<b>\$ 523,704</b>	<b>\$ 468,294</b>

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 Sales 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.

At the request of the Kyrgyz Government and as agreed with the Company in August 2010, advances of taxes were made totalling \$11 million, covering a portion of the expected tax obligations of KGC until the end of December 2010. The advances will be applied against the 2010 revenue-based taxes otherwise payable in January 2011.

As at December 31, 2010, \$88.8 million was outstanding under the Gold and Silver Sale Agreement (December 31, 2009 - \$37.9 million).

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2009 and 2008

(Expressed in United States Dollars)

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### 21. Fair Value of Financial Instruments

Under CICA Sections 3862 *Financial Instruments – Disclosures* and 3863 *Financial Instruments – Presentation*, the Company is required to establish a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used into measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Also, the two CICA standards provide disclosure of quantitative and qualitative information in its financial statements that enables users to evaluate (a) the significance of financial instruments for the Company's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the Company is exposed during the period and at the balance sheet date, and management's objectives, policies and procedures for managing such risks.

Additional disclosures, as required, are included within these consolidated financial statements (see note 22)

The Company has various financial instruments comprising of cash and cash equivalents, short-term investments, receivables, a reclamation trust fund, accounts payable and accrued liabilities and contingent common shares issuable.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2009 and 2008

(Expressed in United States Dollars)

### 21. Fair Value of Financial Instruments (continued)

Fair values of the cash equivalents and short-term investments are determined directly by reference to published price quotations in an active market at the reporting date.

The fair value of amounts receivable is determined by the amount of cash anticipated to be produced in the normal course of business from the financial asset, net of any direct costs of the conversion into cash.

The carrying values of these financial instruments are as follows:

(Thousands of US\$)	December 31, 2010		December 31, 2009	
	Estimated fair value	Carrying value	Estimated fair value	Carrying value
<b>Financial assets</b>				
Cash and cash equivalents	\$ 330,737	\$ 330,737	\$ 176,904	\$ 176,904
Restricted cash	795	795	-	-
Short-term investments	82,278	82,278	145,971	145,971
Amounts receivable	97,281	97,281	44,281	44,281
Reclamation trust fund	7,448	7,448	6,443	6,443
Other long-term receivable	9,851	9,851	111	111
	<b>\$ 528,390</b>	<b>\$ 528,390</b>	<b>\$ 373,710</b>	<b>\$ 373,710</b>

(Thousands of US\$)	December 31, 2010		December 31, 2009	
	Estimated fair value	Carrying value	Estimated fair value	Carrying value
<b>Financial Liabilities</b>				
Accounts payable and accrued liabilities	\$ 65,221	\$ 65,221	\$ 49,178	\$ 49,178
	<b>\$ 65,221</b>	<b>\$ 65,221</b>	<b>\$ 49,178</b>	<b>\$ 49,178</b>

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2009 and 2008

(Expressed in United States Dollars)

### 21. Fair Value of Financial Instruments (continued)

The amended Section 3862, *Financial Instruments – Disclosures*, requires that an explanation about how fair value is determined for assets and liabilities measured in the financial statements at fair value be disclosed and requires the Company to establish a hierarchy for which these assets and liabilities must be grouped based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's assumptions. The two types of inputs create the following fair value hierarchy:

Level 1: observable inputs such as quoted prices in active markets;

Level 2: inputs, other than the quoted market prices in active markets, which are observable, either directly and/or indirectly; and

Level 3: unobservable inputs for the asset or liability in which little or no market data exists, therefore require an entity to develop its own assumptions.

The following table summarizes the fair value measurement by level at December 31, 2010 for assets and liabilities measured at fair value on a recurring basis:

(Thousands of US\$)	Assets Measured at Fair Value		December 31, 2009	
	December 31, 2010		Level 1	Total
	Level 1	Total	Level 1	Total
<b>Financial assets</b>				
Cash and cash equivalents				
Cash	\$ 81,313	\$ 81,313	\$ 102,204	\$ 102,204
Cash equivalent	249,424	249,424	74,700	74,700
	<u>330,737</u>	<u>330,737</u>	176,904	176,904
Restricted cash	795	795	-	-
Short-term investments	82,278	82,278	145,971	145,971
Reclamation trust fund	7,448	7,448	6,443	6,443
	<u>\$ 421,258</u>	<u>\$ 421,258</u>	\$ 329,318	\$ 329,318

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2009 and 2008

(Expressed in United States Dollars)

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### 22. Financial Risk Exposure and Risk management

The Company is exposed in varying degrees to certain financial instruments and related risks by virtue of its activities. The overall financial risk management program focuses on preservation of capital, and protecting current and future Company assets and cash flows by reducing exposure to risks posed by the uncertainties and volatilities of financial markets.

