

Centerra Gold Inc.

Consolidated Financial Statements

For the Years Ended December 31, 2011 and 2010

(Expressed in United States Dollars)

Report of Management's Accountability

The Consolidated Financial Statements 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 International Financial Reporting Standards as issued by the International Accounting Standards Board.

The preparation of the Consolidated Financial Statements 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 includes information regarding the estimated impact of future events and transactions. 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 controls and internal audit checks to see if the controls are operating as designed. The system of internal controls 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 audited 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 International Financial Reporting Standards as issued by the International Accounting Standards Board. KPMG LLP, whose report appears on page ii, outlines the scope of their examination and their opinion.

The Company's Directors, through its Audit Committee, are 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.

The Company's President and Chief Executive Officer and the Company's Vice President and Chief Financial Officer have certified the design and effectiveness of related internal controls over financial reporting pursuant to National Instrument 52-109.

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, 2012

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Centerra Gold Inc.

We have audited the accompanying consolidated financial statements of Centerra Gold Inc., which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, the consolidated statements of earnings and comprehensive income, shareholders' equity and cash flows for the years ended December 31, 2011 and 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 International Financial Reporting Standards, 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 opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Centerra Gold Inc. as at December 31, 2011, December 31, 2010 and January 1, 2010, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Original signed by:

KPMG LLP

Chartered Accountants, Licensed Public Accountants
Toronto, Canada

February 23, 2012

Centerra Gold Inc.
Consolidated Statement of Financial Position

(Expressed in Thousands of United States Dollars)	Notes	December 31 2011	December 31 2010	January 1 2010
Assets				
Current assets				
Cash and cash equivalents	3(c)	\$ 195,539	\$ 330,737	\$ 176,904
Short-term investments	3(e)	372,667	82,278	145,971
Restricted cash	6	179	795	-
Amounts receivable	7	56,749	100,562	44,281
Inventories	8	279,944	181,633	151,822
Prepaid expenses		26,836	22,221	11,718
		<u>931,914</u>	<u>718,226</u>	<u>530,696</u>
Property, plant and equipment	9	590,151	519,019	382,250
Goodwill	11	129,705	129,705	129,705
Long-term receivables and other	12	24,674	17,299	6,554
Long-term inventories	8	12,174	12,877	23,120
Deferred income tax asset	14(c)	-	3,367	62
		<u>756,704</u>	<u>682,267</u>	<u>541,691</u>
Total assets		<u>\$ 1,688,618</u>	<u>\$ 1,400,493</u>	<u>\$ 1,072,387</u>
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities	13	\$ 76,385	\$ 70,909	\$ 49,098
Revenue-based tax	14(a)	15,178	25,489	29,355
Taxes payable		1,074	1,865	5,711
Current portion of provisions	16	1,848	9,553	7,399
		<u>94,485</u>	<u>107,816</u>	<u>91,563</u>
Provisions	16	53,777	30,880	26,546
Deferred income tax liability	14(c)	1,897	-	8,700
		<u>55,674</u>	<u>30,880</u>	<u>35,246</u>
Shareholders' equity				
Share capital	25	660,117	655,178	646,081
Contributed surplus		33,994	33,827	35,376
Retained earnings		844,348	572,792	264,121
		<u>1,538,459</u>	<u>1,261,797</u>	<u>945,578</u>
Total liabilities and shareholders' equity		<u>\$ 1,688,618</u>	<u>\$ 1,400,493</u>	<u>\$ 1,072,387</u>

Commitments and contingencies (note 26)

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,	2011	2010
(Expressed in Thousands of United States Dollars, except per share amounts)		
	Notes	
Revenue from Gold Sales		\$ 1,020,344
		\$ 849,753
Cost of sales	17	382,295
Mine standby costs	18	213
Regional office administration		21,322
Earnings from mine operations		616,514
		485,209
Revenue-based taxes	14(a)	131,750
Other operating expenses	19	15,471
Exploration and business development	20	42,894
Corporate administration	21	44,902
Earnings from operations		381,497
		293,909
Other (income) and expenses	22	(1,056)
Finance costs	23	3,545
Gain on sale of REN property	24	-
Earnings before income taxes		379,008
		326,718
Income tax expense	14(b)	8,130
Net earnings and comprehensive income		\$ 370,878
		\$ 322,291
 Basic and diluted earnings per common share	 25	 \$ 1.57
		 \$ 1.37

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,	2011	2010
(Expressed in Thousands of United States Dollars)		
Notes		
Operating activities		
Net earnings	\$ 370,878	\$ 322,291
Items not requiring (providing) cash:		
Depreciation, depletion and amortization	98,840	76,087
Finance costs	3,545	1,467
Loss on disposal of plant and equipment	1,305	1,964
Gain on disposal of REN property	-	(34,866)
Stock - based compensation expense	1,759	1,107
Change in long-term inventory	703	10,243
Income tax expense	8,130	4,427
Other operating items	(2,430)	(1,622)
	482,730	381,098
Change in operating working capital	30	(79,778)
Income tax paid	(3,657)	(20,279)
Cash provided by operations	434,923	281,041
Investing activities		
Net increase (decrease) in restricted cash	(616)	795
Additions to property, plant and equipment	30	(208,224)
Net (purchase) redemption of short-term investments	(290,389)	63,693
Long-term other assets	(7,375)	(10,745)
Proceeds from disposition of REN property	-	34,866
Proceeds from disposition of fixed assets	19	44
Cash used in investing	(473,516)	(119,571)
Financing activities		
Dividends paid	(99,322)	(13,620)
Payment of transaction costs related to borrowing	(630)	(458)
Proceeds from common shares issued for cash	3,347	6,441
Cash used in financing	(96,605)	(7,637)
Increase (decrease) in cash and cash equivalents during the year	(135,198)	153,833
Cash and cash equivalents at beginning of the year	330,737	176,904
Cash and cash equivalents at end of the year	\$ 195,539	\$ 330,737
<i>Cash and cash equivalents consist of:</i>		
Cash	\$ 75,193	\$ 81,314
Cash equivalents	120,346	249,423
	\$ 195,539	\$ 330,737

Centerra Gold Inc.
Consolidated Statement of Shareholders' Equity

(Expressed in Thousands of United States Dollars, except share information)	Number of Common Shares	Amount	Contributed Surplus	Retained Earnings	Total
Balance at January 1, 2010	234,857,228	\$ 646,081	\$ 35,376	\$ 264,121	\$ 945,578
Shares issued on exercise of stock options	1,012,169	9,097	(2,656)	-	6,441
Stock-based compensation expense	-	-	1,107	-	1,107
Dividends declared	-	-	-	(13,620)	(13,620)
Net earnings	-	-	-	322,291	322,291
Balance at December 31, 2010	235,869,397	\$ 655,178	\$ 33,827	\$ 572,792	\$ 1,261,797
Shares issued on exercise of stock options	469,644	4,939	(1,592)	-	3,347
Stock-based compensation expense	-	-	1,759	-	1,759
Dividends declared	-	-	-	(99,322)	(99,322)
Net earnings	-	-	-	370,878	370,878
Balance at December 31, 2011	236,339,041	\$ 660,117	\$ 33,994	\$ 844,348	\$ 1,538,459

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

1. General business description

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

2. Basis of presentation

a. Statement of Compliance

These consolidated financial statements represent the first annual financial statements of the Company and its subsidiaries prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). The Company adopted IFRS in accordance with IFRS 1, *First-time Adoption of International Financial Reporting Standards*. As these financial statements are the Company’s first annual financial statements prepared using IFRS, these financial statements should be read in conjunction with the IFRS transition disclosures included in Note 33 to these financial statements which contains reconciliations and descriptions of the effect of the transition from Canadian Generally Accepted Accounting Principles (“CGAAP”) to IFRS on equity, earnings and comprehensive income, along with line-by-line reconciliations of the consolidated statements of financial position as at December 31, 2010 and January 1, 2010, and the consolidated statements of earnings and comprehensive income for the year ended December 31, 2010. The first date at which IFRS was applied was January 1, 2010.

These financial statements were authorized for issuance by the Board of Directors of the Company on February 23, 2012.

b. Basis of measurement

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

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

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

3. Summary of Significant Accounting Policies

The significant accounting policies summarized below have been applied consistently to all periods presented in these consolidated financial statements, including preparation of the opening IFRS statement of financial position at January 1, 2010, for the purposes of the transition to IFRS.

a. Consolidation principles

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

Inter-company transactions between subsidiaries are eliminated on consolidation.

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

The Company's significant subsidiaries and jointly-controlled entities include its wholly-owned Kumtor Gold Company ("KGC" operating as "Kumtor"), Boroo Gold LLC ("BGC" operating as "Boroo"), Centerra Gold Mongolia LLC ("CGM") (owner of the Gatsuurt property and ATO property), fifty percent interest in the Kara Beldyr Russian joint venture and fifty percent interest in the Öksüt Turkish joint venture.

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

3. Summary of Significant Accounting Policies (continued)

b. Foreign currency

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

Foreign currency transactions are translated into the entity's functional currency using the exchange rate prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. Non-monetary assets and liabilities, arising from transactions denominated in foreign currencies, are translated at the historical exchange rates prevailing at each transaction date. Translation differences on financial assets and liabilities carried at fair value are recognized in foreign exchange gain (loss) in the Statements of Earnings and Comprehensive Income.

c. Cash and cash equivalents

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

d. Restricted Cash

Cash which is subject to legal or contractual restrictions on use is classified separately as restricted cash.

e. Short-term investments

Short-term investments consist of marketable securities with maturities of more than 90 days, but no longer than 12 months, from the date of purchase. Short-term investments consist mostly of U.S. federal and Canadian federal and provincial government treasury bills and notes, agency notes, foreign sovereign issues, term deposits, bankers' acceptances, bearer deposit notes, and highly-rated, highly-liquid corporate direct credit. Short-term investments are classified as financial instruments carried at fair value through profit or loss.

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

3. Summary of Significant Accounting Policies (continued)

f. Inventories

Inventories of stockpiled ore, heap leach ore, in-circuit gold, heap leach in-circuit 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 interests.

Stockpiled ore and heap leach ore are ore that has been extracted from the mine and is available for further processing. Costs are added to stockpiles based on the current mining cost per ounce mined and removed at the average cost per ounce mined. Costs are added to ore on the heap leach pads based on current mining costs and removed from the heap leach pads as ounces are recovered, based on the average cost per recoverable ounce of gold on the leach pad. Ore in stockpiles not expected to be processed in the next twelve months is classified as long-term.

In-circuit inventories and gold doré represent materials that are in the process of being converted to a saleable product. Variances between actual and estimated quantities resulting from changes in assumptions and estimates that do not result in write downs to net realizable value ("NRV") are accounted for on a prospective basis. The ultimate recovery of gold from the in-circuit and gold doré will not be known until the final refining process has concluded.

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 NRV or reversals of previous write-downs are recognized in income in the period the write-down or reversal occurs. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale.

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

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

3. Summary of Significant Accounting Policies (continued)

g. Property, plant and equipment

i. General

Property, plant and equipment are recorded at cost less accumulated depreciation, depletion and impairment charges. Where an item of plant and equipment comprises major components with different useful lives, the components are depreciated separately but are grouped for disclosure purposes as plant and equipment.

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

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

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

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

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

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

3. Summary of Significant Accounting Policies (continued)

g. Property, plant and equipment (continued)

ii. Exploration, evaluation and pre-development expenditure

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

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

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

iii. Development properties (underground and open pit)

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

All expenditure incurred prior to the commencement of commercial levels of production from each development property is capitalized. In addition, capitalized costs are assessed for impairment when there is an indicator of impairment.

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

iv. Mine properties

After a mine property has been brought into commercial production, costs of any additional mining, drilling and related work on that property are expensed as incurred. Mine development costs incurred to expand operating capacity, develop new ore bodies or develop mine areas in advance of current production, including the stripping of waste material, 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, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

3. Summary of Significant Accounting Policies (continued)

g. Property, plant and equipment (continued)

v. Deferred Stripping costs

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

h. Goodwill

Goodwill represents the difference between the sum of the cost of a business acquisition and the fair value of the identifiable net assets acquired and is not amortized, subsequently goodwill is measured at cost less accumulated impairment loss. For non wholly-owned subsidiaries, the Company has a choice for each business acquisition to record non-controlling interests at either fair value or at the non-controlling interest's proportion of the fair values of the identifiable net assets recognized at acquisition.

