# Centerra Gold Inc.

# Management's Discussion and Analysis ("MD&A")

# For the period ended March 31, 2011

The following discussion has been prepared as of April 29, 2011, and is intended to provide a review of the financial position and results of operations of Centerra Gold Inc. ("Centerra" or the "Company") for the three-month period ended March 31, 2011 in comparison with those as at March 31, 2010. This discussion should be read in conjunction with the unaudited interim consolidated financial statements and the notes of the Company for the three month period ended March 31, 2011. This MD&A should also be read in conjunction with the Company's audited annual consolidated financial statements for the three years ended December 31, 2010, the related MD&A and the Annual Information Form for the year ended December 31, 2010. The annual financial statements of Centerra for the year ended December 31, 2010 are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and, unless otherwise specified, all dollar amounts are in United States dollars. The interim financial statements for the quarter ended March 31, 2011 are prepared in accordance with IAS 34 under the International Financial Reporting Standards. In addition, this discussion contains forward-looking information regarding Centerra's business and operations. See "Risk Factors" in the Company's 2010 Annual Information Form and "Caution Regarding Forward-Looking Information" in this discussion. The Company's 2010 Annual Information Form is available at www.centerragold.com and on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

## Conversion to IFRS

As prescribed by the CICA Accounting Standards Board, the Company adopted the requirements of the International Financial Reporting Standards ("IFRS") in its statements of account as of January 1, 2011, including the restatement of its opening balance sheet of January 1, 2010 and its first quarter 2010 comparatives. The restatement of the Company's comparative balances from those previously reported under Canadian GAAP standards to those converted IFRS standards is fully explained and reconciled in note 20 of the Company's March 31, 2011 condensed consolidated interim financial statements as filed on SEDAR.

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1 University Avenue, Suite 1500
Toronto, ON
M5J 2P1
tel 416-204-1953
fax 416-204-1954
www.centerragold.com

## Consolidated Financial Results

Centerra's consolidated financial results for the three month period ended March 31, 2011 reflect 100% interests in the Kumtor and Boroo mines, and the Gatsuurt project.

## Highlights

| | Three Months Ended March 31 | | |
|---|---|---|---|
| **Financial and Operating Summary** | **2011** | **2010** | **% Change** |
| Revenue - $ millions | **250.2** | **255.5** | (2%) |
| Cost of sales - $ millions [1] | **61.8** | **78.4** | (21%) |
| Net earnings - $ millions | **136.6** | **123.9** | 10% |
| Earnings per common share - $ basic and diluted | **0.58** | **0.53** | 9% |
| Cash provided by operations - $ millions | **142.6** | **82.4** | 73% |
| Capital expenditures - $ millions | **72.1** | **29.2** | 147% |
| Weighted average common shares outstanding - basic (thousands) | **235,880** | **234,857** | 0% |
| Weighted average common shares outstanding - diluted (thousands) | **236,314** | **235,587** | 0% |
| | | | |
| Average gold spot price - $/oz | **1,386** | **1,109** | 25% |
| Average realized gold price - $/oz | **1,385** | **1,112** | 25% |
| | | | |
| Gold sold – ounces | **180,628** | **229,839** | (21%) |
| Cost of sales - $/oz sold [1] | **342** | **341** | 0% |
| Gold produced – ounces | **180,716** | **211,039** | (14%) |
| Total cash cost - $/oz produced[2] [3] | **370** | **340** | 9% |
| Total production cost - $/oz produced[2] [3] | **468** | **442** | 6% |

(1) As a result of the IFRS conversion, cost of sales for 2011 and its comparative year now include depreciation, depletion and amortization related to operations.
(2) Total cash cost and total production cost are non-GAAP measures and are discussed under "Non-GAAP Measures".
(3) As a result of Kumtor's Restated Investment Agreement signed in 2009, total cash cost and total production cost per ounce measures for both 2011 and 2010 exclude operating and revenue-based taxes.

## Three Month Period Ended March 31, 2011 compared with the Three Month Period Ended March 31, 2010

### Revenue and Gold Production

Revenue in the first quarter of 2011 was $250.2 million compared to $255.5 million in the same quarter last year. This reflects lower ounces produced and sold, and is consistent with the Company's mine plan and the sequencing of ore processing at Kumtor in the current year. Gold sold for the period totalled 180,628 ounces compared to 229,839 ounces in the first quarter of 2010. The impact on revenue of the 21% reduction in ounces sold was mostly offset by higher realized gold prices in the period. Gold production for the quarter was 180,716 ounces compared to 211,039 ounces reported in the first quarter of 2010. At Kumtor, the processing of lower grade ore from existing stockpiles and the lower throughput as a result of lower operating hours due to the planned mill shutdown in March 2011 resulted in lower production in the current year. Production at Boroo

was 46% lower in the first quarter 2011, processing lower grade stockpiled material with lower recoveries, following the completion of mining operations and the continued idling of the heap leach operation during the quarter. See "Mine Operations – Kumtor" and "Mine Operations – Boroo".

Centerra realized an average gold price of $1,385 per ounce for the first quarter of 2011 compared to $1,112 per ounce realized in the same quarter in 2010. The Company's gold production is not hedged and gold is sold at the prevailing spot price. The average realized gold price in the quarter reflects the continued strength of the spot gold price, which averaged $1,386 per ounce for the first quarter of 2011 ($1,109 per ounce for the same period in 2010).

## Cost of Sales

As a result of the IFRS conversion, cost of sales now includes depreciation, depletion and amortization in addition to operating cash costs related to the product sold in the period. In the first quarter of 2011 cost of sales was $61.8 million, a decrease of $16.6 million or 21% compared to the same quarter of 2010 resulting from a year over year reduction mainly at Kumtor. Kumtor benefited from the significant tonnes and higher grades of ore mined in the fourth quarter of 2010. This resulted in the build-up of lower cost inventories which were processed and sold in the first quarter of this year. In addition, operating costs were lower compared to the first quarter of 2010.

Depreciation, depletion and amortization from mine operations for the first quarter of 2011 decreased to $14.8 million from $21.3 million in the first quarter of the prior year. The lower depreciation results from the lower ounces sold and produced in the first quarter of 2011 as well as the impact of the additional reserves announced at the end of 2010 at Kumtor, which reduced the charge in the first quarter 2011 from the assets depreciated on a unit of production basis. Depreciation, depletion and amortization for the first quarter of 2011 was $83 per ounce sold compared to $93 per ounce sold in the same quarter of 2010, reflecting the impact in the first quarter 2011 from the new reserve announcement, the increased depreciation in 2010 from the pre-stripping of pit 3 at Boroo and the higher sales volume in 2010.

Cost of sales per ounce sold, which now includes the impact of depreciation, depletion and amortization, increased slightly to $342 compared to $341 for the same period in 2010.

Overall, operating cash costs for the first quarter of 2011 compared to 2010 are lower due to reduced costs at Boroo as a result of the completion of mining and continued idling of heap leach activities and the higher capitalization of mining costs for pre-stripping activities at Kumtor. This was partially offset by higher labour costs and diesel costs at Kumtor.

The ultimate impact of these cost changes on the reported results for cost of sales is dependant on the relative levels of capital and operating activities and the build-up or drawdown of inventories during the periods presented.

The Company's total cash cost per ounce produced increased to $370 from $340 in the first quarter of 2010. This increase is primarily due to lower production at both Kumtor and Boroo. Total cash cost per ounce produced is a non-GAAP measure and is discussed under "Non-GAAP Measures". See "Mine Operations – Kumtor" and "Mine Operations – Boroo".

1 University Avenue, Suite 1500
Toronto, ON
M5J 2P1
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fax 416-204-1954
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## Accretion and Reclamation Expense

Accretion and reclamation expense of $0.3 million remained unchanged in the first quarter of 2011 and 2010.

## Exploration

Exploration costs in the first quarter of 2011 increased to $7.4 million from $5.1 million in the same quarter of 2010 mainly reflecting higher drilling activity at Kumtor.

## Capital Expenditures

Capital expenditures spent and accrued of $72.1 million in the first quarter of 2011 comprised of $6.8 million of sustaining capital and $65.3 million invested in growth capital at Kumtor related mainly for the purchase of haul trucks, shovels and drills ($30.4 million), the capitalization of pre-stripping activities ($21.1 million) and the SB Zone underground development ($10.8 million).

## Corporate Administration

Corporate administration costs for the first quarter of 2011 were $7.8 million compared to $11.1 million in the same quarter of 2010. The decrease is primarily due to the impact of a 12% decrease in the share price in the first quarter 2011 on share-based compensation. The share price increased by 23% in the same period of 2010.

## Revenue-based Tax - Kumtor

Under the Restated Investment Agreement, taxes on revenue at Kumtor are charged at a rate of 13% of gross revenue, with an additional contribution of 1% of gross revenue to the Issyk-Kul Oblast Development Fund. Revenue-based tax totaled $32.2 million for the first quarter of 2011 compared to $31.3 million for the comparative quarter of 2010.

## Income Tax Expense

The Company recorded income tax expense for the three month period ended March 31, 2011 in the amount of $0.1 million, compared to a recovery of $0.4 million for the three month period ended March 31, 2010. The income tax expense in the current quarter, and in the comparable period in 2010, was recorded by Boroo. The income tax rate for Boroo is 25% of taxable income in excess of 3 billion Tugriks (about $2.5 million as at the balance sheet date), and 10% for income up to that amount.

Effective April 30, 2009 Kumtor became subject to a new tax regime pursuant to which income taxes and other taxes were replaced by taxes computed by reference to Kumtor's revenue. As a result of the Restated Investment Agreement, income taxes are no longer applicable to Kumtor.

## Net Earnings

Net earnings for the first quarter of 2011 were $136.6 million, or $0.58 per share, compared to $123.9 million or $0.53 per share for the same period in 2010, reflecting higher realized gold prices,

lower cost of sales and the impact of higher reserves on depreciation, partially offset by reduced gold production at both sites.

## Cash Flow

Cash provided by operations was $142.6 million for the first quarter of 2011 compared to $82.4 million for the same quarter of 2010, primarily reflecting increased earnings and improved changes in working capital in 2011 as compared to the prior year.

Cash used in investing activities in the first quarter of 2011 was $130.7 million reflecting the purchase of $69.0 million of short-term investments and capital additions of $61.7 million. Capital additions include $6.8 million spent on sustaining capital projects and $54.9 million invested in growth projects. Expenditures in growth projects were mainly for Kumtor's capital equipment purchases, pre-stripping activities and underground development project, while sustaining capital was $6.7 million at Kumtor and $0.1 million at corporate.