The Board of Directors has a responsibility to ensure that an adequate financial risk management policy is established and to approve the policy. Financial risk management is carried out by the Company's Treasury department under a policy approved by the Board of Directors. The Treasury department identifies and evaluates financial risks, establishes controls and procedures to ensure financial risks are mitigated in accordance with the approved policy and programs, and risk management activities comply thereto.

The Company's Audit Committee oversees management's compliance with the Company's financial risk management policy, approves financial risk management programs, and receives and reviews reports on management compliance with the policy and programs. The Internal Audit department assists the Audit Committee in undertaking its oversight of financial risk management controls and procedures, the results of which are reported to the Audit Committee.

The types of risk exposure and the way in which such exposures are managed are as follows:

#### a. Currency Risk

As the Company operates in an international environment, some of the Company's financial instruments and transactions are denominated in currencies other than the United States Dollar. The results of the Company's operations are subject to currency transaction risk and currency translation risk. The operating results and financial position of the Company are reported in U.S. Dollars in the Company's consolidated financial statements.

The fluctuation of the U.S. Dollar in relation to other currencies will consequently have an impact upon the profitability of the Company and may also affect the value of the Company's assets and the amount of shareholders' equity.

As required, the Company either makes purchases at the prevailing spot price to fund corporate activities or enters into short-term forward contracts to purchase Canadian Dollars. During the year ended December 31, 2010, Cdn \$6.7 million of such forward contracts were executed (2009-Cdn \$6.3 million). There were no outstanding forward contracts at December 31, 2010 and December 31, 2009.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2009 and 2008

(Expressed in United States Dollars)

### 22. Financial Risk Exposure and Risk management (continued)

#### a. Currency Risk (continued)

The exposure of the Company's financial assets and liabilities to currency risk as at December 31, 2010 are as follows:

(Thousands of US\$)	Kyrgyz Som	Mongolian Tugrik	Canadian Dollar	Russian Ruble	European Euro	Australian Dollar
<b>Financial Assets</b>						
Cash and cash equivalents	\$ 436	\$ 1,642	\$ 14,877	\$ 84	\$ 4,878	\$ -
Restricted cash	-	795	-	-	-	-
Amounts receivables	81	2,833	356	83	127	-
Other long-term receivables	149	-	202	-	-	-
	\$ 666	\$ 5,270	\$ 15,435	\$ 167	\$ 5,005	\$ -
<b>Financial Liabilities</b>						
Accounts payable and accrued liabilities	\$ 4,616	\$ 6,607	\$ 40,916	\$ -	\$ 1,211	\$ 292

The exposure of the Company's financial assets and liabilities to currency risk as at December 31, 2009 are as follows:

(Thousands of US\$)	Kyrgyz Som	Mongolian Tugrik	Canadian Dollar	Russian Ruble	European Euro	Australian Dollar
<b>Financial Assets</b>						
Cash and cash equivalents	\$ 244	\$ 277	\$ 1,864	\$ 8	\$ 61	\$ -
Amounts receivables	127	1,641	938	-	324	-
	\$ 371	\$ 1,918	\$ 2,802	\$ 8	\$ 385	\$ -
<b>Financial Liabilities</b>						
Accounts payable and accrued liabilities	\$ 6,456	\$ 623	\$ 16,070	\$ 9	\$ 792	\$ -

A strengthening of the U.S. Dollar by 5% against the Canadian Dollar, the Euro, the Kyrgyz Som and the Mongolian Tugrik at December 31, 2010, with all other variables held constant would have lead to additional earnings before income tax of \$1.4 million as a result of a change in value of the financial assets and liabilities denominated in those currencies.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2009 and 2008

(Expressed in United States Dollars)

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### 22. Financial Risk Exposure and Risk management (continued)

#### b. Interest Rate Risk

Interest rate risk is the risk borne by an interest-bearing asset or liability as a result of fluctuations in interest rates.