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

The Company evaluates, on at least an annual basis, the carrying amount of a CGU, which has goodwill allocated, for potential impairment. To accomplish this, the Company compares the recoverable amount (which is the greater of value-in-use and fair value less costs to sell) of a CGU, to which goodwill was allocated, to its carrying amount. If the carrying amount of a CGU was to exceed its recoverable amount, the Company would first apply the difference to reduce goodwill and then any further excess is applied to the CGU's other long-lived assets. Assumptions, such as gold price, discount rate, and expenditures underlying the fair value estimates are subject to risks and uncertainties.

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

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

3. Summary of Significant Accounting Policies (continued)

h. Goodwill (continued)

Where the recoverable amount is assessed using discounted cash flow techniques, the resulting estimates are based on detailed mine and/or production plans.

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

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

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

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

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

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

3. Summary of Significant Accounting Policies (continued)

i. Impairment

Long term assets are reviewed for impairment if there is any indication that the carrying amount may be impaired. In addition, capitalized exploration and evaluation costs are assessed for impairment upon demonstrating technical feasibility and commercial viability of a project. Impairment is assessed for an individual asset unless the asset does not generate cash inflows that are independent of those generated from other assets or groups of assets, in which case, the individual assets are grouped together into CGUs for impairment testing purposes. An impairment loss is recognized for any excess of carrying amount over the recoverable amount.

j. Income taxes

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

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

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

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

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

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

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

3. Summary of Significant Accounting Policies (continued)

k. Provisions

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

l. Environmental protection and reclamation costs

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

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

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

Changes in the liability relating to mine rehabilitation and restoration obligations, which are not the result of current production of inventory, are added to or deducted from the related asset. The unwinding of the discount is recognized as a finance cost in the Statements of Earnings and Comprehensive Income.

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

3. Summary of Significant Accounting Policies (continued)

m. Depreciation and depletion

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

Mobile equipment and other assets, such as offsite roads, buildings, office furniture and equipment are depreciated according to the straight-line method based on estimated useful lives which range from two years to seven years, but do not exceed the related estimated mine life based on proven and probable ore reserves.

n. 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 common share equivalents, such as stock options, performance share units and restricted share units.

o. Revenue recognition

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

p. Other operating expenses and income

Other operating items of income and expense that are material and require separate disclosure are classified as other operating expenses or income on the face of the income statement. Other operating items of expenses and income that are not recurring and that relate to the underlying performance of the business are classified as “other operating expenses (income)” and are presented below earnings (loss) from mine operations on the statements of earnings and comprehensive income. Other non-operating items of expenses and income that do not relate to normal operations are classified as non-operating “other (income) and expenses” and are presented below earnings (loss) from operations on the statements of earnings and comprehensive income.

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

3. Summary of Significant Accounting Policies (continued)

q. Share-based compensation

The Company has five share-based compensation plans: the Share Option Plan, Performance Share Units Plan, Annual Performance Share Units Plan, Deferred Share Units Plan, and Restricted Share Unit Plan, which are all described in note 25.

Stock Option Plan

Stock options are equity-settled share-based compensation awards. The fair value of stock options at the grant date is estimated using the Black-Scholes option pricing model. Compensation expense is recognized over the stock option vesting period based on the number of units estimated to vest. This expense is recognized as share-based compensation expense with a corresponding increase in equity. When options are exercised, the proceeds received by the Company, together with the fair value amount in contributed surplus, are credited to common shares.

Performance Share Units Plan and Annual Performance Share Units Plan

Under these two plans, performance share units granted by Centerra for eligible employees that are intended to be settled in cash are accounted for under the liability method using the Monte Carlo simulated option pricing model. Under this method, the fair value of the performance share units is determined, at each reporting period, based on the pro-rated number of days the eligible employees are in the employment of the Company as compared to the vesting period of each series granted. 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 to eligible members of the Board of Directors are settled in cash and are therefore accounted for under the liability method. The deferred share units vest immediately upon granting. A liability is recorded at grant date equal to the fair value of the deferred share units. The liability is adjusted to fair value at each reporting period and any resulting adjustment to the accrued obligation is recognized as an expense or, if negative, a recovery. The cash paid to eligible members of the Board of Directors on exercise of these deferred share units is recorded as a reduction of the accrued obligation.

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

3. Summary of Significant Accounting Policies (continued)

q. Share-based compensation (continued)

Restricted Share Units Plan

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

r. Financial Instruments

Financial assets are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. The Company determines the classification of its financial assets at initial recognition. Where, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held-to-maturity, the investment is reclassified into the available-for-sale category. All financial liabilities are initially recognized at their fair value and designated upon inception as financial liabilities measured at fair value through profit or loss or other financial liabilities.

Transaction costs associated with fair value through profit or loss financial assets and financial liabilities are expensed as incurred, while transaction costs associated with all other financial assets and other financial liabilities are included in the initial carrying amount of the asset or the liability.

Contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Company’s expected purchase, sale or usage requirements fall within the exemption available in IFRS, which is known as the ‘normal purchase or sale exemption’. The contracts qualifying for normal purchase or sale exemption and the host part of the contracts containing embedded derivatives are accounted for as executory contracts. The Company recognizes such contracts in its statement of financial position only when one of the parties meets its obligation under the contract to deliver either cash or a non-financial asset.

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

3. Summary of Significant Accounting Policies (continued)

r. Financial Instruments (continued)

i. Financial assets

Financial assets at fair value through profit or loss

Financial assets classified as held-for-trading are included in the category financial assets at fair value through profit or loss. Financial assets are classified as held-for-trading if they are acquired for the purpose of selling in the near term. Gains or losses on these items are recognized in profit or loss.

The Company's cash and cash equivalents, restricted cash, reclamation trust fund and short-term investments are classified as financial assets measured at fair value through profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit or loss or available-for-sale. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

The Company's amounts receivable and long-term receivables are classified as loans and receivables. A provision is made where the estimated recoverable amount is lower than the carrying amount. The Company believes the carrying values of short- and long-term investments and restricted investments approximate their fair values.

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

3. Summary of Significant Accounting Policies (continued)

r. Financial Instruments (continued)

ii. Financial liabilities

Financial liabilities at fair value through profit or loss

Financial liabilities classified as fair value through profit or loss includes financial liabilities held-for-trading and financial liabilities designated upon initial recognition as a fair value through profit or loss financial liability. Derivatives, including separable embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as fair value through profit or loss are recognized in profit or loss.

The Company utilizes forward foreign exchange contracts to economically hedge certain anticipated cash flows. Furthermore, the Company enters into “good until cancelled” contract to sell gold at a specific price; these are short-term contracts that are closed before the end of the reporting date. These contracts are classified and accounted for as instruments “held for trading” because they do not qualify as hedges, or are not designated as hedges and are classified as fair value through profit and loss. The contracts are recorded at fair value at the reporting date with the resulting gain or loss recognized in the Statements of Earnings and Comprehensive Income.

The Company’s contracts are classified as financial liabilities at fair value through profit and loss.

Other financial liabilities

Borrowings and other financial liabilities, excluding derivative liabilities, are recognized initially at fair value, net of transaction costs incurred and are subsequently stated at amortized cost. Any difference between the amounts originally received net of transaction costs and the redemption value is recognized in profit or loss, or capitalized if directly attributable to a qualifying asset, over the period to maturity using the effective interest method.

Borrowings and other financial liabilities are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least twelve months after the consolidated statement of financial position date.

The Company’s trade and other payables are classified as other financial liabilities.

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

4. Critical Accounting Estimates And Judgments

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

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

The significant estimates and judgments used in the preparation of these consolidated financial statements include but are not limited to:

i. Share-based Compensation

Share based compensation costs recognized for the share-based compensation plans are subject to the estimate of what the ultimate payout will be using the Black-Scholes option pricing model, Monte Carlo simulation model, which are based on significant assumptions such as volatility, expected life, expected dividends, risk-free interest rate and expected forfeiture rates

ii. Asset retirement obligation

Amounts recorded for asset retirement obligations and the related accretion expense require the use of estimates of the future costs the Company will incur to complete the reclamation and remediation work required to comply with existing laws and regulations at each mine site. The Company assesses and revises its asset retirement obligations on an annual basis or when new material information become available. Actual costs incurred may differ from those amounts estimated. Also, future changes to environmental laws and regulations could increase the extent of reclamation and remediation work required to be performed by the Company. Increases in future costs could materially impact the amounts charged to operations for reclamation and remediation. The provision represents management's best estimate of the present value of the future reclamation and remediation obligation. The actual future expenditures may differ from the amounts currently provided.

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

4. Critical Accounting Estimates And Judgments (continued)

iii. Reserves

Certain assumptions are dependent upon reserves, which represent the estimated amount of ore that can be economically and legally extracted from the Company's properties. In order to estimate reserves, assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transportation costs, commodity demand, commodity prices and exchange rates. Estimating the quantity and/or grade of reserves requires the size, shape and depth of ore bodies to be determined by analyzing geological data such as drilling samples. This process may require complex and difficult geological judgments to interpret the data. Economic assumptions used to estimate reserves could change from period to period and as additional geological data is generated during the course of operations, estimates of reserves may change from period to period. Changes in reported reserves may affect the Company's financial results and financial position.

iv. Depreciation, depletion and amortization period for property plant and equipment

The Corporation makes estimates about the expected useful lives of property plant and equipment and the expected residual values of the assets based on the estimated current fair value of the assets, the Company's mine plan and the cash flows they generate. Changes to these estimates, which can be significant, could be caused by a variety of factors, including future production differing from current forecasts of future production, expansion of mineral reserves through exploration activities, differences between estimated and actual costs of mining and differences in gold price used in the estimation of mineral reserves.

Significant judgment is involved in the determination of useful life and residual values for the computation of depreciation, depletion and amortization and no assurance can be given that actual useful lives and residual values will not differ significantly from current assumptions.

v. Impairment of long-term assets

An impairment test is performed by comparing the carrying amount of the asset or CGU to their recoverable amount, which is calculated as the higher of an asset's or CGU's fair value less costs to sell. Fair value less costs to sell is calculated based upon a discounted cash flow analysis, which requires management to make a number of significant assumptions including assumptions relating to future operating plans, gold prices, discount rates, exchange rates and future growth rates. Please see Note 11 for additional information.

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

4. Critical Accounting Estimates And Judgments (continued)

vi. Deferred income taxes

The Company operates in a number of tax jurisdictions and is, therefore, required to estimate its income taxes in each of these tax jurisdictions in preparing its financial statements. In calculating the income taxes, consideration is given to factors such as tax rates in the different jurisdictions, non-deductible expenses, valuation allowances, and changes in tax law and management's expectations of future results. The Company estimates deferred income taxes based on temporary differences between the income and losses reported in its financial statements and its taxable income and losses as determined under the applicable tax laws. The tax effect of these temporary differences is recorded as deferred tax assets or liabilities in the financial statements. The calculation of income taxes requires the use of judgment and estimates. If these judgments and estimates prove to be inaccurate, future earnings may be materially impacted.

vii. Inventories of stockpiles ore, in-circuit and Gold doré

In determining mine operating costs recognized in the Consolidated Statements of Earnings and Comprehensive income, the Company's management makes estimates of quantities of ore stacked on heap leach pads and in process and the recoverable gold in this material to determine the average costs of finished goods sold during the period. Changes in these estimates can result in a change in mine operating costs of future periods and carrying amounts of inventories.

5. Future changes in accounting policies

Recently issued but not adopted accounting guidance are as follows:

IFRS 7 *Financial Instruments – Disclosures* ("IFRS 7") was amended by the IASB in October 2010 and provides guidance on identifying transfers of financial assets and continuing involvement in transferred assets for disclosure purposes. The amendments introduce new disclosure requirements for transfers of financial assets including disclosures for financial assets that are not derecognized in their entirety, and for financial assets that are derecognized in their entirety but for which continuing involvement is retained. The Company intends to adopt IFRS 7 in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect IFRS 7 to have a material impact on its financial statements.