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

Cash and cash equivalents and short-term investments were $494.8 million at the end of the first quarter of 2011, compared to cash and cash equivalents and short-term investments of $413.8 million at December 31, 2010. The Company believes it has sufficient cash to carry out its capital and operational business plan for 2011.

## Credit and Liquidity

As at March 31, 2011, the Company had an undrawn revolving credit facility available of $150.0 million. As of March 31, 2011, availability under the facility was subject to certain conditions precedent, which were satisfied on April 15, 2011.

A significant factor in determining profitability and cash flow from the Company's operations is the price of gold. The spot market gold price based on the London PM fix was $1,439 per ounce on March 31, 2011. For the first quarter of 2011, the gold price averaged $1,386 per ounce compared to $1,109 per ounce for the same period in 2010.

The Company receives its revenues through the sale of gold in U.S. dollars. The Company has operations in the Kyrgyz Republic and Mongolia, and its corporate head office is in Toronto, Canada. During the three-month period ending March 31, 2011, approximately $81.5 million of operating and capital costs were incurred by Centerra in currencies other than U.S. dollars out of a total of $211.7 million in cash outlays. For the three-month period, the percentage of Centerra's non-U.S. dollar costs, by currency, was on average, as follows: 38% in Kyrgyz soms, 28% in Canadian dollars, 18% in Euro, 15% in Mongolian tugriks and 1% in other currencies. On average, from the December 31, 2010 currency rate, the Kyrgyz som depreciated by 0.6% against the U.S. dollar, the Canadian dollar appreciated by 1.2%, the Euro appreciated by 2.2% and the Mongolian tugrik appreciated by 1.2% over the U.S. dollar. The estimated impact of these movements over the three-month period to March 31, 2011 has been to increase costs by approximately $0.3 million,

after accounting for the Kyrgyz som, Mongolian tugrik and Canadian dollars held at the beginning of the year.

## Asset Retirement Obligations

The total future asset retirement obligations were estimated by management based on the Company's ownership interest in all mines and facilities, estimated costs to reclaim the mine sites and facilities, and the estimated timing of the costs to be incurred in future periods.

The Company has estimated the net present value of the total asset retirement obligations to be $40.0 million as at March 31, 2011 (December 31, 2010 - $40.4 million). These payments are expected to be made over the 2011 to 2022 period. The Company used risk-free discount rates of 3.18% at Kumtor and 2% at Boroo to calculate the present value of the asset retirement obligations.

## Share capital and share options

As of April 28, 2011, Centerra had 235,903,895 shares issued and outstanding. In addition, at the same date, the Company had 1,178,488 share options outstanding under its share option plan with exercise prices between Cdn$4.68 and Cdn$18.31 per share, and with expiry dates between 2014 and 2019.

## Gold hedges

The Company had no gold hedges in place in the first quarter of 2011 and no deferred charges were recognized.

## Mine Operations

Centerra owns 100% of the Kumtor and Boroo mines and therefore all operating and financial results are on a 100% basis.

| | Three Months Ended March 31 | | |
|---|---|---|---|
| **Kumtor Operating Results** | **2011** | **2010** | **% Change** |
| Gold sold – ounces | **166,145** | **200,767** | (17%) |
| Revenue - $ millions | **229.9** | **223.3** | 3% |
| Average realized gold price – $/oz | **1,384** | **1,112** | 24% |
| Cost of sales - $ millions [1] | **48.3** | **63.9** | (24%) |
| Cost of sales - $/oz sold [1] | **291** | **318** | (8%) |
| Tonnes mined - 000s | **36,508** | **27,538** | 33% |
| Tonnes ore mined – 000s | **588** | **1,387** | (58%) |
| Average mining grade - g/t [2] | **7.14** | **4.89** | 46% |
| Tonnes milled - 000s | **1,391** | **1,466** | (5%) |
| Average mill head grade - g/t [2] | **4.12** | **4.90** | (16%) |
| Recovery - % | **82.6** | **76.7** | 8% |
| Gold produced – ounces | **164,167** | **180,562** | (9%) |
| Total cash cost - $/oz produced [3] [4] | **342** | **305** | 12% |
| Total production cost - $/oz produced [3] [4] | **434** | **391** | 11% |
| | | | |
| Capital expenditures - $ millions | **71.9** | **23.4** | 207% |
| **Boroo Operating Results** | | | |
| Gold sold – ounces | **14,484** | **29,072** | (50%) |
| Revenue - $ millions | **20.3** | **32.2** | (37%) |
| Average realized gold price - $/oz | **1,399** | **1,106** | 26% |
| Cost of sales - $ millions [1] | **13.5** | **14.5** | (7%) |
| Cost of sales - $/oz sold [1] | **933** | **497** | 88% |
| Total Tonnes mined - 000s | **-** | **3,094** | (100%) |
| Average mining grade (non heap leach material) - g/t [2] | **-** | **1.81** | (100%) |
| Tonnes mined heap leach – 000s | **-** | **778** | (100%) |
| Tonnes ore mined direct mill feed -000s | **-** | **1,137** | (100%) |
| Tonnes ore milled - 000s | **596** | **624** | (4%) |
| Average mill head grade - g/t [2] | **1.35** | **1.90** | (29%) |
| Recovery - % | **61.3** | **72.8** | (16%) |
| Gold produced – ounces | **16,549** | **30,477** | (46%) |
| Total cash cost - $/oz produced [3] | **645** | **551** | 17% |
| Total production cost - $/oz produced [3] | **805** | **739** | 9% |
| | | | |
| Capital expenditures - $ millions (Boroo) | **0.0** | **0.2** | (92%) |
| Capital expenditures - $ millions (Gatsuurt) | **0.1** | **5.5** | (98%) |

(1) As a result of the IFRS conversion, cost of sales for 2011 and its comparative year now include depreciation, depletion and amortization related to operations.
(2) g/t means grams of gold per tonne.
(3) Total cash cost and total production cost are non-GAAP Measures and are discussed under "Non-GAAP Measures".
(4) As a result of Kumtor's Restated Investment Agreement signed in 2009, total cash cost and total production cost per ounce measures for both 2011 and 2010 are shown excluding operating and revenue-based taxes.

1 University Avenue, Suite 1500
Toronto, ON
M5J 2P1
tel 416-204-1953
fax 416-204-1954
www.centerragold.com

## Kumtor

The Kumtor open pit mine, located in the Kyrgyz Republic, is the largest gold mine in Central Asia operated by a Western-based producer. It has been operating since 1997 and has produced about 8.0 million ounces of gold. During the first quarter of 2011, Kumtor experienced two lost-time injuries and six level I (non-reportable) and no level II environmental incidents.

According to the mine plan, the focus at Kumtor for the first quarter 2011 was the removal of ice and waste material from the SB Zone. As a result during the first quarter 2011, Kumtor milled a combination of higher grade material mined in the quarter and stockpiled material which was built-up during the fourth quarter 2010.

The planned removal of ice and waste from the SB Zone continued. The rate of movement of waste and ice from this area reduced during the first quarter of 2011 as a result of the continued offloading, as well as cold weather causing the material to freeze and slow its progress. Mine operations received the new trucks and shovels during the quarter as planned and the production increased accordingly to record levels

The SB Zone underground decline (Decline #1) has now advanced a total of 1,280 metres, advancing approximately 200 metres in the quarter. Geotechnical drilling continued in the first quarter of 2011. Exploration drilling is planned to resume later this year and delineation drilling of the SB Zone is planned for 2012.

The Stockwork Zone underground decline (Decline #2) has advanced a total of 928 metres (including the second heading, the Stockwork Decline), advancing 194 metres in the quarter. Decline #2 will facilitate the access to the Stockwork Zone and the SB Zone from the north for further exploration and delineation drilling. The Stockwork Decline established for the exploration and delineation drilling program for the Stockwork Zone has advanced a total of 270 meters toward the north (95 meters in the first quarter). Exploration drilling continued in the first quarter of 2011 and delineation drilling of the Stockwork Zone resource will continue through the rest of 2011.

## Revenue and Gold Production

Revenue in the first quarter of 2011 increased to $229.9 million compared to $223.3 million from the comparative quarter of 2010, primarily as a result of the higher average realized price of $1,384 per ounce compared to $1,112 per ounce. The majority of this gain was offset by lower sales of 166,144 ounces in the first quarter of 2011 compared to 200,767 ounces in the same period of 2010 due to fewer ounces produced.

Total tonnes mined in the first quarter of 2011 were 36.51 million compared to 27.54 million tonnes in the comparative quarter of 2010. The amount of waste material moved increased by 9.8 million tonnes (37%), while ore mined decreased by 0.8 million tonnes (58%) as the operation was pre-stripping for the majority of the quarter. The major factor contributing to the increase in total tonnes mined in the first quarter 2011 was the larger mine fleet and bigger haul trucks which increased by 29 CAT 789 trucks and 3 Liebherr shovels. At the end of the first quarter 2011, daily tonnages out of the pit continued to increase.

Kumtor produced 164,167 ounces of gold in the first quarter of 2011 compared to 180,562 ounces of gold in the comparative quarter of 2010. The decrease in production resulted from a lower head grade and lower tonnes processed, partially offset by higher recoveries. Tonnes processed were 1,390,845 versus 1,466,263 or 5.1% lower than the same period of 2010. The lower tonnes are due to lower operating hours as a result of the mill shutdown in March 2011, one month earlier than in the comparative period. The mill feed processed in the first quarter 2011 was sourced from both pit material mined in the first quarter 2011 and stockpiled material available at the beginning of the period, as compared to the comparative 2010 quarter where only half of the mill processing was sourced fromopening stockpiles. Mill head grades for the first quarter averaged slightly higher than plan and recovery was consistently higher for the period.

Compared to the same period in 2010, mill head grade for the first quarter of 2011 was 4.12 g/t with a recovery of 82.6%, compared to 4.90 g/t with a recovery of 76.7%.

**Cost of Sales**

As a result of the IFRS conversion, cost of sales now includes depreciation, depletion and amortization in addition to operating cash costs related to the product sold in the period. In the first quarter 2011, costs of sales at Kumtor were $48.3million. This is a decrease of $15.6 million (24%) compared to the same quarter in 2010, reflecting in 2011 the lower ounces sold and the processing of lower cost ounces from stockpiles which were built-up from the mining of significant tonnage and higher grade ores during the fourth quarter of 2010.