Financial assets and financial liabilities with variable interest rates expose the Company to cash flow interest rate risk. The Company's cash and cash equivalents include highly liquid investments that earn interest at market rates. In addition, a revolving \$150 million credit facility entered into by the Company, in November 2010, bears interest at a rate which includes a variable component pegged to the London Interbank Offer Rate, or LIBOR. This facility with the European Bank for Reconstruction and Development expires February 17, 2014.

Although the Company endeavours to maximize the interest income earned on excess funds, the Company's policy focuses on cash preservation, while maintaining the liquidity necessary to conduct operations on a day-to-day basis. The Company's policy limits the investing of excess funds to liquid term deposits, treasury bills, banker's acceptances and corporate direct credit having a single "A" rating or greater.

Fluctuations in market interest rates have not had a significant impact on the Company's results of operations due to the short term to maturity of the investments held.

#### c. Concentration of Credit Risk

Credit risk is the risk of a financial loss to the Company if a gold sales customer or counterparty to a financial instrument fails to meet its contractual obligation. Credit risk arises principally from the Company's receivables from customers, deposits and short-term investments.

The Company's exposure to credit risk, in respect of gold sales, is influenced mainly by the individual characteristics of each customer. The Company's revenues are directly attributable to sales transactions with two customers. Boroo sells its product to Johnson Matthey Limited, under the terms of a refining agreement with its North American precious metals division. Kyrgyzaltyn, a state-owned refinery in the Kyrgyz Republic, is Kumtor's sole customer and is a shareholder of Centerra. To partially mitigate exposure to potential credit risk related to Kumtor sales, the Company has an agreement in place whereby Kyrgyzaltyn has pledged 2,850,000 of Centerra common shares as security against unsettled gold shipments, in the event of default on payment (Note 20). Based on movements of Centerra's share price, and the value of individual or unsettled gold shipments, over the course of 2010, the maximum exposure during the year, reflecting the shortfall in the value of the security as compared to the value of any unsettled shipments, was approximately \$35.5 million.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2009 and 2008

(Expressed in United States Dollars)

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### 22. Financial Risk Exposure and Risk management (continued)

#### e. Concentration of Credit Risk (continued)

The Company manages counterparty credit risk, in respect of short-term investments, by maintaining bank accounts with highly-rated U.S. and Canadian banks and investing only in highly-rated Canadian and U.S. Government bills, term deposits or banker's acceptances with highly-rated financial institutions and corporate direct credit issues that can be promptly liquidated.

At the balance sheet date, approximately 17.0% of the Company's liquid assets were held with the Royal Bank of Canada, 16.6% with the Bank of Nova Scotia, and 15.5% with HSBC Bank. The remainder of cash and cash equivalents, and short-term investments were held in cash, government securities, term deposits, banker's acceptances and highly-rated corporate direct credit issues.

#### d. Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company's Financial Risk Management Policy requires that surplus cash only be invested in highly-rated and highly-liquid instruments to ensure risk to the Company's assets is minimized.

The Company manages its liquidity risk by ensuring that there is sufficient capital to meet short- and long-term business requirements, after taking into account cash flows from operations and the Company's holdings of cash and cash equivalents and short-term investments. The Company believes that these sources will be sufficient to cover the likely short- and long-term cash requirements. Senior management is also actively involved in the review and approval of planned expenditures by regularly monitoring cash flows from operations and anticipated investing and financing activities.

#### e. Commodity Price Risk

The value of the Company's revenues and mineral resource properties is related to the price of gold, and the outlook for this mineral. Adverse changes in the price of certain raw materials can also significantly impair the Company's cash flows. The Company's Financial Risk Management Policy currently prohibits gold hedging.