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

5. Future changes in accounting policies (continued)

The IASB has issued IFRS 9 *Financial Instruments* (“IFRS 9”) which proposes to replace IAS 39 *Financial Instruments Recognition and Measurement*. The replacement standard has the following significant components: establishes two primary measurement categories for financial assets — amortized cost and fair value; establishes criteria for classification of financial assets within the measurement category based on business model and cash flow characteristics; and eliminates existing held to maturity, available-for-sale and loans and receivable categories.

This standard is effective for the Company’s annual year end beginning January 1, 2015 (as amended from January 1, 2013 by the IASB in December 2011). The Company will evaluate the impact of the change to its consolidated financial statements based on the characteristics of its financial instruments at the time of adoption.

IFRS 10 *Consolidated Financial Statements* (“IFRS 10”), which replaces parts of IAS 27, *Consolidated and Separate Financial Statements* (“IAS 27”) and all of SIC-12 *Consolidation – Special Purpose Entities*, changes the definition of control which is the determining factor in whether an entity should be consolidated. Under IFRS 10, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Company intends to adopt IFRS 10 in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect IFRS 10 to have a material impact on its financial statements.

IFRS 11 *Joint Arrangements* (“IFRS 11”), which replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers*, requires a venturer to classify its interest in a joint arrangement as either a joint operation or a joint venture. For a joint operation, the joint operator will recognize its assets, liabilities, revenue and expenses, and/or its relative share thereof. For a joint venture, the joint venturer will account for its interest in the venture’s net assets using the equity method of accounting. The choice to proportionally consolidate joint ventures is prohibited. This new standard is applicable for accounting periods beginning January 1, 2013. The Company is assessing the impact of IFRS 11 on its results of operations and financial position and will adopt IFRS 11 in its financial statements effective from January 1, 2013.

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

5. Future changes in accounting policies (continued)

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

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

IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine. The new interpretation clarifies when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods. It considers when and how to account separately for benefits arising from the stripping activity and how to measure these benefits both initially and subsequently. The benefits include usable ore that can be used to produce inventory and improved access to further quantities of material that will be mined in future periods. It prescribes that the costs of stripping activity be accounted for in accordance with the principles of IAS 2 *Inventories* to the extent that the benefit from the stripping activity is realized in the form of inventory produced. On the other hand, the costs of stripping activity which provides a benefit in the form of improved access to ore is recognized as a non-current 'stripping activity asset' when specified criteria are met. The Company intends to adopt IFRS 13 in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect IFRIC 20 to have a material impact on its financial statements.

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

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6. Restricted cash

Restricted cash of \$0.2 million (December 31, 2010—\$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 maternity hospital in Ulaanbaatar. Further funding and release of the funds is pursuant to the terms of a Definitive Agreement signed April 22, 2011 between Boroo, CGM and the Ministry of Health of Mongolia.

7. Amounts receivable

(Thousands of US\$)	December 31 2011	December 31 2010	January 1 2010
Gold sales receivable from related party (note 27)	\$ 47,366	\$ 88,997	\$ 37,861
Gold sales receivable from third party	-	3,760	823
Other receivables	9,383	7,805	5,597
	\$ 56,749	\$ 100,562	\$ 44,281

The aging of gross amounts receivable at each reporting date was as follows:

(Thousands of US\$)	December 31 2011	December 31 2010	January 1 2010
Less than 1 month	\$ 49,817	\$ 94,203	\$ 40,650
1 to 3 months	5,642	5,086	3,631
Over 3 months	1,290	1,273	-
	\$ 56,749	\$ 100,562	\$ 44,281

The Company has not recorded any allowance for credit losses for the periods presented above.

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

8. Inventories

(Thousands of US\$)	December 31 2011	December 31 2010	January 1 2010
Stockpiles ^(a)	\$ 105,635	\$ 64,523	\$ 50,234
Gold in-circuit	16,343	6,881	5,045
Heap leach in-circuit	3,359	3,687	4,908
Gold doré	10,645	6,023	8,818
Total inventory of stockpiles and metal	135,982	81,114	69,005
Supplies (net of provision for obsolescence)	156,136	113,396	105,937
	292,118	194,510	174,942
Less: Long-term inventory (heap leach stockpiles)	(12,174)	(12,877)	(23,120)
Total Inventories-current portion	\$ 279,944	\$ 181,633	\$ 151,822

(a) During the first half of 2011, the Company recorded an adjustment of \$6.5 million to reverse the write down previously incurred on sub-grade ore stockpiles at Kumtor, as the market and operational conditions causing the write down had improved. The reversal of the write down increased inventory and decreased cost of sales. As at December 31, 2011, \$5.2 million of the reversed amount remained in inventory of stockpiled ore.

The amount of the provision for obsolescence of mine operating supplies compared to net realizable value, as presented in the table below, increased by \$0.9 million for the year ended December 31, 2011 (December 31, 2010–\$0.5 million and January 1, 2010–\$0.7 million).

Movements in the provision for obsolescence are recognized as expense. This expense is included in cost of sales which is disclosed in note 17.

(Thousands of US\$)	December 31 2011	December 31 2010	January 1 2010
Total inventories	\$ 282,145	\$ 182,937	\$ 152,620
Less: provision for obsolescence	(2,201)	(1,304)	(798)
Total Inventories	\$ 279,944	\$ 181,633	\$ 151,822

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

9. Property, plant and equipment

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

(Thousands of US\$)	Mine buildings	Plant and equipment	Mineral properties	Capitalized stripping costs	Mobile Equipment	Construction in progress ("CIP")	Total
Cost							
Balance Jan 1, 2010	\$ 47,318	\$ 295,187	\$ 160,645	\$ 56,700	\$ 168,220	\$ 88,006	\$ 816,076
Additions	6,240	15,071	10,425	-	103,252	90,017	225,005
Disposals	-	(990)	(898)	-	(18,924)	(627)	(21,439)
Reclassification	357	1,651	(985)	14,651	12,238	(27,912)	-
Balance Dec 31, 2010	53,915	310,919	169,187	71,351	264,786	149,484	1,019,642
Additions	310	11,979	18,512	44,847	102,426	30,415	208,489
Disposals	(389)	(1,049)	-	-	(20,588)	(394)	(22,420)
Reclassification	-	926	(265)	-	303	(964)	-
Balance Dec 31, 2011	\$ 53,836	\$ 322,775	\$ 187,434	\$ 116,198	\$ 346,927	\$ 178,541	\$ 1,205,711
Accumulated depreciation							
Balance Jan 1, 2010	\$ 28,372	\$ 184,513	\$ 108,081	\$ 31,066	\$ 81,794	\$ -	\$ 433,826
Charge for the year	3,543	17,557	9,034	9,206	46,888	-	86,228
Disposals	-	(185)	(897)	-	(18,349)	-	(19,431)
Reclassification	340	(5,059)	139	-	4,580	-	-
Balance Dec 31, 2010	32,255	196,826	116,357	40,272	114,913	-	500,623
Charge for the year	2,367	12,331	7,556	35,475	78,304	-	136,033
Disposals	(384)	(701)	(3)	-	(20,008)	-	(21,096)
Reclassification	-	-	-	-	-	-	-
Balance Dec 31, 2011	\$ 34,238	\$ 208,456	\$ 123,910	\$ 75,747	\$ 173,209	\$ -	\$ 615,560
Net book Value							
Balance Jan 1, 2010	\$ 18,946	\$ 110,674	\$ 52,564	\$ 25,634	\$ 86,426	\$ 88,006	\$ 382,250
Balance Dec 31, 2010	21,660	114,093	52,830	31,079	149,873	149,484	519,019
Balance Dec 31, 2011	\$ 19,598	\$ 114,319	\$ 63,524	\$ 40,451	\$ 173,718	\$ 178,541	\$ 590,151

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

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10. Jointly-Controlled Interests

The Company proportionately consolidates its fifty percent interest in the Kara Beldyr Russian joint venture and fifty percent interest in the Öksüt Turkish joint venture which it jointly-controls. Included in the consolidated financial statements are the following items that represent the Company's interests in the assets and liabilities and expenses of these joint ventures:

(Thousands of US\$)	Current assets	Non-current assets	Current liabilities	Expenses
January 1, 2010	\$ -	\$ -	\$ -	\$ -
December 31, 2010	\$ 192	\$ 136	\$ (4)	\$ 206
December 31, 2011	\$ 151	\$ 246	\$ (129)	\$ 1,470

11. Goodwill

The Company has two cash-generating units ("CGU"), one in the Kyrgyz Republic and one in Mongolia, of which only the Kyrgyz CGU carries goodwill. The carrying value of goodwill for the Kyrgyz Republic remained unchanged at \$129.7 million over the reporting periods ended December 31, 2011, December 31, 2010 and January 1, 2010.

Annual Test as at September 1, 2011:

The Company performed its annual test for goodwill impairment as at September 1, 2011 in accordance with its policy described in note 3.

In the absence of an active sales market for the Kyrgyz operations, the Company has applied the fair value less cost to sell methodology to determine the recoverable amount of the Kyrgyz CGU in testing for impairment. The net asset value ("NAV") of the Kyrgyz CGU is determined based on a discounted cash flow analysis, with the associated recoverable amount determined using a market multiple of the NAV as public gold companies typically trade at a market capitalization that is based on a multiple of their underlying NAV. As an industry participant would include the future use, including any expansion projects over the life-of-mine (LOM) in determining fair value, the Company has included future conversion of resources into production and the associated capital and development expenditure in the discounted cash flow estimates. As part of the Company's annual reserve estimation process, each CGU updates its LOM plan which optimizes the production of its proven and probable reserves. The LOM is enhanced with the inclusion of resource conversion based on management's best estimate of convertibility. The resulting valuation model summarizes the cash flows which management expects to generate over the mine's life, using various business and economic assumptions.

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

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11. Goodwill (continued)

Key assumptions used in building this cash flow model and for calculating the Kyrgyz CGU present value used in this impairment test were as follows:

- i. For the September 1, 2011 impairment test, gold price per ounce used was \$1,700 per ounce for the balance of 2011, \$1,545 per ounce for 2012, \$1,450 per ounce for 2013, \$1,300 per ounce for 2014 and \$1,100 per ounce for 2015 onwards. Management determined gold prices based on the most recent market commodity price forecasts consensus up to September 1, 2011 from a number of recognized financial analysts.

For the September 1, 2010 impairment test, gold price per ounce used was \$1,181 per ounce for the balance of 2010, \$1,206 per ounce for 2011, \$1,157 per ounce for 2012 and \$1,027 per ounce for 2013, \$1,018 per ounce for 2014, \$1,003 per ounce for 2015 and \$950 per ounce for 2016.

- ii. Total production over the life of the Kumtor mine of 6.9 million ounces (2010 - 6.7 million ounces) used in the cash flow model as at the date of the evaluation (September 1, 2011), includes 2.4 million ounces (2010 – 2.6 million ounces) of converted resources. Management expect that the Kyrgyz CGU to continue mining and processing ore (including converted resources) through 2024. Management determined its planned production profile and total life of mine production based on its development activity to date and its current mine and processing plans.
- iii. The real after tax discount rate of 11.5% (2010–11.6%) based on the Company's estimated weighted-average cost of capital (as confirmed with third party) giving consideration to risks associated with the Kyrgyz cash flows.

Impact of changes to key assumptions

The fair value of the Kyrgyz CGU was well in excess of its carrying value. Based on sensitivity analysis, no reasonable change in assumptions would cause the carrying amount of the CGU to exceed its recoverable amount.

As a result, management concluded that current circumstances did not indicate that the carrying value of the Kyrgyz reporting unit exceeded its fair value and thus no impairment of its goodwill was required at this time.

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

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(Expressed in thousands of United States Dollars)

12. Long-term receivables and other

(Thousands of US\$)	December 31 2011	December 31 2010	January 1 2010
Reclamation trust fund (note 16)	\$ 9,081	\$ 7,448	\$ 6,443
Other long term receivables	4	46	111
Deferred financing fees (note 15)	2,474	3,100	-
Other assets ^(a)	13,115	6,705	-
Total	\$ 24,674	\$ 17,299	\$ 6,554

- a. Includes \$12.9 million (December 31, 2010–\$4.3 million) of cash deposited for the purchase of mobile equipment.