Depreciation, depletion, and amortization from operations decreased by $5.2 million over the same period in 2010. This reduction is mainly due to the increase in the proven and probable reserves at the end of 2010 which led to an extension of the mine's life by a further two years (to 2021) and the capitalization of depreciation related to pre-strip mining ($5.4 million) which lead to a slower amortization of assets. This was partially offset by increased depreciation as a result of the expanded mining fleet.

Operating cash costs at Kumtor increased by $2.3 million in the first quarter of 2011 compared to the same quarter of 2010. The main cost elements are as follows:

Mining costs for the first quarter of 2011 were $28.4 million. This represents a reduction of $1.7 million (6%) compared to the same quarter in 2010. This reduction is mainly due to the capitalization of mining costs used in pre-stripping activities ($15.6 million, cash component), partially offset by increased costs from the expanded fleet to achieve additional tonnes. Increased costs include diesel of $8.1 million, of which $6.1 million is due to an average price per liter increase from US$0.51 to US$0.82. Other areas where costs increased included national labour resulting from the new collective agreement signed in October 2010 ($3.3million), explosives ($1.7 million), higher maintenance costs resulting from an increase in the numbers of shovels, drills and trucks ($1.2 million), and other increases of ($0.7 million). Savings were realized with a new program to extend tire life ($0.8 million).

Milling costs for the first quarter of 2011 were $14.6 million. This is an increase of $1.1 million (8%) when compared to the same quarter of 2010. This was primarily due to an increase in national

labour costs ($0.5 million), and costs related to the replacement of the SAG Mill liners in March 2011 compared to the second quarter in 2010 ($0.7 million).

Site administration costs for the first quarter of 2011 were $10.6 million. This is an increase of $2.9 million (37%) compared to the same quarter in 2010. The unfavorable variances include increases in national labour ($1.6 million), insurance ($0.3 million), diesel costs ($0.3 million) and food and camp supplies ($0.3 million).

The ultimate impact of these cost changes on the reported results for cost of sales is dependant on the relative levels of capital and operating activities and the build-up or drawdown of inventories during the periods presented.

Total cash cost per ounce produced in the first quarter of 2011 was $342 per ounce compared to $305 per ounce for the same period in 2010, as a result of 9% lower production and 2% higher cash costs. The total cash costs were $56.1 million in the first quarter of 2011 compared to $55.0 million in the same period of 2010. This reflects higher operating costs of $2.3 million, partially offset by higher by-product revenue from silver sales of $1.1 million.. Total cash cost per ounce produced is a non-GAAP measure and is discussed under "Non-GAAP Measures".

Cost of sales per ounce sold, which now includes the impact of depreciation, depletion and amortization, decreased to $291 per ounce for the first quarter of 2011 compared to $318 per ounce for the same period in 2010. The majority of the ounce production during the first quarter of 2011 came from processing lower cost opening stockpiles that were built-up from the mining of significant high grade material during the fourth quarter 2010. This compares to the first quarter 2010 where approximately only half of the production was a result of processing the stockpiles available at the beginning of the period, which carried a slightly higher cost from the fourth quarter 2009 production. As the stockpile material was processed and sold in the first quarter 2011, the low costs associated with the opening stockpiles flowed to the cost of goods sold. There was a similar effect in the comparative period of 2010, however, due to fewer ounces in the opening stockpiles and a lower proportion of these lower cost ounces to the total production, the impact from processing the stockpiles was less pronounced in the comparative year. Depreciation contained in costs of sales was also lower in the first quarter 2011 as a result of the added reserves at the beginning of the year and the capitalization of depreciation related to pre-strip mining.

**Kumtor Regional Administration**

Kumtor regional administration costs for the first quarter of 2011 were $3.3 million. The costs are comparable to the same quarter of 2010.

**Exploration**

Exploration costs for the first quarter of 2011 were $4.1 million at the Kumtor site, representing an increase of $2.3 million (122%) compared to the same period of 2010. Additional drilling in the 2011 quarter led to higher national, contractor and expatriate labour costs ($1.0 million), drilling

consumables ($0.8 million), dozer usage for constructing access roads ($0.3 million) and higher diesel costs ($0.2 million).

### Capital Expenditures

Capital expenditures in the first quarter of 2011 were $71.9 million compared to $23.4 million in the same quarter of 2010. First quarter 2011 expenditures consisted of $6.7 million of sustaining capital, predominantly spent on the major overhaul program for heavy duty equipment ($5.6 million). Growth capital investment of $65.2 million was spent on the purchase of CAT 789 haul trucks ($24.0 million), pre-stripping capitalization ($21.1 million), underground development phase I and II ($10.8 million), the purchase of Liebherr shovels ($5.9 million), work on the waste rock dump buttress ($1.8 million), the purchase of a new Drilltech D45 Drill ($0.5 million) and numerous other projects totaling ($0.9 million).

## Boroo and Gatsuurt

The Boroo open pit mine, located in Mongolia, was the first hard rock gold mine in Mongolia. To date it has produced approximately 1.5 million ounces of gold since beginning of operation in 2004. During the first quarter of 2011, there were no lost-time injuries and one level I environmental incident (non-reportable).

Boroo completed its mining activities at the end of November 2010. The completion of mining at Boroo and the delays experienced with the commissioning of the Gatsuurt project resulted in the layoff of approximately 250 mining employees who were initially scheduled for transfer to the Gatsuurt mine. It is expected that the remaining refractory in situ ore at Boroo will be processed through a bio-oxidation facility which is to be developed for processing of Gatsuurt sulphide ore at the Boroo site. Further spending and development of the bio-oxidation facility is subject to receiving all required approvals and regulatory commissioning from the Mongolian Government allowing the Gatsuurt project to move forward.

Heap leach operations at Boroo remain under care and maintenance. The Company continues to work with the Mongolian authorities to obtain the final heap leach operating permit.

The Company continued to process stockpiled ore at Boroo grading 1.35 g/t during the quarter.

### Revenue and Gold Production

Revenue in the first quarter of 2011 decreased to $20.3 million from $32.2 million in the first quarter of 2010 primarily as a result of 50% lower ounces sold (14,484 in the first quarter of 2011, compared to 29,072 ounces sold in the same period of 2010), partially offset by increased gold prices. Boroo produced 16,549 ounces of gold in the first quarter of 2011 compared to 30,477 ounces of gold in the first quarter of 2010, mainly as a result of the lower grades of ore in the stockpiles being processed and lower recovery. The heap leach operation remained idle during the first quarter 2011, pending issuance of the final permitting by the Mongolian government authorities (see “Other Corporate Developments - Mongolia”). The ore grade averaged 1.35 g/t with a recovery of 61.3% in the first quarter of 2011, compared to 1.90 g/t with a recovery of 72.8% in the same quarter of 2010.

The average realized gold price per ounce in the first quarter of 2011 was $1,399 compared to $1,107 in the same period in 2010.

**Cost of Sales**

Cost of sales, which now includes depreciation, depletion and amortization associated to the ounces sold, decreased by $0.9 million in the first quarter of 2011 to $13.5 million compared to the same period of 2010.

Depreciation, depletion and amortization from operations in the first quarter 2011 totaled $3.2 million, a decrease of $1.2 million or 28% lower than the same period in 2010. The reduction results mainly from the lower sales and production volumes in the first quarter 2011. In addition Pit 3 pre-stripping was being depreciated in the first quarter of 2010: this pre-stripping was fully depreciated in the third quarter of 2010.

Operating cash costs at Boroo decreased by $5.3 million compared to the same period in 2010. This variance is explained as follows:

Mining costs for the first quarter 2011 were $0.6 million, $5.2 million or 90% lower than the same quarter in 2010, as mining operations ceased at the end of November 2010.

Milling costs for the first quarter 2011 were $5.6 million, $0.5 million or 10% higher than the same quarter in 2010 primarily due to higher reagent, electricity and other consumable costs.

Costs for heap leaching activities were $0.2 million or 76% lower than the same period in 2010, as stacking and crushing activities have come to a virtual stop after the idling of the operation awaiting issuance of the operating permit.

Site administration costs remained constant at approximately $1.8 million for the first quarter in both years.

Royalties decreased in the first quarter 2011 by $0.6 million or 38% to $1.0 million due to lower sales versus the same quarter of 2010.

The ultimate impact of these cost changes on the reported results for cost of sales is dependant on the relative levels of capital and operating activities and the buildup or drawdown of inventories during the periods presented.

Total cash cost per ounce produced in the first quarter 2011 was $645 compared to $551 per ounce for the same period in 2010. The increase is a result of lower gold production partially offset by lower operating cash costs. Total cash cost per ounce produced is a non-GAAP measure and is discussed under "Non-GAAP Measures".

On a unit cost basis, cost of sales per ounce sold, which now includes the impact of depreciation, depletion and amortization, increased to $933 in the first quarter of 2011 compared to $497 in the same quarter of 2010 reflecting the lower ounces sold and the completion of pre-strip capitalization in the third quarter 2010.

### Boroo Regional Administration

Boroo regional administration costs for the first quarter 2011 were $1.5 million, $0.1 million or 6% lower than the same quarter in 2010 primarily due to lower payroll costs incurred.

### Exploration

Exploration expenditures in Mongolia decreased to $0.9 million in the first quarter of 2011 from $1.2 million in the same period of 2010. This is primarily due to lower drilling activities performed on the Gatsuurt and Ulaan Bulag mining licenses.

### Capital Expenditures

There were virtually no capital expenditures at Boroo in the first quarter of 2011 compared to $0.2 million spent mainly on component change-outs in the same period of 2010. At Gatsuurt, $0.1 million was spent in the first quarter 2011 compared to $5.5 million spent and accrued on road building and mine development in the first quarter of 2010. Development of the Gatsuurt site was substantially completed in the second half of 2010.