Gold prices historically have fluctuated widely and are affected by numerous factors outside of the Company's control, including, but not limited to, industrial and retail demand, central bank reserves management, forward sales by producers and speculators, levels of worldwide production, short-term changes in supply and demand due to speculative hedging activities, macro-economic variables, and certain other factors related specifically to gold.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2009 and 2008

(Expressed in United States Dollars)

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### 22. Financial Risk Exposure and Risk management (continued)

#### e. Commodity Price Risk (continued)

The profitability of the Company's operations is highly correlated to the market price of gold. To the extent that the price of gold increases over time, asset value increases and cash flows improve; conversely, declines in the price of gold directly impact asset value and cash flows. A protracted period of depressed prices could impair the Company's operations and development opportunities, and significantly erode shareholder value.

To the extent there are adverse changes to the price of certain raw materials (e.g. diesel fuel), the value of the Company's reserves may be impacted.

If the world market price of gold was to drop and the prices realized by the Company on gold sales were to decrease by 10%, based on the number of ounces in inventory as at December 31, 2010, the Company's profitability and cash flow, after adjusting for any remaining conversion costs not yet incurred, would be negatively affected by an additional before tax net loss of \$64.5 million.

### 23. Capital Management

The Company's capital includes cash and cash equivalents, short-term investments, short-term debt, long-term liabilities and equity, comprising issued common shares, contributed surplus and retained earnings.

The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to maintain its ongoing operations, to provide returns for shareholders and benefits for other stakeholders and to pursue growth opportunities. To secure additional capital to pursue these plans, the Company may attempt to raise additional funds through borrowing and/or the issuance of equity or debt.

The revolving credit facility with the European Bank for Reconstruction and Development includes covenants that are standard for this type of facility. As at December 31, 2010 Centerra was in compliance with all its covenants.

As at December 31, 2010 the Company is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital risk management strategy.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2009 and 2008

(Expressed in United States Dollars)

### 24. Supplemental cash flow disclosure

#### a. Changes in operating working capital

(Thousands of US\$)	2010	2009	2008
(Increase) decrease in amounts receivable	\$ (53,000)	\$ (14,034)	\$ (12,226)
(Increase) decrease in income taxes recoverable	-	3,323	(3,323)
(Increase) decrease inventory-ore and metal	(24,783)	8,061	(13,470)
(Increase) decrease in inventory-supplies	(7,458)	4,986	(31,616)
(Increase) decrease in prepaid expenses	(10,503)	6,294	3,218
Increase (decrease) in accounts payable and accrued liabilities	15,771	15,876	(4,725)
Increase (decrease) in taxes payable	(7,712)	20,573	14,493
	<b>\$ (87,685)</b>	<b>\$ 45,079</b>	<b>\$ (47,649)</b>

#### b. Other cash payments

(Thousands of US\$)	2010	2009	2008
Interest paid	\$ -	\$ -	\$ 500
Income taxes paid	\$ 23,387	\$ 28,738	\$ 11,923

#### c. Investment in property, plant and equipment (PP&E):

(Thousands of US\$)	2010	2009	2008
Additions to PP&E during the year ended December 31,	\$ 211,977	\$ 89,764	\$ 94,526
Reduction(increase) to depreciation and amortization included in additions to PP&E	(3,481)	-	(1,569)
Reduction(increase) to accruals included in additions to PP&E	(272)	2,309	2,147
Cash investment in PP&E	<b>\$ 208,224</b>	<b>\$ 92,073</b>	<b>\$ 95,104</b>

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2009 and 2008

(Expressed in United States Dollars)

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### 25. Comparative Information

Certain prior year balances have been reclassified to conform to the current presentation. The classifications had no effect on the net earnings and retained earnings as previously reported.

### 26. Segmented Information

The Company's operations are segmented on a regional basis. 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 involves 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 self-eliminating inter-company loan interest income and expenses 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 dore, 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.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2009 and 2008

(Expressed in United States Dollars)