13. Accounts payable and accrued liabilities

(Thousands of US\$)	December 31 2011	December 31 2010	January 1 2010
Trade creditors and accruals	\$ 34,411	\$ 29,428	\$ 31,420
Liability for share-based compensation	41,974	41,481	17,503
Amount payable to related parties	-	-	175
Total	\$ 76,385	\$ 70,909	\$ 49,098

14. Taxes

a. Revenue-Based Taxes - Kumtor

Revenue-based taxes are payable to the Kyrgyz Government under the Restated Investment Agreement which received the approval of the Kyrgyz parliament on April 30, 2009.

Under the Restated Investment Agreement, taxes are imposed at a rate of 13% of gross revenue. In addition, effective January 1, 2009, a contribution of 1% of gross revenue is made to the Issyk-Kul Oblast Development Fund.

During the period ended December 31, 2011, the 13% revenue-based tax expense recorded by Kumtor was \$122.3 million (\$91.6 million in 2010), while the Issyk-Kul Oblast Development Fund of 1% of gross revenue totaled \$9.4 million (\$7.0 million in 2010).

As at December 31, 2011, \$15.2 million revenue-based tax is payable to the Kyrgyz Government (December 31, 2010 – \$25.5 million and January 1, 2010 – \$29.4 million).

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

14. Taxes (continued)

a. Revenue-Based Taxes – Kumtor (continued)

At the request of the Kyrgyz Government, Kumtor provided an advance of taxes of \$2 million at December 31, 2011, which will be applied against the revenue-based taxes otherwise payable in January 2012. Taxes were also advanced at the request of the Kyrgyz Government in the third quarter of 2010 totalling \$11 million. This advance was outstanding as at December 31, 2010 and was fully applied against Kumtor's 2010 revenue-based tax obligation in January 2011.

b. Income Tax Expense

(Thousands of US\$)	2011	2010
Current income tax	2,856	16,398
Deferred income tax	5,274	(11,971)
Total income tax expense	8,130	4,427

No entities, other than those in the Mongolian segment, recorded an income tax expense during the years ended December 31, 2011 and December 31, 2010.

The provision for income tax differs from the amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

(Thousands of US\$)	2011	2010
Profit before income tax	\$ 379,008	\$ 326,718
Income tax calculated at domestic tax rates applicable to profits in the respective countries	107,070	101,283
Income tax effects of:		
Difference between Canadian rate and rates applicable to subsidiaries in other countries	(121,621)	(93,955)
Change in unrecognized deductible temporary differences	11,555	(5,782)
Impact of foreign currency movements	2,032	(11,575)
Non-deductible employee costs	1,200	1,639
Non-deductible inter-company dividend	-	6,512
Other non-deductible expenses or non-taxable items	7,894	6,305
Income Tax Expense	\$ 8,130	\$ 4,427

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

14. Taxes (continued)

c. Deferred Income Tax

The significant components of deferred income tax assets and liabilities are as follows:

(Thousands of US\$)	December 31 2011	December 31 2010	January 1 2010
Deferred income tax assets:			
Inventory	\$ 2,487	\$ 1,452	\$ 696
Provisions-asset retirement obligation	2,682	2,089	2,599
Total deferred tax assets	5,169	3,541	3,295
Deferred income tax liabilities:			
Cash and cash equivalents	(685)	-	(2,509)
Short-term investments	(930)	-	(5,825)
Property plant and equipment	(5,229)	(174)	(3,568)
Other	(222)	-	(31)
Total deferred tax liabilities	(7,066)	(174)	(11,933)
Net deferred income tax assets/(liabilities)	\$ (1,897)	\$ 3,367	\$ (8,638)

The company had the following positions in respect of which no deferred income tax asset has been recognized:

(Thousands of US\$)	Tax losses- income	Tax losses- Capital	Exploration	Non Deductibles Reserves	Other	Total
December 31, 2011						
Expiring within one to five years	\$ 15,889	\$ -	\$ -	\$ -	\$ -	\$ 15,889
Expiring after five years	142,499	-	-	-	-	142,499
No expiry date	386	31,629	23,433	43,443	6,854	105,745
	\$ 158,774	\$ 31,629	\$ 23,433	\$ 43,443	\$ 6,854	\$ 264,133

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

14. Taxes (continued)

c. Deferred Income Tax (continued)

(Thousands of US\$)	Tax losses- income	Tax losses- Capital	Exploration	Non Deductibles Reserves	Other	Total
December 31, 2010						
Expiring within one to five years	\$ 14,805	\$ -	\$ -	\$ -	\$ -	\$ 14,805
Expiring after five years	106,574	-	-	-	-	106,574
No expiry date	523	31,994	19,693	37,276	8,927	98,413
	\$ 121,902	\$ 31,994	\$ 19,693	\$ 37,276	\$ 8,927	\$ 219,792

(Thousands of US\$)	Tax losses- income	Tax losses- Capital	Exploration	Non Deductibles Reserves	Other	Total
January 1, 2010						
Expiring within one to five years	\$ 1,311	\$ -	\$ -	\$ -	\$ -	\$ 1,311
Expiring after five years	118,044	-	-	-	-	118,044
No expiry date	428	30,405	64,189	-	4,414	99,436
	\$ 119,783	\$ 30,405	\$ 64,189	\$ -	\$ 4,414	\$ 218,791

No deferred tax liabilities have been recognized in respect of the aggregate amount of \$1,319 million (\$999 million as at December 31, 2010) of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, as the Company controls the timing and circumstances of the reversal of these differences, the occurrence of which is not anticipated to reverse in the foreseeable future.

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

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(Expressed in thousands of United States Dollars)

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. On April 15, 2011, the Company, completed and satisfied all the conditions precedent related to the Facility.

The 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 countries where EBRD operates.

The terms of the Facility require the Company to pledge certain mobile equipment at Kumtor as security and maintain compliance with specified covenants including financial covenants. The Company was in compliance with the covenants for the year ended December 31, 2011 and for the period from November 16, 2010 through the remainder of 2010.

Amounts drawn on the Facility bear interest at LIBOR plus 2.9%, payable in arrears at the end of each interest period of either three or six months. A commitment (standby) fee is also payable, semi-annually 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.

For the year ended December 31, 2011, the Company expensed commitment fees of \$0.9 million. As at December 31, 2011, the Facility remained undrawn.

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

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16. Provisions

Asset Retirement Obligations

(Thousands of US\$)	December 31 2011	December 31 2010	January 1 2010
Kumtor gold mine	\$ 30,378	\$ 22,088	\$ 17,927
Boroo gold mine	25,247	18,345	16,018
	55,625	40,433	33,945
Less: current portion	(1,848)	(9,553)	(7,399)
Total long-term provisions	\$ 53,777	\$ 30,880	\$ 26,546

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 at December 31, 2011 to be \$62.9 million (December 31, 2010 - \$48.5 million and January 1, 2010 - \$42.8 million). The following is a summary of the key assumptions on which the carrying amount of the asset retirement obligations is based:

- Expected timing of payment of the cash flows is based on the LOM plans.
- Ongoing reclamation spending continues at Boroo, while at Kumtor reclamation is expected to start at the end of the mine life in 2021.
- Risk-free discount rates of 2% at Kumtor and 0.6% at Boroo at December 31, 2011 (December 31, 2010 - 3.18% at Kumtor and 2.0% at Boroo and January 1, 2010 - 3.85% at Kumtor and 3.39% at Boroo).

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

16. Provisions (continued)

Asset Retirement Obligations (continued)

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

(Thousands of US\$)	2011	2010
Balance at January 1	\$ 40,433	\$ 33,945
Liabilities paid	(2,446)	(1,626)
Revisions in estimated timing and amount of cash flows	15,942	7,070
Impact of revisions in estimated timing and amount of cash flows recorded in earnings	494	234
Gain on liabilities incurred	-	(423)
Accretion expense	1,202	1,233
	55,625	40,433
Less: current portion	(1,848)	(9,553)
Balance at December 31	\$ 53,777	\$ 30,880

In 1998, a Reclamation Trust Fund was established to cover the future costs of reclamation at the Kumtor gold mine, net of salvage values. This restricted cash is funded on the units of production method, annually in arrears, over the life of the mine and on December 31, 2011 was \$9.1 million (December 31, 2010 - \$7.5 million and January 1, 2010 - \$6.4 million) (note 12).

In December 2011, the Company revised the closure plan at Boroo with effect of deferring the reclamation spending at the site from 2015 to 2018 and updated the closure cost plans for Kumtor and Boroo. As a result of deferring the reclamation spending, decrease in discount rate and an update to the closure cost plan, the present value of the obligation at Boroo increased by \$8.9 million with an offsetting increase in reclamation asset. A similar update to Kumtor's closure cost plan and decrease in discount rate resulted in an increase to the obligation of \$7.5 million, with \$0.5 million of the increase charged to earnings and \$7.0 million recorded as an increase in the reclamation asset, included as part of property plant and equipment.

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 discount rate and the closure cost plans for Kumtor and Boroo. As a result of the increase in estimated mine life, decrease in discount rate and update to closure plan the present value of the obligation at Kumtor was increased by \$3.4 million, with \$0.2 million of the increase charged to earnings and \$3.2 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 \$3.9 million with an offsetting increase in the reclamation asset.

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

17. Cost of sales

(Thousands of US\$)	2011	2010
Operating costs:		
Salaries and benefits ^(a)	\$ 78,588	\$ 48,191
Share-based compensation	1,932	6,466
Consumables	212,240	194,490
Third party services	5,055	5,660
Other operating costs	16,221	14,377
Royalties, levies & production taxes	4,321	7,579
Changes in inventories and impairment	(35,336)	(10,670)
	283,021	266,093
Inventories obsolescence (note 8)	897	506
Depreciation, depletion and amortization	98,377	75,591
	\$ 382,295	\$ 342,190

(a) Included in the amounts shown for the year ended December 31, 2011, is \$14.1 million recorded for the settlement of the Kyrgyz Social Fund assessment between Kumtor and the Kyrgyz Government, in respect of the base wages of Kumtor's national employees, for the first nine months of 2011 and the full year of 2010. In late 2010, the Social Fund notified the Company of its position that the Company should pay contributions to the Social Fund not only in respect of base wages but also in respect of the premium compensation that the Company is required to pay employees for work at high-altitude. As a result of the revised basis for calculation of the Company's social fund contributions including the high altitude premium, an additional \$2.3 million was paid in the fourth quarter of 2011 as the Company contributions to the Social Fund.

18. Mine Standby Costs

Over a period of 11 days ended May 28, 2011, the Company's SAG mill plant at Boroo was temporarily shutdown due to a failure in the SAG mill exciter. The milling and production processes were stopped during the shutdown. The Company incurred and expensed \$0.2 million in labour, maintenance and mine support costs directly as a result of the shutdown at Boroo for the year ended December 31, 2011.

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.

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

19. Other operating expenses

(Thousands of US\$)	2011	2010
Social development contributions ^(a)	\$ 12,641	\$ 8,713
Claim settlement ^(b)	2,587	-
Net Alluvial production (income) expenses ^(c)	(129)	(726)
Project care and maintenance ^(d)	372	-
	\$ 15,471	\$ 7,987

- (a) During the year ended December 31, 2011, the Company, through its subsidiary Kumtor, contributed \$10 million to be used for the refurbishment of schools through the subsidiary's Community Development and Initiatives program in the Kyrgyz Republic. During the year ended December 31, 2010, the Company recorded \$6.4 million representing the estimated amount to settle a constructive obligation for the construction and equipping of a maternity hospital in Ulaanbaatar through the Boroo Community Development and Initiatives program in Mongolia.
- (b) The Company through its wholly-owned subsidiary, Boroo Gold LLC, which owns the Boroo project, accrued \$2.6 million relating to the settlement of a claim for compensation that it received from the Mongolian General Department of Specialized Inspection ("SSIA") in October 2009 following the June 2009 inspection at the Boroo project. The claim related to certain mineral reserves, including state alluvial reserves covered by the Boroo project licenses that are recorded in the Mongolian state reserves registry, but for which there are no or incomplete records or reports of mining activity.
- (c) Beginning in 2009, the Company engaged a third party to mine and process an alluvial deposit located on the Boroo mining concession. During 2011, \$0.1 million (2010 - \$0.7 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.
- (d) Care and maintenance costs of \$0.4 million were recorded in 2011 to maintain the site at the Gatsuert development project. See note 26 for further details.