## Other Financial Information – Related Party Transactions

### Kyrgyzaltyn JSC and the Government of the Kyrgyz Republic

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

The table below summarizes 100% of the management fees and concession payments paid and accrued by Kumtor Gold Company ("KGC"), a subsidiary of the Company, to Kyrgyzaltyn or the Government of the Kyrgyz Republic, and the amounts paid and accrued by Kyrgyzaltyn to KGC according to the terms of a Restated Gold and Silver Sale Agreement between Kumtor Operating Company ("KOC", a subsidiary of the Company), Kyrgyzaltyn and the Government of the Kyrgyz Republic entered into in June 2009 as part of the transactions contemplated by the Agreement on New Terms.

| *($ thousands)* | **Three months ended March 31** | |
|---|---|---|
| | **2011** | **2010** |
| Management fees paid by KGC to Kyrgyzaltyn | **166** | 201 |
| | | |
| Gross gold and silver sales from KGC to Kyrgyzaltyn | **230,747** | 224,212 |
| Deduct: refinery and financing charges | **(835)** | (881) |
| Net sales revenue received by KGC from Kyrgyzaltyn | **229,912** | 223,331 |

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 the Restated Gold and Silver Sale Agreement (the "Sales Agreement"). Under the Sales Agreement, Kyrgyzaltyn is required to pay for gold within 12

calendar days of shipment from the Kumtor mill at a price that is fixed based on the London PM fixed price of gold on the London Bullion Market. The obligations of Kyrgyzaltyn are partially secured by a pledge of 2,850,000 shares of Centerra owned by Kyrgyzaltyn, the value of which fluctuates with the market price of Centerra's shares.

As at March 31, 2011, the Company had an amount of $42.0 million receivable from Kyrgyzaltyn (December 31, 2010 - $89 million). Subsequent to March 31, 2011, the balance receivable from Kyrgyzaltyn was paid in full.

## Quarterly Results – Last Eight Quarters

Over the last eight quarters, Centerra's results reflect the positive impact of rising gold prices and increased gold production at Kumtor but offset by rising cash costs. The results for the third quarter of 2010 include the gain on sale of the REN exploration property of $34.9 million, while the results for the second quarter of 2009 reflect the impact from unusual items of $49.3 million of charges. The quarterly financial results for the last eight quarters are shown below:

| *$ millions, except per share data* | **2011** | **2010 (1)** | | | | **2009 (2)** | | |
|---|---|---|---|---|---|---|---|---|
| | **Q1** | **Q4** | **Q3** | **Q2** | **Q1** | **Q4** | **Q3** | **Q2** |
| Revenue | 250 | 323 | 115 | 152 | 255 | 324 | 159 | 104 |
| Net earnings (loss) | 137 | 151 | 17 | 31 | 124 | 140 | 20 | (80) |
| Earnings (loss) per share (basic and diluted) | 0.58 | 0.64 | 0.07 | 0.13 | 0.53 | 0.60 | 0.09 | (0.36) |

(1) revised under IFRS

(2) as reported under Canadian GAAP

## Other Corporate Developments

The following is a summary of current matters affecting the Company and its subsidiaries in the Kyrgyz Republic and Mongolia. No material changes have occurred on these matters since the Company's annual disclosure documents published on February 24, 2011.

## Kyrgyz Republic

At the Kumtor project, the Company's Kyrgyz Republic operating subsidiary pays Kyrgyz Republic Social Fund ("Social Fund") contributions in respect of the base wages of its national employees. In late 2010, the Social Fund notified the Company of its position that the Company should pay contributions to the Social Fund not only in respect of base wages but also in respect of the premium compensation that the Company is required to pay employees for work at high-altitude. A potential adjustment to the Social Fund contribution for the 2010 year as a result of this matter could require an additional payment ranging from zero to $7.4 million. The position of the Social Fund is inconsistent with its past practices and with prior audits of the Company's Kyrgyz Republic operating subsidiary, completed as recently as 2009. The Company continues to vigorously dispute the Social Fund's position. At this time, the liability is unlikely and as a result, no amounts have been accrued in the Company's financial statements in respect of this matter.

## Mongolia

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

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

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

In November 2010, Mongolia's cabinet announced its intention to initiate the revocation of 1,782 mineral licenses under the Water and Forest Law on a staged basis, beginning with the revocation of 254 alluvial gold mining licenses. The Company has four licenses (subsequently clarified to be only three licenses) on the list of alluvial gold mining licenses that may be revoked. None of these licenses are material to the Company. In particular, Centerra's principal Gatsuurt hardrock mining licenses are not on the list of alluvial licenses to be revoked. In accordance with the Water and Forest Law, the Company submitted in February 2011 a formal request for compensation for the three licenses slated to be revoked. The Company has not yet received any further update from the Mongolian regulatory authorities on this matter.

In late 2010, the Mongolian Government announced that it was considering taking the following actions as the next stages of its implementation of the Water and Forest Law:

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

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

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

The Water and Forest Law has attracted opposition from Mongolia's alluvial miners, the Mongolian National Mining Association and other groups. The Company also understands that a group of parliamentarians has proposed amendments to the Water and Forest Law to reduce its impact on environmentally-sound mining operations. The amendments are expected to be discussed in the spring 2011 session of the Mongolian Parliament.

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

Centerra is reasonably confident that the economic and development benefits resulting from its exploration and development activities will ultimately result in the Water and Forest Law having a limited impact on the Company's Mongolian activities. There can be no assurance, however, that this will be the case. Unless the Water and Forest Law is repealed or amended such that the law no longer applies to the project or Gatsuurt is designated as a "mineral deposit of strategic importance" that is exempt from the Water and Forest Law, mineral reserves at Gatsuurt may have to be reclassified as mineral resources or eliminated entirely. A revocation of the Company's mineral licenses, including the Gatsuurt mineral license, could have an adverse impact on Centerra's future cash flows, earnings, results of operations and financial condition. See "Risk Factors" in the Company's most recently filed AIF.

**New Graduated Royalty Fee**

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

The graduated royalty became effective as of January 1, 2011 for all mining projects in Mongolia. On January 19, 2011, the Standing Committee of the State Great Hural of Mongolia issued a resolution to the Government which, among other things, resolved to direct the Government to enter into negotiations to have the graduated royalty structure apply to business entities that have already entered into a stability and/or an investment agreement. This would include the Company's Boroo mine which is currently operating pursuant to a stability agreement entered with the Mongolian government. To date, the Company has not received any further word regarding this resolution and whether the Government will act on it. In any event, the Company is of the opinion that the Boroo stability agreement provides, among other things, legislative stabilization for its Boroo operations and accordingly the graduated royalty fee is not applicable to Boroo's remaining operations. However, the Company cannot provide any guarantees that Boroo will not be made subject to the graduated royalty fee. If the graduated royalty fee does apply, it may have an adverse impact on Centerra's future cash flows, earnings, results of operations or financial condition. Regardless of whether the graduated royalty fee applies to the Boroo operation, it will apply to gold produced from the Gatsuurt mine, when developed. See "Risk Factors" in the Company's most recently filed AIF.

## Critical Accounting Estimates

Centerra prepares its consolidated financial statements in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board ("IASB"). In doing so, management is required to make various estimates and judgments in determining the reported amounts of assets and liabilities, revenues and expenses for each year presented and in the disclosure

of commitments and contingencies. Management bases its estimates and judgments on its own experience, guidelines established by the Canadian Institute of Mining, Metallurgy and Petroleum and various other factors believed to be reasonable under the circumstances. In reference to the Company's significant accounting policies as described in note 3 to the March 31, 2011 Consolidated Financial Statements management believes the following critical accounting policies reflect its more significant estimates and judgments used in the preparation of the consolidated financial statements.

Inventories of broken ore, heap leach ore, in-circuit gold and gold doré are valued at the lower of average production cost and net realizable value, while consumable supplies and spares are valued at the lower of weighted-average cost and replacement cost. Determination of realizable value or replacement costs requires estimates to be made for costs to complete and sell inventory. Management periodically makes estimates regarding whether an allowance is necessary for slow moving or obsolete consumable supplies and spares inventories.

Depreciation and depletion of property, plant and equipment directly involved in mining and milling operations is primarily calculated using the "unit of production" method. This method allocates the cost of an asset to each period based on current period production as a portion of total lifetime production or a portion of estimated recoverable ore reserves. Estimates of lifetime production and amounts of recoverable reserves are subject to judgment and could change significantly over time. If actual reserves prove to be significantly different than the estimates, there would be a material impact on the amounts of depreciation and depletion charged to earnings.

Mobile equipment and other administrative-type assets are depreciated according to the straight-line method, based on an estimate of their useful lives.

Significant decommissioning and reclamation activities are often not undertaken until substantial completion of the useful lives of productive assets. Regulatory requirements and alternatives with respect to these activities are subject to change over time. A significant change to either the estimated costs or recoverable reserves would result in a material change in the amount charged to earnings.

If it is determined that carrying values of property, plant and equipment cannot be recovered, then the asset is written down to fair value. Similarly, Centerra tests goodwill at least annually for impairment to ensure that the fair value remains greater than or equal to book value. Any excess of book value over fair value is charged to income in the period in which the impairment is determined. Recoverability and fair value assessments are dependent upon assumptions and judgments regarding future prices, costs of production, sustaining capital requirements and economically recoverable ore reserves and resources. A material change in assumptions may significantly impact the potential impairment of these assets.

The Company uses the asset and liability method of accounting for deferred income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Deferred income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities, calculated using the currently enacted or substantively enacted tax rates anticipated to apply in the period that the temporary differences are expected to reverse. Deferred income tax inflows and outflows are subject to estimation in terms of

both timing and amount of future taxable earnings. Should these estimates change, the carrying value of income tax assets or liabilities may change.

Grants under Centerra's stock-based compensation plans are accounted for in accordance with the fair-value-based method of accounting. For stock-based compensation plans that will settle through the issuance of equity such as stock options, the fair value of stock options is estimated on the date of grant using the Black-Scholes option pricing model, while for the cash-settled stock-based compensation where performance is compared to a market indicator such as the Gold Index, fair value is determined using the Monte Carlo valuation. These valuation models require the input of certain assumptions including expected share price volatility.

## Outlook for 2011

Centerra's 2011 consolidated gold production is forecast to be 600,000 to 650,000 ounces. Total cash cost in 2011 is expected to be $460 to $495 per ounce produced. Both production and cash cost guidance are unchanged from the prior guidance disclosed in the Company's news release of February 24, 2011. Total cash cost is a non-GAAP measure and is discussed under "Non-GAAP Measures".

The Kumtor mine is expected to produce 550,000 to 600,000 ounces in 2011. Kumtor's total cash cost for 2011 is expected to be $430 to $460 per ounce produced. Both production and cash cost guidance are unchanged from the prior guidance. It is expected that the higher than anticipated production realized in the first quarter will not continue in future quarters this year. The increased production, resulted from processing the higher than anticipated inventory that had accumulated at the end of the fourth quarter of 2010 along with the higher grades and the associated recovery of gold processed. The Kumtor mill is expected to have a scheduled replacement of the SAG mill feed end liners and the discharge trunnion liners at the beginning of the third quarter which will require the shutdown of the mill for approximately 3 days.