### 26. Segmented Information (continued)

#### Year ended December 31, 2010

(Millions of US\$)	Kyrgyz Republic	Mongolia	Corporate and other	Total
Revenue	\$704.3	\$ 142.2	\$ -	\$ 846.5
Expenses				
Cost of sales	213.2	50.7	-	263.9
Mine standby costs	1.3	-	-	1.3
Depreciation, depletion and amortization	59.3	17.3	0.4	77.0
Accretion and reclamation expense	1.1	0.8	-	1.9
Revenue based taxes	98.6	-	-	98.6
Exploration and business development	11.9	8.2	12.3	32.4
Interest and other	1.1	0.4	(1.8)	(0.3)
General and administration	17.5	8.2	50.6	76.3
	<b>404.0</b>	<b>85.6</b>	<b>61.5</b>	<b>551.1</b>
	<b>300.3</b>	<b>56.6</b>	<b>(61.5)</b>	<b>295.4</b>
Gain on sale of REN property				(34.9)
<b>Earnings before income taxes</b>				<b>330.3</b>
Income tax expense				7.6
<b>Net earnings and comprehensive income</b>				<b>\$ 322.7</b>
<b>Assets (excluding goodwill)</b>	<b>\$ 711.1</b>	<b>\$ 276.3</b>	<b>\$ 279.6</b>	<b>\$ 1,267.0</b>
<b>Goodwill</b>	<b>\$ 129.7</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 129.7</b>
<b>Capital expenditures for the year</b>	<b>\$ 186.5</b>	<b>\$ 25.2</b>	<b>\$ 0.3</b>	<b>\$ 212.0</b>

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2009 and 2008

(Expressed in United States Dollars)

### 26. Segmented Information (continued)

#### Year ended December 31, 2009

(Millions of US\$)	<b>Kyrgyz Republic</b>	<b>Mongolia</b>	<b>Corporate and other</b>	<b>Total</b>
Revenue	\$523.7	\$ 161.8	\$ -	\$ 685.5
Expenses				
Cost of sales	236.5	59.4	-	295.9
Mine standby costs	-	4.1	-	4.1
Depreciation, depletion and amortization	73.5	29.5	0.7	103.7
Accretion and reclamation expense	1.2	1.2	-	2.4
Revenue based taxes	60.2	-	-	60.2
Exploration and business development	11.9	3.4	10.5	25.8
Interest and other	2.5	(5.1)	0.9	(1.7)
General and administration	18.4	9.0	28.8	56.2
	<u>404.2</u>	<u>101.5</u>	<u>40.9</u>	<u>546.6</u>
<b>Earnings (loss) before unusual items and income taxes</b>	119.5	60.3	(40.9)	138.8
Unusual items - Kyrgyz settlement				49.3
<b>Earnings before income taxes</b>				<u>89.5</u>
Income tax expense				29.2
<b>Net earnings and comprehensive income</b>				<u>\$ 60.3</u>
<b>Assets (excluding goodwill)</b>	\$ 510.3	\$ 402.2	\$ 31.8	\$ 944.3
<b>Goodwill</b>	\$ 129.7	\$ -	\$ -	\$ 129.7
<b>Capital expenditures for the year</b>	\$ 73.4	\$ 16.4	\$ -	\$ 89.8

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2009 and 2008

(Expressed in United States Dollars)

### 26. Segmented Information (continued)

#### Year ended December 31, 2008

(Millions of US\$)	Kyrgyz Republic	Mongolia	Corporate and other	Total
Revenue	\$ 468.3	\$ 167.6	\$ -	\$ 635.9
Expenses				
Cost of sales	273.1	58.9	-	332.0
Depreciation, depletion and amortization	59.2	18.2	0.9	78.3
Accretion and reclamation expense	0.8	0.6	-	1.4
Impairment charge	-	18.8	-	18.8
Exploration and business development	14.1	3.2	6.3	23.6
Interest and other	11.9	(2.6)	(4.8)	4.5
General and administration	14.7	8.5	22.9	46.1
	<u>373.8</u>	<u>105.6</u>	<u>25.3</u>	<u>504.7</u>
<b>Earnings (loss) before unusual items and income taxes</b>	94.5	62.0	(25.3)	131.2
Unusual items - Kyrgyz settlement				(37.7)
<b>Earnings before income taxes</b>				168.9
Income tax expense				34.1
<b>Net earnings and comprehensive income</b>				\$ 134.8
<b>Assets (excluding goodwill)</b>	\$ 459.6	\$ 336.4	\$ 15.1	\$ 811.1
<b>Goodwill</b>	\$ 129.7	\$ -	\$ -	\$ 129.7
<b>Capital expenditures for the year</b>	\$ 57.1	\$ 36.6	\$ 0.8	\$ 94.5