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

20. Exploration and business development costs

(Thousands of US\$)	2011	2010
Exploration:		
Mine sites exploration	\$ 12,715	\$ 11,505
Advanced projects	12,889	7,442
Generative exploration and other projects	10,595	10,188
Exploration administration	3,399	2,161
Total exploration	39,598	31,296
Business development	3,296	1,150
Total	\$ 42,894	\$ 32,446

21. Corporate Administration

(Thousands of US\$)	2011	2010
Administration and office ^(a)	\$ 7,876	\$ 4,164
Professional fees	4,835	7,043
Salaries and benefits	14,396	11,881
Share-based compensation ^(b)	17,333	28,686
Depreciation and amortization	462	496
Total	\$ 44,902	\$ 52,270

a. Includes administrative and office costs for the Toronto corporate office and other corporate entities (holding companies).

b. Share-based compensation includes a non-cash item for stock option amortization expenses, of \$1.8 million and \$1.1 million for the years ended December 31, 2011 and 2010, respectively.

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

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22. Other (income) and expenses

(Thousands of US\$)	2011	2010
Interest income	\$ (1,175)	\$ (721)
Loss on disposal of assets	484	1,127
Bank charges	71	86
Foreign exchange gain	(92)	(171)
Other (income)/expenses	(344)	269
Net	\$ (1,056)	\$ 590

23. Finance Costs

(Thousands of U.S. Dollars)	2011	2010
Revolving credit facility:		
Amortization of deferred costs	\$ 772	\$ -
Commitment fees	900	-
Other revolving credit facility costs	177	-
Accretion expense and impact of revisions on provision for reclamation (note 16)	1,696	1,467
	\$ 3,545	\$ 1,467

24. Disposal of interest in REN Property

On July 2, 2010, the Company closed the sale of its interest in the REN exploration project 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.

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

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25. 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, performance share units and restricted share units. Diluted net earnings per share is calculated using the treasury method, where the exercise of stock options, performance share units and restricted share units are assumed to be at the beginning of the period, and the proceeds from the exercise of stock options, performance share units and restricted share units 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.

Common share equivalents are not included in the computation of diluted net earnings per share in years when net losses are recorded or if the assumed conversion effect of the common share equivalents results in the increase in earnings per share above the basic level, given that they are anti-dilutive.

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

25. Shareholders' Equity (continued)

b. Earnings per Share (continued)

Basic and diluted earnings per share computation:

(Thousands of U.S. Dollars)	2011	2010
Net earnings attributable to shareholders'	\$ 370,878	\$ 322,291
Weighted average number of common shares outstanding (thousands)	236,088	235,488
Effect of potential dilutive securities:		
Stock options (thousands)	248	374
Restricted share units (thousands)	18	-
Diluted weighted average common shares outstanding (thousands)	236,354	235,862
Basic and diluted earnings per common share	\$ 1.57	\$ 1.37

Excluded from the 2011 calculation of diluted earnings per share were 215,107 outstanding options (2010 – 197,763) where the exercise prices of the options were greater than the average market price of the Company's ordinary shares for the year. In 2011 1,671,008 performance share units (2010 – 1,957,935) were excluded from the calculation of diluted earnings per share as the effect of the assumed potential conversion of the units to equity would have increased the earnings per share amount.

c. Dividends

Dividends are declared in Canadian dollars and paid in Canadian dollars. The details of dividends distribution in 2011 and 2010 are as follows:

	2011	2010
Paid dividends recorded in U.S. dollars (Thousands of US\$)	\$ 99,322	\$ 13,620
Dividends declared (Canadian Dollar per share amount)	\$ 0.10	\$ 0.06
Special Dividends declared (Canadian Dollar per share amount)	0.30	-
	\$ 0.40	\$ 0.06

Centerra Gold Inc.

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For the years ended December 31, 2011 and December 31, 2010

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25. Shareholders' Equity (continued)

d. Share-Based Compensation

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

(Millions of US\$ except as indicated)	Number outstanding Dec 31/11	Expense/(Income)		Liability		
		Dec 31/11	Dec 31/10	Dec 31/11	Dec 31/10	Jan 1/10
(i) Centerra stock options	752,448	\$ 1.8	\$ 1.1	\$ -	\$ -	\$ -
(ii) Centerra-PSU ⁽¹⁾	1,314,134	15.2	23.2	33.0	28.4	6.1
(iii) Centerra annual-PSU ⁽²⁾	77,013	1.9	6.5	1.9	6.2	6.3
(iv) Deferred share units	354,516	(0.7)	4.4	6.2	6.9	3.8
(v) Restricted share units	49,659	0.9	-	0.9	-	-
(vi) Cameco stock options	-	-	-	-	-	1.3 ⁽³⁾
		\$ 19.1	\$ 35.2	\$ 42.0	\$ 41.5	\$ 17.5

(1) Centerra performance share units

(2) Centerra Annual performance share units

(3) Amount paid in 2010 on exercise of options. The Cameco stock option plan no longer applies to Company employees.

(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 3 years, except for the 2010 grant which vests 50% on the first anniversary and the remaining 50% on the second anniversary. 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. There are currently no stock option grants with a share appreciation right outstanding.

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

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25. Shareholders' Equity (continued)

d. Share-Based Compensation (continued)

(i) Stock Options (continued)

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.

	December 31 2011	December 31 2010
Average exercise award price for options granted in the year (Cdn \$/share)	\$ 18.42	\$ 14.37
Weighted exercise average price on outstanding options (Cdn \$/share)	\$ 12.31	\$ 7.45

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

	2011		2010	
	Number of Options	Weighted Average exercise Price- Cdn\$	Number of Options	Weighted Average Exercise Price- Cdn\$
Balance, January 1,	903,986	\$ 7.45	1,816,155	6.58
Granted	318,106	18.42	100,000	14.37
Exercised	(469,644)	(7.09)	(1,012,169)	(6.58)
Balance, December 31,	752,448	12.31	903,986	7.45

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

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25. Shareholders' Equity (continued)

d. Share-Based Compensation (continued)

(i) Stock Options (continued)

The Black-Scholes model was developed for use in estimating the fair value of stock options that have no vesting restrictions. The model requires the use of subjective assumptions, including expected stock-price volatility; historical data has been considered in setting the assumptions. In determining the fair value of these employee stock options, the following weighted average assumptions were used for the series issued in 2011:

- On March 7, 2011, Centerra granted 308,999 stock options at a strike price of Cdn \$18.31 per share. The fair value of the stock options was determined using the Black-Scholes valuation model, assuming a weighted average expected life of 3-years, 75.66% historical Company's volatility, dividend yield of 0.35% and a risk-free rate of return of 2.09%. The resulting weighted average fair value per option granted was Cdn \$8.70. The estimated fair value of the options is expensed over the graded vesting period for each tranche, which range from 1 year to 3 years.
- On September 14, 2011, Centerra granted 9,107 stock options at a strike price of Cdn \$22.28 per share. The fair value of the stock options was determined using the Black-Scholes valuation model, assuming a weighted average expected life of 3-years, 60.87% volatility, dividend yield of 0.30% and a risk-free rate of return of 1.19%. The resulting weighted average fair value per option granted was Cdn \$8.87. The estimated fair value of the options is expensed over the graded vesting period for each tranche, which range from 1 year to 3 years.
- The estimated fair value of the options is expensed over the graded vesting period for each tranche, which range from 1 year to 3 years. The resulting fair value of the options granted in 2011 was \$2.7 million (2010 – \$0.5 million).

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For the years ended December 31, 2011 and December 31, 2010

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25. Shareholders' Equity (continued)

d. Share-Based Compensation (continued)

(i) Stock Options (continued)

The terms of the options outstanding at December 31, 2011 are as follows:

Award Date	Award Price	Expiry Date	Number options outstanding	Number options vested
2008	\$14.29 (Cdn)	March 7, 2016	38,030	38,030
2009	\$4.81 (Cdn)	February 17, 2017	296,312	94,703
2010	\$14.37 (Cdn)	August 19, 2018	(1) 100,000	50,000
2011	\$18.31 (Cdn)	March 6, 2019	308,999	-
2011	\$22.28 (Cdn)	September 13, 2019	9,107	-
			752,448	182,733

(1) The 2010 grant carries a different vesting schedule whereby 50% vests on the first anniversary and the remaining 50% vest on the second anniversary.

In 2011, \$1.8 million of compensation expense was recorded on this plan (\$1.1 million in 2010).

(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. Performance share units issued before 2010 vest two years after December 31 of the year in which they were granted. Performance share units granted in 2010 and thereafter vest 50% at the end of the year after grant and the remaining 50% the following year. 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 up to 1.5 for units granted before 2010 or up to 2.0 for units granted in 2010 and onwards or potentially result in no payout. Therefore, the number of units that will vest and are paid out may be higher or lower than the number of units originally granted to a participant.

Also in 2010 "special" performance share units were granted in lieu of stock options. Distinguishing these "special" units from the regularly issued PSU series is the fact that the "special" units vest one third at the end of each year of their three-year term and carry an adjustment factor of 1.0.

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

25. Shareholders' Equity (continued)

d. Share-Based Compensation (continued)

(ii) Performance share unit plan (continued)

If dividends are paid, each participant will be allocated additional performance share units equal in value to the dividend paid on the number of common shares equal to the number of performance share units held by the participant, based on the share price on the date of the dividend.

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

Number of Units	2011	2010
Balance, January 1	1,528,209	1,201,677
Granted	219,211	539,546
Exercised	(421,964)	(99,434)
Cancelled	(11,322)	(113,580)
Balance, December 31	1,314,134	1,528,209

The Monte Carlo simulated option pricing model was used in estimating the fair value of a performance share unit that is not vested as at year end. The model requires the use of subjective assumptions, including expected stock-price volatility, risk-free rate of return and forfeiture rate. Historical data has been considered in setting the assumptions. In determining the fair value of these units, the principal assumptions used in applying the Monte Carlo simulated option pricing model were as follows:

	December 31 2011	December 31 2010
Share price	\$ 20.37	\$19.89
S&P/TSX Global Gold Index	\$429.16	\$449.74
Expected life (years)	1.29	1.25
Expected volatility -Share price	54.1%	50.3%
Expected volatility-Gold Index	33.4%	29.9%
Risk-free rate of return	1.5%	1.6%
Expected dividends	0.35%	0.06%
Forfeiture rate	2.8%	1.4%

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

25. Shareholders' Equity (continued)

d. Share-Based Compensation (continued)

(ii) Performance share unit plan (continued)

For the units that are fully vested as at year end, the fair value of the unit was determined using the calculated sixty-one trading days weighted average share price multiplied by the adjustment factor. In determining the fair value of the vested units, the principal assumptions used were as follows:

	December 31 2011	December 31 2010
Share price	\$ 20.37	\$19.33
Weighted adjustment factor	1.53	1.26

The vested numbers of units outstanding as at December 31, 2011 are 892,262 (December 31, 2010 – 421,964 and January 1, 2010 – 423,746). The intrinsic value of the vested units at December 31, 2011 is \$27.8 million (December 31, 2010 – \$10.3 million and January 1, 2010 – \$1.1 million).

At December 31, 2011, the total number of units outstanding (vested and unvested) was 1,314,134, with a related liability of \$33.0 million (December 31, 2010 – 1,528,209 and \$28.4 million liability and January 1, 2010 – 1,201,677, and \$6.1 million liability). In 2011, compensation cost expense of \$15.2 million was recorded on this plan (\$23.2 million in 2010).

(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 2.0 or potentially result in no payout. The annual performance share units cannot be converted to shares at the option of the unit holder.

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

25. Shareholders' Equity (continued)

d. Share-Based Compensation (continued)

(iii) Annual performance share unit plan (continued)

If dividends are paid, each participant will be allocated additional performance share units equal in value to the dividend paid on the number of common shares equal to the number of performance share units held by the participant, based on the share price on the date of the dividend.

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

Number of Units	2011	2010
Balance, January 1	156,571	420,870
Granted	96,059	179,155
Exercised	(159,497)	(425,877)
Cancelled	(16,120)	(17,577)
Balance, December 31	77,013	156,571

At December 31, 2011, the number of units outstanding and fully vested was 77,013 with a related liability of \$1.9 million (December 31, 2010 – 156,571 and \$6.2 million liability and January 1, 2010 – 420,870 and \$6.3 million liability). In 2011, compensation cost expense of \$1.9 million was recorded on this plan (\$6.5 million in 2010).