At the Boroo mine, gold production is forecast to be 50,000 ounces and assumes no mining activities at Boroo in 2011. Boroo total cash cost is expected to be $865 per ounce produced in 2011. Both production and cash cost guidance are unchanged from the prior guidance. The 2011 forecast also assumes no production from the Gatsuurt project due to uncertainties with permitting final approvals and regulatory commissioning. The Boroo mill is expected to process the bulk of the remaining direct mill feed stockpiled ore at Boroo until the end of May 2011 with an average grade of approximately 1.44 g/t. For the balance of the year, the Boroo mill is expected to process mostly stockpiled material with grades between 0.76 – 0.87 g/t. At the current reserve gold price assumption of $1,000 per ounce, the Boroo operation could potentially continue to feed the mill for at least a further two years utilizing existing low-grade stockpiles.

Receipt of the final heap leach operating permit would add approximately 3,500 to 4,000 ounces of gold a month. At Gatsuurt, the project is ready to begin production of the oxide ore on receipt of the final approvals and regulatory commissioning. See also "Other Corporate Developments – Mongolia" and other material assumptions set out below.

**Centerra's Production and Unit Cost –2011 Forecast as follows**:

| | **Production**<br>*Ounces of gold* | **Total Cash Cost** [(1)]<br>*$ per ounce* |
|---|---|---|
| Kumtor | 550,000 – 600,000 | 430 – 460 |
| Boroo | 50,000 | 865 |
| Total Consolidated | 600,000 – 650,000 | 460 – 495 |

(1) Total cash cost is a non-GAAP measure. See "Non-GAAP Measures".

## 2011 Exploration Expenditures

Exploration expenditures of $34 million are planned for 2011; the exploration plan is unchanged from the prior guidance. The 2011 program will continue the aggressive exploration work at the Kumtor mine together with an increase in the exploration in the Kumtor district with target definition and drilling programs on the properties acquired in 2010. Planned exploration expenditures in the Kyrgyz Republic are approximately $13 million. In Mongolia $5 million is allocated for target definition and drill programs on the Company's land holdings along the Yeroogol trend and in eastern Mongolia.

In 2011, drilling programs will continue on the Kara Beldyr project in Russia to determine the resource potential of the property. The Kara Beldyr project is a joint venture in which Centerra currently holds an indirect 50% interest. Drilling programs will also continue in Turkey and Nevada. In addition, generative programs will continue in Russia, China, Turkey and the U.S. to increase the pipeline of projects that the Company is developing to meet the longer term growth targets of Centerra.

## 2011 Capital Expenditures

The capital expenditures for 2011 are estimated to be $213 million, including $38 million of sustaining capital and $175 million of growth capital, which is unchanged from the prior guidance.

Capital expenditures include:

| Projects | 2011 Growth Capital ($ millions) | 2011 Sustaining Capital ($ millions) |
|---|---|---|
| Kumtor mine | 170 | 36 |
| Mongolia | 5 | 1 |
| Corporate | - | 1 |
| Consolidated Total | 175 | 38 |

## Kumtor

At Kumtor, during 2011 total capital expenditures are forecast to be $206 million which includes $36 million of sustaining capital. The largest sustaining capital spending will be on the major overhaul maintenance of the heavy duty mine equipment ($19 million), expenditures for the shear key, buttress and tailings dam construction works ($5 million) and for equipment replacement and other items ($12 million).

Growth capital investment at Kumtor for 2011 is forecast to be $170 million primarily for the purchase of seven CAT 789 haul trucks ($21 million), purchase of remaining equipment for the North Wall expansion project ($28 million), pre-strip costs related to the development of the open pit ($63 million) and a waste dump expansion project ($3 million). Also, $52 million is included in growth capital investment for the underground growth capital, of which $40 million has been allocated to advance the two underground declines to continue to develop the SB Zone and Stockwork Zone, as well as, $5 million for delineation drilling and $6 million for capital purchases and other costs in 2011.

## Boroo & Gatsuurt (Mongolia)

At Boroo, 2011 sustaining capital expenditures are expected to be $1 million and growth capital is forecast at $5 million primarily for the tailings dam construction to expand the capacity of the Boroo tailings facility to allow treatment of waste.

No capital for the development of the deeper sulphide ores at Gatsuurt has been forecast and will only be invested following successful regulatory commissioning of the Gatsuurt project. The engineering and construction of a bio-oxidation facility to be located at the Boroo mill, which is needed to treat Gatsuurt sulphide ores, will be restarted only after the approval to begin mining at Gatsuurt has been received from the Government of Mongolia.

## Corporate Administration

Corporate and administration expenses for 2011 are forecast at $45 million, which is $1 million higher than the prior guidance in the fourth quarter 2010 mainly due to the strengthening of the Canadian dollar against the U.S. dollar.

## Taxes

Pursuant to the Restated Investment Agreement, Kumtor's operations are not subject to corporate income taxes. The agreement replaced the prior tax regime applicable to the Kumtor project with a simplified regime effective January 1, 2008. This simplified regime, which assesses tax at 13% on gross revenue (plus 1% for the Issyk-Kul Oblast Development Fund effective January 2009), was approved and enacted by the Parliament of the Kyrgyz Republic on April 30, 2009.

The corporate income tax rate for Centerra's Mongolian subsidiary, Boroo Gold Company is 25% for taxable income over 3 billion Mongolian tugriks (approximately $2.4 million at the 2010 year-end foreign exchange rate) with a tax rate of 10% for taxable income up to that amount.

Production, cost and capital forecasts for 2011 are forward-looking information and are based on key assumptions and subject to material risk factors that could cause actual results to differ materially and which are discussed herein under the headings "Material Assumptions" and "Caution Regarding Forward-Looking Information" and under the heading "Risk Factors" in the Company's most recently filed AIF.

## Sensitivities

Centerra's revenues, earnings and cash flows for the remaining three quarters of 2011 are sensitive to changes in certain variables and the Company has estimated their impact on revenues, net earnings and cash from operations.

| | **Change** | **Impact on** *($ millions)* | | | |
|---|---|---|---|---|---|
| | | **Costs** | **Revenues** | **Cash flow** | **Earnings before income tax** |
| Gold Price | **$50/oz** | 3.1 | 23.2 | 20.1 | 19.6 |
| Diesel Fuel [1] | **10%** | 6.2 | - | 6.2 | 6.2 |
| Kyrgyz som | **1 som** | 1.7 | - | 1.7 | 1.7 |
| Mongolian tugrik | **25 tugrik** | 0.4 | - | 0.4 | 0.4 |
| Canadian dollar | **10 cents** | 3.2 | - | 3.2 | 3.2 |

(1) a 10% change in diesel fuel price equals $10/oz produced

## Material Assumptions

Material assumptions or factors used to forecast production and costs for the remaining three quarters of 2011 include the following:

- a gold price of $1,350 per ounce,
- exchange rates:
  - $1USD:$0.99 CAD
  - $1USD:48.50 Kyrgyz som
  - $1USD:1,210 Mongolian tugriks
  - $1USD:0.75 Euro
- diesel fuel price assumption:
  - $0.80/litre at Kumtor
  - $1.05/litre at Boroo

The assumed average diesel price of $0.78/litre at Kumtor does not include a customs export duty imposed by the Russian authorities on the diesel fuel exported to the Kyrgyz Republic in 2010. Russia imposed a customs duty of approximately $194 per tonne on gasoline and diesel fuel exports to the Kyrgyz Republic that went into effect on April 1, 2010. The customs export duty amounted to approximately $0.18/litre or $212.77 per tonne of diesel fuel. While there were public statements that the export duty had been revoked retroactive to January 1, 2011, Kumtor had to pay the customs export duty on some of its purchases of diesel fuel from Russia during the first quarter of 2011. However, towards the end of the quarter, the cost of purchases of diesel fuel did not include the export duty. Based on that, Kumtor's forecast for cash costs has been adjusted to exclude the export duty. Nevertheless, any potential savings from the removal of the customs duty are expected to be fully offset by the increased cost of the diesel fuel as a result of the increase in the price of oil. Should the Russian authorities re-introduce the customs export duty (discussed above) on the diesel fuel exported to the Kyrgyz Republic, the cash costs at Kumtor would be expected to increase by approximately $13 million on forecasted diesel purchases until the end of 2011.

Diesel fuel is sourced from separate Russian suppliers for both sites and only loosely correlates with world oil prices. The diesel fuel price assumptions were made when the price of oil was approximately $115 per barrel.

Other important assumptions include the following:

- any recurrence of political and civil unrest in the Kyrgyz Republic will not impact operations, including movement of people, supplies and gold shipments to and from the Kumtor mine,
- grades and recoveries at Kumtor will remain consistent with the life-of-mine plan to achieve the forecast gold production,
- the dewatering program at Kumtor continues to produce the expected results and the water management system works as planned,

- the remedial plan to deal with the Kumtor waste and ice movement continues to be successful (see "Kumtor Mine – Geotechnical Issues Affecting the Kumtor Open Pit" in the Company's AIF for the year ended December 31, 2010),
- no unplanned delays in or interruption of scheduled production from our mines, including due to civil unrest, natural phenomena, labour, regulatory or political disputes, equipment breakdown or other developmental and operational risks,
- certain issues at Boroo raised by the General Department of Specialized Inspection ("SSIA") concerning state alluvial reserves, the production and sale of gold from the Boroo heap leach facility and other matters will be resolved through negotiation without material adverse impact on the Company, see "Other Corporate Developments - Mongolia",
- no further suspension of Boroo's operating licenses, and
- all necessary permits, licences and approvals are received in a timely manner.

Production and cost forecasts and capital estimates are forward-looking information and are based on key assumptions and subject to material risk factors. If any event arising from these risks occurs, the Company's business, prospects, financial condition, results of operations or cash flows could be adversely affected. Additional risks and uncertainties not currently known to the Company, or that are currently deemed immaterial, may also materially and adversely affect the Company's business operations, prospects, financial condition, and results of operations or cash flows. See the sections entitled and "Risk Factors" in the Company's most recently filed AIF, available on SEDAR at www.sedar.com and see also the discussion below under the heading "Cautionary Note Regarding Forward-looking Information".