For the unit that is fully vested as at year end, the fair value of the unit was determined using the calculated sixty-one trading days weighted average share price multiplying by the adjustment factor. In determining the fair value of the vested units, the principal assumptions used were as follows:

	December 31 2011	December 31 2010
Share price	\$ 20.37	\$19.33
Weighted adjustment factor	1.17	2

Centerra Gold Inc.

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For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

25. Shareholders' Equity (continued)

d. Share-Based Compensation (continued)

(iv) Deferred share unit plan

Centerra has established a deferred share unit plan for Directors of the Company to receive all or a portion of their annual retainer 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.

Deferred share units are paid in full to a Director and to the Vice Chair no later than December 31 of the calendar year immediately following 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 upon grant. If dividends are paid, each Director and the Vice Chair will be allocated additional deferred share units equal in value to the dividend paid on the number of common shares equal to the number of deferred share units held. The deferred share units cannot be converted to shares at the option of the unit holder.

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

Number of Units	2011	2010
Balance, January 1	344,728	375,216
Granted	9,788	58,443
Exercised	-	(88,931)
Cancelled	-	-
Balance, December 31	354,516	344,728

At December 31, 2011, the number of units outstanding was 354,516 with a related liability of \$6.2 million (December 31, 2010 – 344,728 and \$6.9 million liability and January 1, 2010 – 375,216 and \$3.8 million liability). In 2011, compensation cost recovery of \$0.7 million was recorded on this plan (expense of \$4.4 million in 2010).

Centerra Gold Inc.

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For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

25. Shareholders' Equity (continued)

d. Share-Based Compensation (continued)

(v) Restricted share unit plans

Effective as of January 7, 2011, Centerra established a restricted share unit plan for non-executive Directors and designated employees of the Company to receive all or a portion of their annual retainer and salaries as restricted units.

The restricted share units vest immediately upon grant and are redeemed on a date chosen by the participant (subject to certain restrictions as set out in the plan). A restricted share unit represents the right to receive the cash equivalent of a common share or, at the holder's option, a common share issued from the Company's treasury. The plans reserves 1,000,000 shares for issuance. If dividends are paid, each participant will be allocated additional restricted share units equal in value to the dividend paid on the number of common shares equal to the number of restricted share units held.

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

Number of Units	2011	2010
Balance, January 1	-	-
Granted	55,422	-
Exercised	(5,763)	-
Cancelled	-	-
Balance, December 31	49,659	-

All units granted in 2011 were assumed to be settled in cash and therefore accounted under the liability method. At December 31, 2011, the number of units outstanding was 49,659 with a related liability and expense of \$0.9 million.

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

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26. Commitments and Contingencies

Commitments

As at December 31, 2011, the Company had entered into contracts to purchase capital equipment and operational supplies totalling \$142.9 million (Kumtor \$142.7 million and Boroo \$0.2 million). These commitments are expected to be settled over the next twelve months.

Leases

The Company enters into operating leases in the ordinary course of business, primarily for its various offices and facilities around the world. Payments under these leases represent contractual obligations as scheduled in each agreement. The main significant operating lease payments, including operating costs, are for its corporate offices in Toronto and in the current year 2011 were \$0.7 million (2010 - \$0.6 million). The future aggregate minimum lease payments under the Toronto Corporate offices non-cancellable operating lease are as follows:

(Thousands of US\$)	2011	2010
2011	\$ -	\$ 401
2012	398	398
2013	401	401
2014	438	438
2015	478	478
2016 and thereafter	478	478
	\$ 2,193	\$ 2,594

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

26. Commitments and Contingencies

Contingencies

Kyrgyz Republic

As previously disclosed, Kumtor Operating Company (“KOC”), the Company’s Kyrgyz Republic operating subsidiary was in a dispute with the Kyrgyz Republic Social Fund (the “Social Fund”) regarding whether Social Fund contributions were required to be paid with respect to a high-altitude premium payable to KOC employees. This dispute began in 2010 and eventually led to KOC filing a claim in September 2011 to invalidate an assessment issued by the Social Fund requiring KOC to pay approximately \$6.7 million in contributions owing for the 2010 operating year. The matter was resolved in the third quarter of 2011 when KOC and the Social Fund reached an agreement whereby Kumtor would voluntarily pay to the Social Fund \$14.1 million, covering the 2010 operating year (\$6.7 million) and the first nine months of 2011 (\$7.4 million), without any penalties, fines and financial sanctions and agreed to apply the Social Fund contribution to the high altitude premium in the future. Going forward, KOC will pay the employer’s portion of the Social Fund deduction for the high altitude premium and the employees will be responsible for the employee portion of such deduction.

Mongolia

In the fourth quarter of 2011, Centerra’s wholly owned subsidiary, Boroo Gold LLC, which owns the Boroo project, resolved the previously disclosed very significant claim for compensation that it received from the Mongolian General Department of Specialized Inspection (“SSIA”) in October 2009 following the June 2009 inspection at the Boroo project. The claim related to certain mineral reserves, including state alluvial reserves, covered by the Boroo project licenses, that are recorded in the Mongolian state reserves registry, but for which there are no or incomplete records or reports of mining activity. Pursuant to the resolution, Boroo Gold LLC accrued approximately \$2.6 million in the 2011 year-end results and subsequently paid the amount in January 2012. While this claim has been resolved, other regulatory issues remain outstanding in Mongolia, including the issuance of a final heap leach permit. The Company continues to have discussions with regulatory officials regarding the issuance of the permit.

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

26. Commitments and Contingencies (continued)

Contingencies (continued)

Mongolia (continued)

As previously disclosed, the Mongolian Parliament enacted the *Law to Prohibit Mineral Exploration And Mining Operations At River Headwaters, Protected Zones Of Water Reservoirs And Forested Areas* (the “Water and Forest Law”) in 2009. 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.

In 2010, the Company received correspondence from the Minerals Resource Authority of Mongolia (“MRAM”) stating that certain of its mining and exploration licenses, including the Gatsuurt mining licenses, could be revoked under the Water and Forest Law. In 2010, the Company was also informed by the Ministry of Mineral Resources and Energy (“MMRE”) that since 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 further with the Company 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 Company also received a letter from the MMRE indicating that operations at the Gatsuurt project cannot be commenced while the implementation of the Water and Forest Law is being resolved. Accordingly, it is anticipated that further approvals and regulatory commissioning of Gatsuurt will be delayed as a result of the Water and Forest Law.

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 list of which was finalized by the Mongolian Parliament in 2011. The Company has three 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 three licenses to be revoked, which requests were updated again in January 2012 as a result of the finalization of the list.

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

26. Commitments and Contingencies (continued)

Contingencies (continued)

Mongolia (continued)

The Mongolian Government announced in 2010 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 Gatsuurt hard rock licenses) are included in the 1,782 licenses referred to in the cabinet announcement as subject to staged revocation.

The Company understands that Mongolia’s cabinet expects that the Water and Forest Law will take until approximately November 2012 to fully implement. According to statements by officials, the 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 65% of the Mongolia’s annual gross domestic product for 2010.

The Water and Forest Law has attracted opposition from Mongolia’s alluvial miners, the Mongolian National Mining Association and other groups. A group of parliamentarians proposed amendments to the Water and Forest Law in 2011 to reduce its impact on environmentally-sound mining operations. The Company understands that as drafted, such amendments would allow the Gatsuurt project to proceed. Such amendments were discussed by a Mongolian parliamentary committee in 2011 which then referred it to Parliament for further discussion. The Parliament did not discuss the amendment during the 2011 but the Company understands that the amendments may be tabled for discussion in 2012.

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

26. Commitments and Contingencies (continued)

Contingencies (continued)

Mongolia (continued)

Centerra is reasonably confident that the economic and development benefits resulting from its exploration and development activities will ultimately result in the Water and Forests Law having a limited impact on the Company's Mongolian activities. There can be no assurance, however, that this will be the case. Unless the Water and Forest Law is repealed or amended such that the law no longer applies to the project or Gatsuurt is designated as a "mineral deposit of strategic importance" that is exempt from the Water and Forest Law, mineral reserves at Gatsuurt may have to be reclassified as mineral resources or eliminated entirely and the Company may be required to write-off the associated investment in Gatsuurt and Boroo. As at December 31, 2011, the Company had net assets recorded amounting to approximately \$36 million related to the investment in Gatsuurt and approximately \$25 million remaining capitalized for the Boroo mill facility and other surface structures which are expected to be utilized for the processing of ore from Gatsuurt. Although the Company expects to exploit the Gatsuurt deposit, should this not be the case, the Company would be required to write-off these amounts. A revocation of the Company's mineral licenses, including the Gatsuurt mineral license, or the reclassification of mineral reserves or the write-off of assets could have an adverse impact on Centerra's future cash flows, earnings, results of operations and financial condition.

In November 2010, the Mongolian Parliament passed amendments to its 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 per ounce, the royalty increases to 8%, and at \$1,200 per ounce, 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 agreement and/or an investment agreement. This would include the Company's Boroo project which is currently operating pursuant to a stability agreement entered with the Mongolian Government. 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. As of the date of this Annual MD&A, the Company is not aware of any response or activity by the Mongolian Government on this State Great Hural of Mongolia resolution.

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

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26. Commitments and Contingencies (continued)

Contingencies (continued)

Mongolia (continued)

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 Gatsurt project, when developed.

Corporate Matters

In March 2011, Centerra was served by a Turkish company, Sistem Muhenkislik Insaat Sanayi Ticaret SA ("Sistem"), with a notice of enforcement to seize any shares and dividends in Centerra held in the name of the Kyrgyz Republic, followed by a notice of garnishment in April 2011 for any debts owed by Centerra to the Kyrgyz Republic (the "Republic"). These notices were served by Sistem through the Sheriff in Toronto as part of the enforcement proceedings brought by Sistem in the Ontario Superior Court to collect approximately US\$11 million with additional interest, owed to Sistem by the Republic in accordance with a judgment of the Ontario Superior Court enforcing an international arbitration award against the Republic. In these Ontario proceedings, Sistem alleges that the shares in Centerra owned by Kyrgyzaltyn JSC, and any dividends paid in respect of those shares, are in fact legally and beneficially owned by the Republic and are therefore subject to execution to pay the judgment. Based on legal advice received, Centerra disputes those allegations and maintains that Kyrgyzaltyn JSC alone is the legal and beneficial owner of the shares and any dividends in respect of those shares, based on the applicable legal principles and the binding agreements with Kyrgyzaltyn JSC. As a result and notwithstanding such notices of enforcement and garnishment, Centerra paid its May 18, 2011 dividend (as discussed above) in the total amount of approximately Cdn\$31 million to Kyrgyzaltyn JSC. Sistem is continuing with its claim regarding the Centerra shares owned by Kyrgyzaltyn JSC. If this claim is successful in the Ontario court proceedings, Sistem may have a right to execute its judgment against those shares and may assert a claim against Centerra in respect of the payment of the dividends to Kyrgyzaltyn JSC. However, Centerra believes it has a strong defence to that claim based on the facts and the law. At a motion in September 2011, Kyrgyzaltyn JSC was formally added as a party to the proceeding.

Kyrgyzaltyn has brought a motion to be heard by the Ontario Superior Court (to be heard in April 2012) to set aside the Ontario judgment enforcing the arbitration award on the basis that the court did not have jurisdiction to entertain the application or in the alternative that there is a foreign court which is a more convenient forum to hear and decide the issues of legal and beneficial ownership of the shares as between Kyrgyzaltyn and the Kyrgyz Republic.

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

27. Related Party Transactions

a. Kyrgyzaltyn JSC

Revenues from the Kumtor gold mine are subject to a management fee of \$1.00 per ounce based on sales volumes, payable to Kyrgyzaltyn JSC (“Kyrgyzaltyn”), a shareholder of the Company and a state-owned entity of the Kyrgyz Republic.

The table below summarizes 100% of the management fees and concession payments paid and accrued by Kumtor Gold Company to Kyrgyzaltyn and the amounts paid and receivable by Kyrgyzaltyn to Kumtor according to the terms of a Gold and Silver Sale Agreement between Kumtor Operating Company (“KOC”), Kyrgyzaltyn and the Government of the Kyrgyz Republic.

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

Related parties in the Kyrgyz Republic (Thousands of US\$)	2011	2010
Management fees paid to Kyrgyzaltyn	\$ 599	\$ 568
Gross gold and silver sales to Kyrgyzaltyn	\$ 944,020	\$ 706,823
Deduct: refinery and financing charges	(2,947)	(2,558)
Net sales revenue received from Kyrgyzaltyn	\$ 941,073	\$ 704,265

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 Gold and Silver Sale Agreement discussed above.

Dividend

(Thousands of US\$)	2011	2010
Dividends paid to Kyrgyzaltyn	\$ 29,412	\$ 4,412

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

27. Related Party Transactions (continued)

a. Kyrgyzaltyn JSC (continued)

Related party balances

The assets and liabilities of the Company include the following amounts due from and to Kyrgyzaltyn:

(Thousands of US\$)	December 31 2011	December 31 2010	January 1 2010
Prepaid expenses	\$ 143	\$ 12	\$ -
Amounts receivable	47,366	88,997	37,861
Total related party assets	\$ 47,509	\$ 89,009	\$ 37,861
Amounts payable	\$ -	\$ -	\$ 175
Total related party liabilities	\$ -	\$ -	\$ 175

Amounts receivable from Kyrgyzaltyn arise from the sale of gold to Kyrgyzaltyn. Pursuant to the Agreement on New Terms, entered into in April 2009, the Gold and Silver Sale Agreement was amended and restated in June 2009 with new terms. Kyrgyzaltyn is required to pay for gold delivered within 12 days from the date of shipment. Default interest is accrued on any unpaid balance after the permitted payment period of 12 days.

The obligations of Kyrgyzaltyn are partially secured by a pledge of 2,850,000 shares of Centerra owned by Kyrgyzaltyn.

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

27. Related Party Transactions (continued)

b. Transactions with Directors and Key Management

The Company transacts with key individuals from management and with its directors who have authority and responsibility to plan, direct and control the activities of the Company. The nature of these dealings were in the form of payments for services rendered in their capacity as director (director fees, including stock-based payments) and as employees of the Company (salaries, benefits and share-based payments).

Key management personnel are defined as the executive officers of the Company including the President and Chief Executive Officer, Vice President and Chief Financial Officer, Vice President and Chief Operating Officer, Senior Vice President Global Exploration, General Counsel and Corporate Secretary, Vice President Business Development and Vice President Human Resources.

During 2011 and 2010, remuneration to directors and key management personnel were as follows:

Compensation of Directors

Compensation of the directors comprised:

(Thousands of US\$)	2011	2010
Fees earned and other compensation	\$ 1,055	\$ 945
Share-based compensation:		
Earned during the year	1,151	855
Appreciation during the year from previous grants	(607)	3,563
	\$ 1,599	\$ 5,363

Fees earned and other compensations

These amounts represent fees paid to the non-executive chairman and the non-executive directors during the financial year.

Share-based compensation

A portion of the directors' compensation is settled with the Company's share-based plans (Deferred Share Unit plan and Restricted Share Unit plan) according to the election of the directors.

The Deferred Share Unit and Restricted Share Unit amounts granted to directors represent the intended value to settle the compensation obligations owed by the Company in satisfaction of the directors' election. The Deferred Share Unit and Restricted Share Unit plans in which the directors participate are discussed in note 25.

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

27. Related Party Transactions (continued)

b. Transactions with Directors and Key Management Personnel (continued)

Compensation of Key Management Personnel

Compensation of key management personnel comprised:

(Thousands of US\$)	2011	2010
Salaries and benefits	\$ 5,462	\$ 5,461
Share-based compensation:		
Earned during the year	8,280	6,546
Appreciation during the year from previous grants	941	4,788
	\$ 14,683	\$ 16,795

Salaries and benefits

These amounts represent salary, supplementary executive retirement plan contribution, and benefits earned during the year, plus cash bonuses awarded for the year.

Share-based compensations

This is the recognized cost to the Company of senior management's participation in share-based payment plans, as measured by the fair value of options and performance share units granted, accounted for in accordance with IFRS 2 'Share-based Payments'. The main plans in which senior management have participated are the stock options plan and PSU plan. For details of these plans refer to note 25.

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

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28. Capital Management

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 Company's capital structure consists of short-term debt (net of cash and cash equivalents and short-term investments) and shareholders' equity, comprising issued common shares, contributed surplus and retained earnings

(Thousands of US\$)	December 31 2011	December 31 2010	January 1 2010
Short-term debt	\$ -	\$ -	\$ -
Cash and cash equivalents	(195,539)	(330,737)	(176,904)
Short-term investments	(372,667)	(82,278)	(145,971)
Net debt	(568,206)	(413,015)	(322,875)
Shareholders' equity	1,538,459	1,261,797	945,578
Total capital	\$ 970,253	\$ 848,782	\$ 622,703

The Company is bound by certain covenants stipulated in the revolving credit facility. These covenants place restrictions on total debt, dividend payments, and set threshold parameters for certain financial ratios. As at December 31, 2011 the Company is in compliance with these requirements.

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

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29. Financial Instruments

The Company has various financial instruments comprised of cash and cash equivalents, short-term investments, restricted cash, receivables, a reclamation trust fund, borrowings, accounts payable and accrued liabilities.

The estimated fair values of certain financial instruments have been determined using available market information or other valuation methodologies that require considerable judgement in interpreting market data and developing estimates. Cash and cash equivalents, short-term investments, restricted cash and reclamation trust fund are classified as financial instruments carried at fair value through profit or loss and amounts receivable are classified in the “Loans and Receivables” category, which is measured at amortized cost.

Cash and cash equivalents consist of cash on hand, with financial institutions, invested in term deposits, treasury bills, banker’s acceptances and corporate direct credit with original maturities of three months or less. 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.

Short-term investments consist of investments in term deposits, treasury bills, banker’s acceptances, bearer’s deposit notes, and corporate direct credit with original maturities of more than three months but less than twelve months. 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.

There were no borrowings by the Company incurred in 2011 or outstanding at December 31, 2011. The Company has a credit facility available with the EBRD whereby borrowings bear interest at a fixed premium over the variable London Interbank Offered Rate (“LIBOR”). The fair value of borrowings under this facility would approximate their carrying amount given the floating component of the interest rate.

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

29. Financial Instruments (continued)

Classification of the financial assets and liabilities in the statement of financial position were as follows.

December 31, 2011

	Loans and receivables	Other financial liabilities	Asset/liabilities at fair value through earnings
(Thousands of US\$)			
Financial Assets:			
Cash and cash equivalents	\$ -	\$ -	\$ 195,539
Short-term investments	-	-	372,667
Restricted cash	-	-	179
Amounts receivable	56,749	-	-
Reclamation trust fund	-	-	9,081
Long-term receivables and other assets	13,119	-	-
	\$ 69,868	\$ -	\$ 577,466
Financial Liabilities			
Accounts payables and accrued liabilities	\$ -	\$ 76,385	\$ -
	\$ -	\$ 76,385	\$ -

December 31, 2010

	Loans and receivables	Other financial liabilities	Asset/liabilities at fair value through earnings
(Thousands of US\$)			
Financial Assets:			
Cash and cash equivalents	\$ -	\$ -	\$ 330,737
Short-term investments	-	-	82,278
Restricted cash	-	-	795
Amounts receivable	100,562	-	-
Reclamation trust fund	-	-	7,448
Long-term receivables and other assets	6,751	-	-
	\$ 107,313	\$ -	\$ 421,258
Financial Liabilities			
Accounts payables and accrued liabilities	\$ -	\$ 70,909	\$ -
	\$ -	\$ 70,909	\$ -

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

29. Financial Instruments (continued)

January 1, 2010

	Loans and receivables	Other financial liabilities	Asset/liabilities at fair value through earnings
(Thousands of US\$)			
Financial Assets:			
Cash and cash equivalents	\$ -	\$ -	\$ 176,904
Short-term investments	-	-	145,971
Restricted cash	-	-	-
Amounts receivable	44,281	-	-
Reclamation trust fund	-	-	6,443
Long-term receivables and other assets	111	-	-
	<u>\$ 44,392</u>	<u>\$ -</u>	<u>\$ 329,318</u>
Financial Liabilities			
Accounts payables and accrued liabilities	\$ -	\$ 49,098	\$ -
	<u>\$ -</u>	<u>\$ 49,098</u>	<u>\$ -</u>

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

29. Financial Instruments (continued)

IFRS 7 *Financial Instruments – Disclosures*, requires that an explanation be provided about how fair value is determined for assets and liabilities measured in the financial statements at fair value and 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, 2011, December 31, 2010 and January 1, 2010 for assets and liabilities measured at fair value on a recurring basis:

(Thousands of US\$)	December 31, 2011		December 31, 2010		January 1, 2010	
	Level 1	Level 2	Level 1	Level 2	Level 1	Level 2
Financial Assets						
Cash and cash equivalents	\$ 195,539	\$ -	\$ 330,737	\$ -	\$ 176,904	\$ -
Short-term investments	372,667	-	82,278	-	145,971	-
Restricted cash	179	-	795	-	-	-
Reclamation trust fund	9,081	-	7,448	-	6,443	-
	\$ 577,466	\$ -	\$ 421,258	\$ -	\$ 329,318	\$ -
Financial liabilities						
Cash settled share-based compensation liabilities	\$ -	\$ 41,974	\$ -	\$ 41,665	\$ -	\$ 16,930
	\$ -	\$ 41,974	\$ -	\$ 41,665	\$ -	\$ 16,930

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

30. 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 U.S. 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 or Euro. During the year ended December 31, 2011, Cdn \$111.7 million and Euro 8.0 million of such forward contracts were executed (December 31, 2010 - Cdn \$6.7 million and Euro 16.0 million; and January 1, 2010 - Cdn \$6.3 million and nil Euro). There were no outstanding Cdn forward contracts and Euro 2 million contracts outstanding at December 31, 2011 (December 31, 2010 - nil and January 1, 2010 - nil).

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

30. Financial Risk Exposure and Risk management (continued)

a. Currency Risk (continued)

The exposure of the Company's financial assets and liabilities to currency risk is as follows:

December 31, 2011

(Thousands of US\$)	Kyrgyz Som	Mongolian Tugrik	Canadian Dollar	Russian Ruble	European Euro	Turkish Lira	Australian Dollar
Financial Assets							
Cash and cash equivalents	\$ 650	\$ 684	\$ 32,572	\$ 50	\$ 6,313	\$ 15	\$ -
Short-term investments	-	-	4,758	-	-	-	-
Restricted cash	-	179	-	-	-	-	-
Amounts receivable	132	2,093	616	125	173	29	-
	\$ 782	\$ 2,956	\$ 37,946	\$ 175	\$ 6,486	\$ 44	\$ -
Financial Liabilities							
Accounts payable and accrued liabilities	\$ 10,077	\$ 7,862	\$ 251	\$ 254	\$ 843	\$ 16	\$ -
	\$ 10,077	\$ 7,862	\$ 251	\$ 254	\$ 843	\$ 16	\$ -

December 31, 2010

(Thousands of US\$)	Kyrgyz Som	Mongolian Tugrik	Canadian Dollar	Russian Ruble	European Euro	Turkish Lira	Australian Dollar
Financial Assets							
Cash and cash equivalents	\$ 436	\$ 1,642	\$ 14,877	\$ 84	\$ 4,878	\$ -	\$ -
Short-term investments	-	-	-	-	-	-	-
Restricted cash	-	795	-	-	-	-	-
Amounts receivable	81	2,833	356	83	127	-	-
Other long term assets	149	-	202	-	-	-	-
	\$ 666	\$ 5,270	\$ 15,435	\$ 167	\$ 5,005	\$ -	\$ -
Financial Liabilities							
Accounts payable and accrued liabilities	\$ 4,616	\$ 13,148	\$ 40,238	\$ -	\$ 1,211	\$ -	\$ 292
	\$ 4,616	\$ 13,148	\$ 40,238	\$ -	\$ 1,211	\$ -	\$ 292

A strengthening of the U.S. Dollar by 10% against the Canadian Dollar, the Kyrgyz Som, the Turkish Lira, the Russian Ruble, European Euro and the Mongolian Tugrik at December 31, 2011, with all other variables held constant would have led to additional before tax net income of \$2.9 million (2010 - \$3.6 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, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

30. 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 and short-term investments include highly liquid investments that earn interest at market rates. As of December 31, 2011, the majority of \$568.2 million in cash and cash equivalents and short-term investments (December 31, 2010 - \$413.0 million and January 1, 2010 - \$322.8 million) were comprised of interest-bearing assets. Based on amounts as at December 31, 2011, a 100 basis point change in interest rates would change annual interest income by approximately \$4.4 million (2010 - \$2.7 million).