## Non-GAAP Measures

This MD&A presents information about total cash cost of production of an ounce of gold and total production cost per ounce of gold for the operating properties of Centerra. Except as otherwise noted, total cash cost per ounce produced is calculated by dividing total cash costs by gold ounces produced for the relevant period. Total production cost per ounce produced includes total cash cost plus depreciation, depletion and amortization divided by gold ounces produced for the relevant period. Total cash cost and total production cost per ounce produced are non-GAAP measures.

Total cash costs include mine operating costs such as mining, processing, administration, royalties and production taxes (except at Kumtor where revenue-based taxes and production taxes are excluded), but exclude amortization, reclamation costs, financing costs, capital development and exploration. Certain amounts of stock-based compensation have been excluded as well. Total production costs includes total cash cost plus depreciation, depletion and amortization. Total cash cost per ounce produced and total production cost per ounce produced have been included because certain investors use this information to assess performance and also to determine the ability of Centerra to generate cash flow for use in investing and other activities. The inclusion of total cash cost per ounce produced and total production cost per ounce produced may enable investors to better understand year-over-year changes in production costs, which in turn affect profitability and cash flow.

| TOTAL CASH COST & TOTAL PRODUCTION COST RECONCILIATION (unaudited)<br>($ millions, unless otherwise specified) | Three months ended March 31,<br>2011 | 2010 |
|---|---|---|
| ***Centerra:*** | | |
| Cost of sales, as reported | **$ 61.8** | $ 78.3 |
| Less: Non-cash component | **14.8** | 21.3 |
| Cost of sales - Cash component | **$ 47.0** | $ 57.0 |
| Adjust for: Refining fees & by-product credits | **(0.9)** | 0.2 |
| Regional Office administration | **4.8** | 4.9 |
| Non-operating costs | **-** | 0.1 |
| Inventory movement | **16.0** | 9.5 |
| Total cash cost - 100% | **$ 66.9** | $ 71.7 |
| Depreciation, Depletion, Amortization and Accretion | **14.8** | 21.3 |
| Inventory movement - non-cash | **2.9** | - |
| Total production cost - 100% | **$ 84.6** | $ 93.0 |
| Ounces poured - 100% (000) | **180.7** | 211.1 |
| Total cash cost per ounce | **$ 370** | $ 340 |
| Total production cost per ounce | **$ 468** | $ 441 |
| ***Kumtor:*** | | |
| Cost of sales, as reported | **$ 48.3** | $ 63.9 |
| Less: Non-cash component | **11.7** | 16.9 |
| Cost of sales - Cash component | **$ 36.6** | $ 47.0 |
| Adjust for: Refining fees & by-product credits | **(0.9)** | 0.2 |
| Regional Office administration | **3.3** | 3.3 |
| Non-operating costs | **-** | - |
| Inventory movement | **17.2** | 4.4 |
| Total cash cost - 100% | **$ 56.2** | $ 54.9 |
| Depreciation, Depletion, Amortization and Accretion | **$ 11.7** | $ 16.9 |
| Inventory movement - non-cash | **$ 3.4** | $ (1.3) |
| Total production cost - 100% | **$ 71.3** | $ 70.5 |
| Ounces poured - 100% (000) | **164.2** | 180.6 |
| Total cash cost per ounce | **$ 342** | $ 305 |
| Total production cost per ounce | **$ 434** | $ 391 |
| ***Boroo:*** | | |
| Cost of sales (cash), as reported | **$ 13.5** | $ 14.4 |
| Less: Non-cash component | **3.1** | 4.4 |
| Cost of sales - Cash component | **$ 10.4** | $ 10.0 |
| Adjust for: Refining fees & by-product credits | **-** | - |
| Regional Office administration | **1.5** | 1.6 |
| Non-operating costs | **-** | 0.1 |
| Inventory movement | **(1.2)** | 5.1 |
| Total cash cost - 100% | **$ 10.7** | $ 16.8 |
| Depreciation, Depletion, Amortization and Accretion | **3.1** | 4.4 |
| Inventory movement - non-cash | **(0.5)** | 1.3 |
| Total production cost - 100% | **$ 13.3** | $ 22.5 |
| Ounces poured - 100% (000) | **16.5** | 30.5 |
| Total cash cost per ounce | **$ 645** | $ 551 |
| Total production cost per ounce | **$ 805** | $ 739 |

1 University Avenue, Suite 1500
Toronto, ON
M5J 2P1
tel 416-204-1953
fax 416-204-1954
www.centerragold.com

**Qualified Person**

The scientific and technical information in this document was prepared in accordance with National Instrument 43-101 – *Standards of Disclosure for Mineral Projects* ("NI 43-101") and was reviewed, verified and compiled by Centerra's geological and mining staff under the supervision of Ian Atkinson, Certified Professional Geologist, Centerra's Senior Vice-President, Global Exploration, who is the qualified person for the purpose of NI 43-101.

## Cautionary Note Regarding Forward-Looking Information

This MD&A and the documents referred to herein contain statements which are not statements of current or historical facts and are "forward-looking information" within the meaning of applicable Canadian securities laws. Such forward-looking information involves risks, uncertainties and other factors that could cause actual results, performance, prospects and opportunities to differ materially from those expressed or implied by such forward-looking information. Wherever possible, words such as "believe", "expect", "anticipate", "contemplate", "target", "plan", "intends", "continue", "budget", "forecast", "projections", "estimate", "may", "will", "schedule", "potential", "strategy" and other similar expressions have been used to identify forward-looking information. These forward-looking statements relate to, among other things, Centerra's expectations regarding processing the remaining refractory in-situ ore at Boroo through a bio-oxidation facility, the impact of the Water and Forest Law on the Company's Mongolian operations, the timing of the discussion of the Water and Forest Law amendment in the Mongolian Parliament, the application of the Graduated Royalty Fee on the Company's Boroo operations, future growth, results of operations (including, without limitation, future production and sales, and operating and capital expenditures), performance (both operational and financial), business and political environment and business prospects (including the timing and development of new deposits and the success of exploration activities), and opportunities and the discussion under the heading "Outlook for 2011", including the forecasted gold production and cash costs, exploration expenditures and exploration plans.

Although the forward-looking information in this news release reflects Centerra's current beliefs as of the date of this MD&A based on information currently available to management and based upon what management believes to be reasonable assumptions, Centerra cannot be certain that actual results, performance, achievements, prospects and opportunities, either expressed or implied will be consistent with such forward-looking information. Forward-looking information is necessarily based upon a number of estimates and assumptions that, while considered reasonable by Centerra, are inherently subject to significant political, business, economic and competitive uncertainties and contingencies. Known and unknown factors could cause actual results to differ materially from those projected in the forward-looking information.

Material assumptions used to forecast production and costs include those described under the heading Outlook for 2011. Other factors that could cause actual results or events to differ materially from current expectations include, among other things: the sensitivity of the Company's business to the volatility of gold prices; the political risks associated with the Company's operations in the Kyrgyz Republic and Mongolia; the impact of changes in, or more oppressive enforcement of, laws, regulations and government practices in the jurisdictions in which the Company operates; the effect of the November 2010 amendments to the 2006 Mongolian Minerals Law on the royalty payments payable in connection with the Company's Mongolian operations; the effect of the Water and Forest

Law on the Company's operations in Mongolia; the impact of continued scrutiny from Mongolian regulatory authorities; in the Kyrgyz Republic the impact of changes to, or the increased enforcement of, environmental laws and regulations relating to the Company's operations; the Company's ability to replace its reserves; ground movements at the Kumtor Mine; waste and ice movement at the Kumtor Mine; litigation; the accuracy of the Company's reserves and resources estimate; the accuracy of the Company's production and cost estimates; the success of the Company's future exploration and development activities; competition for mineral acquisition opportunities; the adequacy of the Company's insurance; environmental, health and safety risks; defects in title in connection with the Company's properties; the impact of restrictive covenants in the Company's revolving credit facility; the Company's ability to successfully negotiate an investment agreement for the Gatsuurt development property to complete the development of the mine and the Company's ability to obtain all necessary permits and commissions needed to commence mining activity at the Gatsuurt development property; seismic activity in the vicinity of the Company's operations in the Kyrgyz Republic and Mongolia; long lead times required for equipment and supplies given the remote location of the Company's properties; illegal mining on the Company's Mongolian properties; the Company's ability to enforce its legal rights; the Company's ability to accurately predict decommissioning and reclamation costs; the Company's ability to obtain future financing; the impact of current global financial conditions; the impact of currency fluctuations; the effect of recent market conditions on the Company's short-term investments; the Company's ability to attract and retain qualified personnel; the Company's ability to make payments including payments of principal and interest on the Company's debt facilities; risks associated with the conduct of joint ventures; risks associated with the Company's largest shareholder, the Kyrgyz government; and possible director conflicts of interest. There may be other factors that cause results, assumptions, performance, achievements, prospects or opportunities in future periods not to be as anticipated, estimated or intended. See "Risk Factors" in the Company's most recently filed AIF available on SEDAR at www.sedar.com.

Furthermore, market price fluctuations in gold, as well as increased capital or production costs or reduced recovery rates may render ore reserves containing lower grades of mineralization uneconomic and may ultimately result in a restatement of reserves. The extent to which resources may ultimately be reclassified as proven or probable reserves is dependent upon the demonstration of their profitable recovery. Economic and technological factors which may change over time always influence the evaluation of reserves or resources. Centerra has not adjusted mineral resource figures in consideration of these risks and, therefore, Centerra can give no assurances that any mineral resource estimate will ultimately be reclassified as proven and probable reserves.

Centerra's mineral reserve and mineral resource figures are estimates and Centerra can provide no assurances that the indicated levels of gold will be produced or that Centerra will receive the gold price assumed in determining its mineral reserves. Such estimates are expressions of judgment based on knowledge, mining experience, analysis of drilling results and industry practices. Valid estimates made at a given time may significantly change when new information becomes available. While Centerra believes that these mineral reserve and mineral resource estimates are well established and the best estimates of Centerra's management, by their nature mineral reserve and mineral resource estimates are imprecise and depend, to a certain extent, upon analysis of drilling results and statistical inferences which may ultimately prove unreliable. If Centerra's reserve or reserve estimates for its properties are inaccurate or are reduced in the future, this could have an

adverse impact on Centerra's future cash flows, earnings, results or operations and financial condition.

Centerra estimates the future mine life of its operations. Centerra can give no assurance that mine life estimates will be achieved. Failure to achieve these estimates could have an adverse impact on Centerra's future cash flows, earnings, results of operations and financial condition.