In addition, the interest on the undrawn \$150 million revolving credit facility includes a variable rate component pegged to the London Interbank Offer Rate, or LIBOR.

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, bearer's deposit notes and corporate direct credit having a single "A" rating or greater.

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 three customers. Boroo sells the gold and silver content of its doré to Auramet Trading, LLC or Johnson Matthey Limited. The sales of gold and silver are governed by a Master Purchase Contract with Auramet Trading, LLC, and a Gold Doré Refining Agreement with Johnson Matthey Limited's North American precious metals division. Kyrgyzaltyn LLC, a state-owned company that operates a 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 it owns as security against unsettled gold shipments, in the event of default on payment (note 25).

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

30. Financial Risk Exposure and Risk management (continued)

c. Concentration of Credit Risk (continued)

Based on movements of Centerra's share price, and the value of individual or unsettled gold shipments, over the course of 2011, the maximum exposure during the year, reflecting the shortfall in the value of the security as compared to the value of any unsettled shipments, was approximately \$44.8 million.

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 December 31, 2011 21% of cash and equivalents were held with Bank of Nova Scotia, and 9% with Royal Bank of Canada. Another 16% was held with various other U.S. and foreign banks. This 46% of liquid assets held includes not only cash in operating bank accounts, but also term deposits and other investments where the bank is the counterparty. The remainder of the assets were held in government and agency securities, 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. In addition, there is an undrawn credit financing facility of \$150 million. The Company believes that these sources will be sufficient to cover its 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.

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

30. Financial Risk Exposure and Risk management (continued)

d. Liquidity Risk (continued)

At December 31, 2011, the Company had cash and cash equivalents and short-term investments of \$568.2 million which represents 56% of 2011 operating revenues. A maturity analysis of the Company's financial liabilities, contractual obligations, other fixed operating commitments and capital commitments is set out below:

(Millions of US\$)	Total	Due in Less than One year	Due in 1 to 3 Years	Due in 4 to 5 Years	Due After 5 Years
Accounts payable and accrued liabilities	\$ 76.4	\$ 76.4	\$ -	\$ -	\$ -
Reclamation trust deed	27.9	4.1	8.2	7.7	7.9
Capital equipment	98.4	98.4	-	-	-
Operational supplies	44.5	44.5	-	-	-
Conservation fund	0.1	0.1	-	-	-
Lease of premises	2.1	0.4	0.8	0.9	-
Total contractual obligations	\$ 249.4	\$ 223.9	\$ 9.0	\$ 8.6	\$ 7.9

The Company has sufficient cash and cash equivalents and short-term investments to meet its current obligations.

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.

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.

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.

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

30. Financial Risk Exposure and Risk management (continued)

e. Commodity Price Risk (continued)

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, 2011, 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 \$52.2 million (2010 - \$64.1 million).

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

31. Supplemental cash flow disclosure

a. Changes in operating working capital

(Thousands of US\$)	2011	2010
(Increase) decrease in amounts receivable	\$ 43,813	\$ (56,281)
(Increase) decrease in inventory-ore and metal	(55,521)	(22,352)
(Increase) decrease in inventory-supplies	(42,790)	(7,459)
Increase in prepaid expenses	(4,615)	(10,503)
Increase (decrease) in accounts payable and accrued liabilities	5,475	21,810
Increase (decrease) in Revenue-based tax payable	(10,311)	(3,866)
Reduction (increase) in depreciation and amortization included in inventory	18,563	(856)
Reduction (increase) in accruals included in additions to PP&E	1,235	(272)
	\$ (44,150)	\$ (79,778)

b. Investment in property, plant and equipment (PP&E)

(Thousands of US\$)	2011	2010
Additions to PP&E during the year ended December 31,	\$ (208,489)	\$ (225,434)
Impact of revision to asset retirement obligation included in PP&E	15,942	7,070
Depreciation and amortization included in additions to PP&E	18,627	9,867
Reduction (increase) in accruals included in additions to PP&E	(1,235)	272
Cash investment in PP&E	\$ (175,155)	\$ (208,224)

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

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(Expressed in thousands of United States Dollars)

32. Segmented Information

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

The Kyrgyz Republic segment involves the operations of the Kumtor Gold Project and local exploration activities, and the Mongolian segment involves the operations of the Boroo Gold Project, activities related to the Gatsuurt project and local exploration activities. The Corporate and other segment 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 inter-company loan interest income and expenses, which eliminate on consolidation, are presented in the individual operating segments where they are generated when determining earnings or loss.

Geographic Segmentation of Revenue

The Company's only product is gold doré, produced from mines located in the Kyrgyz Republic and Mongolia. All production from the Kumtor Gold Project is sold to the Kyrgyzaltyn refinery in the Kyrgyz Republic while production from the Boroo Gold project is sold to Auramet Trading, LLC or Johnson Matthey Limited; the latter also refines the gold for Boroo at its refinery located in Ontario, Canada.

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

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

32. Segmented Information (continued)

Year ended December 31, 2011				
(Millions of U.S. Dollars)	Kyrgyz Republic	Mongolia	Corporate and other	Total
Revenue from Gold Sales	\$ 941.1	\$ 79.2	\$ -	\$ 1,020.3
Cost of sales	332.6	49.7	-	382.3
Mine standby costs	-	0.2	-	0.2
Regional office administration	15.3	6.0	-	21.3
Earnings from mine operations	593.2	23.3	-	616.5
Revenue-based taxes	131.8	-	-	131.8
Other operating expenses	11.5	3.9	-	15.4
Exploration and business development	13.6	11.4	17.9	42.9
Corporate administration	2.1	0.4	42.4	44.9
Earnings from operations	434.2	7.6	(60.3)	381.5
Other (income) and expenses	(0.7)	0.6	(0.9)	(1.0)
Finance costs	1.3	0.4	1.8	3.5
Earnings (loss) before income taxes	433.6	6.6	(61.2)	379.0
Income tax expense				8.1
Net earnings and comprehensive income				\$ 370.9
Capital expenditure for the year	\$ 180.7	\$ 6.6	\$ 0.6	\$ 187.9
Goodwill	\$ 129.7	\$ -	\$ -	\$ 129.7
Assets (excluding Goodwill)	\$ 1,016.6	\$ 319.4	\$ 222.9	\$ 1,558.9
Year ended December 31, 2010				
(Millions of U.S. Dollars)	Kyrgyz Republic	Mongolia	Corporate and other	Total
Revenue from Gold Sales	\$ 704.3	\$ 145.5	-	\$ 849.8
Cost of sales	272.4	69.8	-	342.2
Mine standby costs	1.3	-	-	1.3
Regional office administration	14.3	6.8	-	21.1
Earnings from mine operations	416.3	68.9	-	485.2
Revenue-based taxes	98.6			98.6
Other operating expenses	1.2	6.8	-	8.0
Exploration and business development	11.9	8.2	12.3	32.4
Corporate administration	2.0	0.4	49.9	52.3
Earnings from operations	302.6	53.5	(62.2)	293.9
Other (income) and expenses	1.1	1.1	(1.6)	0.6
Finance costs	0.9	0.6	-	1.5
Gain on sale of REN property	-	-	(34.9)	(34.9)
Earnings (loss) before income taxes	300.6	51.8	(25.7)	326.7
Income tax expense				4.4
Net earnings and comprehensive income				\$ 322.3
Capital expenditure for the year	\$ 186.5	\$ 25.2	\$ 0.3	\$ 212.0
Goodwill	\$ 129.7	\$ -	\$ -	\$ 129.7
Assets (excluding Goodwill)	\$ 713.6	\$ 277.6	\$ 279.6	\$ 1,270.8

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

33. First time adoption of IFRS

a. Transition to IFRS

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

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

b. Initial elections upon adoption

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

IFRS Exemption Options

i. Business combinations

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

ii. Share-based payments

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

iii. Borrowing costs

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

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

33. First time adoption of IFRS (continued)

b. Initial elections upon adoption (continued)

iv. Asset retirement obligation

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

v. Assets and liabilities of subsidiaries

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

IFRS mandatory exception

i. Estimates

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

c. Reconciliation between Canadian GAAP and IFRS

In preparing the Company's opening IFRS statement of financial position, the Company has adjusted amounts reported previously in its consolidated financial statements prepared in accordance with previous Canadian GAAP. An explanation of how the transition from previous Canadian GAAP to IFRS has affected the Company's financial position and equity is set out in the following tables in note 32(d) and the notes that accompany the tables in note 32(f).

IFRS 1 requires reconciliation disclosures that explain how the transition from Canadian GAAP to IFRS has affected the Company's previously reported consolidated financial statements prepared in accordance with previous Canadian GAAP for the year ended December 31, 2010. An explanation of how the transition from previous Canadian GAAP to IFRSs has affected the Company's financial position, equity, statement of earnings and comprehensive income and material adjustments to cash flows and equity is set out in the following tables in note 32(e) and the notes that accompany the tables in note 32(f).

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

33. First time adoption of IFRS (continued)

d. Reconciliation between Canadian GAAP and IFRS

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

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

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

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

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

33. First time adoption of IFRS (continued)

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

Reconciliation of financial position between Canadian GAAP and IFRS

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

Reconciliation of Consolidated statement of earnings and comprehensive income

For the year ended December 31, 2010 (Thousands of US\$)	Note	Previous Canadian GAAP	Effect of transition to IFRS	IFRS
Comprehensive income under				
Canadian GAAP				
		\$ 322,640	-	\$ 322,640
Provision for reclamation	(i)	-	444	444
Depreciation	(ii)	-	(183)	(183)
Share-based compensation	(iii)	-	1,087	1,087
Exchange difference on deferred income taxes	(iv)	-	(194)	(194)
Deferred income taxes	(iv)	-	3,188	3,188
Provision for constructive obligation	(v)	-	(6,365)	(6,365)
Net revenue from sales of gold	(vi)	-	1,674	1,674
Comprehensive income under IFRS		\$ 322,640	(349)	\$ 322,291

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

33. First time adoption of IFRS (continued)

f. Changes in accounting policies

The following paragraphs explain the significant differences between Canadian GAAP and the IFRS accounting policies applied by the Company. These differences result in the adjustments in the prior tables. The descriptive caption next to each numbered item below corresponds to the same numbered and descriptive caption in the tables in (32(d) and (e)).

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

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

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

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

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

33. First time adoption of IFRS (continued)

f. Changes in accounting policies (continued)

ii. Property, Plant and Equipment

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

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

Additional depreciation expense of \$0.2 million for the year ended December 31, 2010 relating to depreciation on the ARO asset recognized, as noted above, was recorded.

iii. Share-based payments

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

IFRS 2 was applied for applicable unvested stock options granted prior to the Transition Date at January 1, 2010. Consequently, as a result of the difference in measurement of the equity-settled share-based compensation at January 1, 2010 on which IFRS require different measurement for stock options that have graded vesting features compared with Canadian GAAP that value the stock options as a single grant, an adjustment of \$1.1 million was recorded to decrease opening retained earnings with offset to contributed surplus.

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

During the year ended December 31, 2010 share-based compensation expense recorded under Canadian GAAP was decreased by \$1.1 million.

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

33. First time adoption of IFRS (continued)

f. Changes in accounting policies (continued)

iv. Taxes

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

As a result of differences in recognition and measurement under IFRS and Canadian GAAP, as at the Transition Date of January 1, 2010, a decrease in the amount of \$ 2.9 million in the deferred income tax asset was reflected and adjusted to opening retained earnings. In addition, \$1.04 million of deferred income tax liability was recognized as the deferred income tax effect on differences between Canadian GAAP and IFRS, described in 32 (f) (i) to (iii) above. These adjustments are associated with the Mongolian segment.

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

v. Provision for constructive obligation

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

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

(Expressed in thousands of United States Dollars)

33. First time adoption of IFRS (continued)

f. Changes in accounting policies (continued)

vi. Revenue recognition

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

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

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

g. Statement of Cash Flows

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