There can be no assurances that forward-looking information and statements will prove to be accurate, as many factors and future events, both known and unknown could cause actual results, performance or achievements to vary or differ materially from the results, performance or achievements that are or may be expressed or implied by such forward-looking statements contained in this MD&A. Accordingly, all such factors should be considered carefully when making decisions with respect to Centerra, and prospective investors should not place undue reliance on forward-looking information. Forward-looking information is as of April 29, 2011. Centerra assumes no obligation to update or revise forward-looking information to reflect changes in assumptions, changes in circumstances or any other events affecting such forward-looking information, except as required by applicable law.

# Centerra Gold Inc.

## Condensed Consolidated Interim Financial Statements

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

## (Expressed in United States Dollars)

**Centerra Gold Inc.**

**Condensed Consolidated Statement of Financial Position**

(Unaudited)

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

Commitments and contingencies (note 17)

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

**Centerra Gold Inc.**

**Condensed Consolidated Statements of Earnings and Comprehensive Income**

**(Unaudited)**

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

| | Notes | Three months ended March 31 2011 | Three months ended March 31 2010 |
|---|---|---|---|
| **Revenue from Gold Sales** | | **$ 250,179** | $ 255,486 |
| Cost of sales | **5** | **61,794** | 78,366 |
| Regional office administration | | **4,813** | 4,944 |
| **Earnings from mine operations** | | **183,572** | 172,176 |
| Revenue based taxes | | **32,188** | 31,266 |
| Exploration and business development | | **7,557** | 5,521 |
| Corporate administration | | **7,768** | 11,138 |
| **Earnings from operations** | | **136,059** | 124,251 |
| Other (income) and expenses | **6** | **(1,048)** | 436 |
| Finance costs | **7** | **390** | 326 |
| **Earnings before income taxes** | | **136,717** | 123,489 |
| Income tax expense (recovery) | **13** | **94** | (373) |
| **Net earnings and comprehensive income** | | **$ 136,623** | $ 123,862 |
| **Basic and diluted earnings per common share** | **16** | **$ 0.58** | $ 0.53 |

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

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

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

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

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

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

| | Number of Common Shares | | Amount | | Contributed Surplus | | Retained Earnings | | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at January 1, 2010** | 235,857,228 | $ | 646,081 | $ | 35,376 | $ | 264,121 | $ | 945,578 |
| Stock-based compensation expense | - | | - | | 361 | | - | | 361 |
| Net earnings for the period | - | | - | | - | | 123,862 | | 123,862 |
| **Balance at March 31, 2010** | 235,857,228 | $ | 646,081 | $ | 35,737 | $ | 387,983 | $ | 1,069,801 |
| | | | | | | | | | |
| **Balance at January 1, 2011** | 235,869,397 | $ | 655,178 | $ | 33,827 | $ | 572,792 | $ | 1,261,797 |
| Stock-based compensation expense | - | | - | | 324 | | - | | 324 |
| Shares issued on exercised of stock options | 34,498 | | 269 | | (98) | | - | | 171 |
| Net earnings for the period | - | | - | | - | | 136,623 | | 136,623 |
| **Balance at March 31, 2011** | 235,903,895 | $ | 655,447 | $ | 34,053 | $ | 709,415 | $ | 1,398,915 |

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

## 1. General business description

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

## 2. Basis of presentation

### a. Statement of Compliance

These consolidated financial statements of the Company have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34"), as issued by the International Accounting Standards Board ("IASB") and using the accounting policies the Company expects to adopt in its consolidated financial statements as at and for the year ending December 31, 2011. As these interim financial statements are the Company's first financial statements prepared using International Financial Reporting Standards ("IFRS"), certain disclosures that are required to be included in annual financial statements prepared in accordance with IFRS that were not included in the Company's most recent annual financial statements prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP") have been included in these financial statements for the comparative annual period. These interim financial statements should be read in conjunction with the Company's 2010 annual financial statements and with the IFRS transition disclosures included in Note 20 to these financial statements. Note 20 contains reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on equity, earnings and comprehensive income along with line-by-line reconciliations of the consolidated statement of financial position as at December 31, 2010, March 31, 2010 and January 1, 2010, and the consolidated statement of earnings and comprehensive income for the year ended December 31, 2010 and the three-month period ended March 31, 2010.

These financial statements were authorized for issuance by the Board of Directors of the Company on April 29, 2011.

### b. Basis of measurement

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

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

## 3. Summary of Significant Accounting Policies

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

### a. Consolidation principles

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

Inter-company transactions between subsidiaries are eliminated in consolidation.

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

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

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

### b. Foreign currency

*(i) Functional and presentation currency*

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

*(ii) Transactions and balances*

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

### c. Cash and cash equivalents

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

### d. Short-term investments

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

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

### e. Inventories

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

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

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

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

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

### f. Property, plant and equipment

#### i. General

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### iv. Mine properties

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

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

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

#### v. Deferred Stripping costs

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

### g. Goodwill

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

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

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

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

### h. Impairment

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

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

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

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

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

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

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

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

### h. Impairment (continued)

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

### i. Income taxes

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

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

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

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

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

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

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

### j. Provisions

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

### k. Environmental protection and reclamation costs

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

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

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

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

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

### l. Depreciation and depletion

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

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

### m. Earnings per share

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

### n. Revenue recognition

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

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

### o. Share-based compensation

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

*Stock Option Plan*

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

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

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

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

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

*Deferred Share Units Plan*

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

*Restricted Share Units Plan*

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

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

### p. Financial Instruments

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

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

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

### p. Financial Instruments (continued)

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

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

**Financial assets**

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

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

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

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

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

Loans and receivables comprise trade and other receivables.

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

### p. Financial Instruments (continued)

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

**Financial liabilities**

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

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

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

### q. Finance costs

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

## 4. Critical Accounting Estimates And Judgements

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

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

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

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

## 5. Cost of sales

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

## 6. Other (income) and expenses

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

## 7. Finance Costs

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

## 8. Amounts receivable

| (Thousands of U.S. Dollars) | **March 31, 2011** | **December 31, 2010** |
|---|---|---|
| Gold sales receivable from related party | **$ 41,896** | $ 88,997 |
| Gold sales receivable from third party | **10,194** | 3,760 |
| Other receivables | **9,484** | 7,805 |
| | **$ 61,574** | $ 100,562 |

## 9. Inventories

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

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

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

## 10. Property, plant and equipment

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

| (Thousands of U.S. Dollars) | Mine buildings | Plant and equipment | Mineral properties | Mobile equipment | Construction in process ("CIP") | **Total** |
|---|---|---|---|---|---|---|
| Balances as at: | | | | | | |
| January 1, 2010 | $ 18,945 | $ 110,673 | $ 78,200 | $ 86,426 | $ 88,006 | $ 382,250 |
| December 31, 2010 | 21,659 | 114,092 | 69,260 | 149,869 | 164,139 | 519,019 |
| **March 31, 2011** | **$ 21,085** | **$ 112,686** | **$ 65,941** | **$ 174,741** | **$ 192,994** | **$ 567,447** |

## 11. Long-term receivables and other

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

## 12. Accounts payable and accrued liabilities

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

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

## 13. Taxes

### a. Revenue Based Taxes - Kumtor

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

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

## 13. Taxes (continued)

### b. Income Tax Expense (Recovery)

| (Thousands of U.S.Dollars) | Three Months Ended March 31, 2011 | March 31, 2010 |
|---|---|---|
| Current tax | **$ 18** | $ 3,396 |
| Deferred tax | **76** | (3,769) |
| Income Tax Expense (Recovery) | **$ 94** | $ (373) |

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

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

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

## 14. Borrowings

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

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

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

## 15. Provision for asset retirement obligations

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

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

The Company estimates its total undiscounted future decommissioning and reclamation costs as at March 31, 2011 to be $49.6 million. The following is a summary of the key assumptions on which the carrying amount of the asset retirement obligations is based:

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

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

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

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

In 1998, a Reclamation Trust Fund was established to cover the future costs of reclamation at the Kumtor gold mine, net of salvage values which are now estimated to be $8.4 million. This restricted cash is funded on the units of production method, annually in arrears, over the life of the mine and on March 31, 2011was $9.2 million (December 31, 2010 - $7.4 million)(note 11).

## 16. Shareholders' Equity

### a. Share Capital

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

### b. Earnings per Share

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

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

## 16. Shareholders' Equity (continued)

### b. Earnings per Share (continued)

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

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

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

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

### c. Share-Based Compensation

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

| (Millions of U.S. dollars except as indicated) | Number outstanding | Expense/(Income) | | Liability | |
|---|---|---|---|---|---|
| | Mar 31/11 | Mar 31/11 | Mar 31/10 | Mar 31/11 | Dec 31/10 |
| (i) Stock options | **1,178,488** | **$ 0.3** | $ 0.4 | **$ -** | **$ -** |
| (ii) PSU [(1)] | **1,284,272** | **1.5** | 3.9 | **20.1** | **28.4** |
| (iii) Annual-PSU [(2)] | **84,252** | **0.3** | 0.9 | **0.3** | **6.4** |
| (iv) Deferred share units | **345,389** | **(0.7)** | 1.3 | **6.2** | **6.9** |
| (v) Restricted share units | **13,826** | **0.2** | - | **0.2** | **-** |
| | | **$ 1.6** | $ 6.5 | **$ 26.8** | **$ 41.7** |

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

## 16. Shareholders' Equity (continued)

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

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

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

**(i) Stock Options.**

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

**(ii) Performance Share Unit Plan**

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

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

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

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

## 16. Shareholders' Equity (continued)

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

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

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

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

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

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

#### (iv) Deferred Share Unit Plan

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

#### (v) Restricted Share Unit Plan

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

## 17. Commitments and Contingencies

### Commitments

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

### Contingencies

### Kyrgyz Republic

At the Kumtor project, the Company's Kyrgyz Republic operating subsidiary pays Kyrgyz Republic Social Fund ("Social Fund") contributions in respect of the base wages of its national employees. In late 2010, the Social Fund notified the Company of its position that the Company should pay contributions to the Social Fund not only in respect of base wages but also in respect of the premium compensation that the Company is required to pay employees for work at high-altitude.

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

### Mongolia

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

## 17. Commitments and Contingencies (continued)

### Contingencies (continued)

### Mongolia

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

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

In November 2010, Mongolia's cabinet announced its intention to initiate the revocation of 1,782 mineral licenses under the Water and Forest Law on a staged basis, beginning with the revocation of 254 alluvial gold mining licenses. The Company has four licenses (subsequently clarified to be only three licenses) on the list of alluvial gold mining licenses that may be revoked. None of these licenses are material to the Company. In particular, Centerra's principal Gatsuurt hardrock mining licenses are not on the list of alluvial licenses to be revoked. In accordance with the Water and Forest Law, the Company submitted in February 2011 a formal request for compensation for the three licenses slated to be revoked. The Company has not yet received any further update from the Mongolian regulatory authorities on this matter.

## 17. Commitments and Contingencies (continued)

### Contingencies (continued)

### Mongolia (continued)

In late 2010, the Mongolian Government announced that it was considering taking the following actions as the next stages of its implementation of the Water and Forest Law:

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

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

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

The Water and Forest Law has attracted opposition from Mongolia’s alluvial miners, the Mongolian National Mining Association and other groups. The Company also understands that a group of parliamentarians has proposed amendments to the Water and Forest Law to reduce its impact on environmentally-sound mining operations. The amendments are expected to be discussed in the spring 2011 session of the Mongolian Parliament.

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

## 17. Commitments and Contingencies (continued)

### Contingencies (continued)

### Mongolia (continued)

Centerra is reasonably confident that the economic and development benefits resulting from its exploration and development activities will ultimately result in the Water and Forest Law having a limited impact on the Company's Mongolian activities. There can be no assurance, however, that this will be the case. Unless the Water and Forest Law is repealed or amended such that the law no longer applies to the project or Gatsuurt is designated as a "mineral deposit of strategic importance" that is exempt from the Water and Forest Law, mineral reserves at Gatsuurt may have to be reclassified as mineral resources or eliminated entirely. A revocation of the Company's mineral licenses, including the Gatsuurt mineral licenses, could have an adverse impact on Centerra's future cash flows, earnings, results of operations and financial condition.

### New Graduated Royalty Fee

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

The graduated royalty became effective as of January 1, 2011 for all mining projects in Mongolia. On January 19, 2011, the Standing Committee of the State Great Hural of Mongolia issued a resolution to the Government which, among other things, resolved to direct the Government to enter into negotiations to have the graduated royalty structure apply to business entities that have already entered into stability and/or an investment agreement. This would include the Company's Boroo mine which is currently operating pursuant to a stability agreement entered with the Mongolian Government. To date, the Company has not received any further word regarding this resolution and whether the Government will act on it.

## 17. Commitments and Contingencies (continued)

### Contingencies (continued)

#### New Graduated Royalty Fee (continued)

In any event, the Company is of the opinion that the Boroo stability agreement provides, among other things, legislative stabilization for its Boroo operations and accordingly the graduated royalty fee is not applicable to Boroo's remaining operations. However, the Company cannot provide any guarantees that Boroo will not be made subject to the graduated royalty fee. If the graduated royalty fee does apply, it may have an adverse impact on Centerra's future cash flows, earnings, results of operations or financial condition. Regardless of whether the graduated royalty fee applies to the Boroo operation, it will apply to gold produced from the Gatsuurt mine, when developed.

## 18. Related Party Transactions

### a. Kyrgyzaltyn and the Government of the Kyrgyz Republic

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

The table below summarizes 100% of the management fees and concession payments paid and accrued by Kumtor Gold Company to Kyrgyzaltyn or the Government of the Kyrgyz Republic and the amounts paid and accrued by Kyrgyzaltyn to Kumtor according to the terms of a Gold and Silver Sale Agreement between Kumtor Operating Company ("KOC"), Kyrgyzaltyn and the Government of the Kyrgyz Republic and which was restated in June 2009.

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

**Related parties in the Kyrgyz Republic**

| | **Three Months Ended** | |
|---|---|---|
| (Thousands of U.S.Dollars) | **March 31, 2011** | **March 31, 2010** |
| Management fees to Kyrgyzaltyn | **$ 166** | $ 201 |
| Gross gold and silver sales to Kyrgyzaltyn | **$ 230,747** | $ 224,212 |
| Deduct: refinery and financing charges | **(835)** | (881) |
| Net sales revenue received from Kyrgyzaltyn | **$ 229,912** | $ 223,331 |

## 18. Related Party Transactions (continued)

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

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

| (Thousands of U.S.Dollars) | | **March 31, 2011** | | **December 31, 2010** |
|---|---|---|---|---|
| Other receivable from Kyrgyzaltyn | **$** | **153** | $ | 12 |
| Gold sale receivable from Kyrgyzaltyn | | **41,896** | | 88,997 |
| Amount included in Amounts receivable | **$** | **42,049** | $ | 89,009 |

Gold produced by the Kumtor mine is purchased at the mine site by Kyrgyzaltyn for processing at its refinery in the Kyrgyz Republic pursuant to a Gold and Silver Sale Agreement. Under this agreement, which was restated in June 2009 (note 16), Kyrgyzaltyn is required to pay for gold within 12 calendar days of shipment from the Kumtor mill at a price that is fixed based on the London PM fixed price of gold on the London Bullion Market. The obligations of Kyrgyzaltyn are partially secured by a pledge of 2,850,000 shares of Centerra owned by Kyrgyzaltyn, the value of which fluctuates with the market price of Centerra's shares.

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

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

## 19. Segmented Information

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

The Kyrgyz Republic segment involves the operations of the Kumtor Gold project and local exploration activities, and the Mongolian segment involves the operations of the Boroo Gold project, activities related to the Gatsuurt project and local exploration activities. The Corporate and other segment involve the head office located in Toronto and exploration activities in North American and other international projects. The segments' accounting policies are the same as those described in the summary of significant accounting policies (note 3) except that inter-company loan interest income and expenses, which eliminate on consolidation, are presented in the individual operating segments where they are generated when determining earnings or loss.

### Geographic Segmentation of Revenue

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

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

## 19. Segmented Information (continued)

**Three months ended March 31, 2011**

| (Millions of U.S. Dollars) | Kygyz Republic | Mongolia | Corporate and other | Total |
|---|---|---|---|---|
| **Revenue from Gold Sales** | $ 229.9 | $ 20.3 | $ - | $ **250.2** |
| Cost of sales | 48.3 | 13.5 | - | **61.8** |
| Regional office administration | 3.3 | 1.5 | - | **4.8** |
| **Earnings from mine operations** | 178.3 | 5.3 | - | **183.6** |
| Revenue based taxes | 32.2 | - | - | **32.2** |
| Exploration and business development | 4.1 | 0.8 | 2.6 | **7.5** |
| Corporate administration | 0.5 | 0.2 | 7.1 | **7.8** |
| **Earnings from operations** | 141.5 | 4.3 | (9.7) | **136.1** |
| Other (income) and expenses | | | | **(1.0)** |
| Finance costs | | | | **0.4** |
| **Earnings before income taxes** | | | | **136.7** |
| Income tax expense | | | | **0.1** |
| **Net earnings and comprehensive income** | | | | **$ 136.6** |
| **Capital expenditure for the period** | **$ 71.9** | **$ 0.1** | **$ 0.2** | **$ 72.2** |
| **Assets(excluding Goodwill)** | **$ 845.2** | **$ 278.6** | **$ 254.6** | **$ 1,378.4** |

**Three Months ended March 31, 2010**

| (Millions of U.S. Dollars) | Kygyz Republic | Mongolia | Corporate and other | Total |
|---|---|---|---|---|
| **Revenue from Gold Sales** | $ 223.3 | $ 32.2 | $ - | $ 255.5 |
| Cost of sales | 66.9 | 14.5 | - | 81.4 |
| Regional office administration | 3.3 | 1.6 | - | 4.9 |
| **Earnings from mine operations** | 153.1 | 16.1 | - | 169.2 |
| Revenue based taxes | 31.3 | - | - | 31.3 |
| Exploration and business development | 1.9 | 1.2 | 2.4 | 5.5 |
| Corporate administration | 0.5 | 0.1 | 10.5 | 11.1 |
| **Earnings from operations** | 119.4 | 14.8 | (12.9) | 121.3 |
| Other (income) and expenses | | | | 0.5 |
| Finance costs | | | | 0.3 |
| **Earnings before income taxes** | | | | 120.5 |
| Income tax expense | | | | (0.4) |
| **Net earnings and comprehensive income** | | | | $ 120.9 |
| **Capital expenditure for the period** | $ 23.4 | $ 5.7 | $ 0.1 | $ 29.2 |
| **Assets(excluding Goodwill)** | $ 594.0 | $ 409.3 | $ 41.5 | $ 1,044.8 |

## 20. First time adoption of IFRS

### a. Transition to IFRS

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

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

### b. Initial elections upon adoption

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

**IFRS Exemption Options**

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

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

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

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

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

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

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

**IFRS mandatory exception**

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

### c. Reconciliation between Canadian GAAP and IFRS

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

IFRS 1 requires reconciliation disclosures that explain how the transition from Canadian GAAP to IFRS has affected the Company's previously reported consolidated financial statements prepared in accordance with previous Canadian GAAP for the year ended December 31, 2010 and three months ended March 31, 2010. An explanation of how the transition from previous Canadian GAAP to IFRSs has affected the Company's financial position, equity, statement of earnings and comprehensive income and material adjustments to cash flows and equity is set out in the following tables in note 20(e) and (f) and the notes that accompany the tables in note 20(g).

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

### d. Reconciliation between Canadian GAAP and IFRS

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

| As at January 1, 2010 (date of Transition)<br>(Thousands of U.S. Dollars) | Notes | Previous Canadian GAAP | Effect of transition to IFRS | IFRS opening balance sheet |
|---|---|---|---|---|
| **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 Transtion)<br>(Thousands of U.S. Dollars) | Notes | Previous Canadian GAAP | Effect of transition to IFRS | IFRS opening balance sheet |
|---|---|---|---|---|
| **Total equity previously reported under Canadian GAAP** | | $ 952,419 | - | $ 952,419 |
| 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 Transtion** | | $ 952,419 | (6,841) | $ 945,578 |

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

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

Reconciliation of financial position between Canadian GAAP and IFRS

| **As at December 31, 2010**<br>(Thousands of U.S. Dollars) | **Notes** | Previous<br>Canadian GAAP | Effect of transition<br>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

| As at December 31, 2010<br>(Thousands of U.S. Dollars) | Note | Previous<br>Canadian GAAP | Effect of transition<br>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)** | - | 628 | 628 |
| Exchange difference on deferred income taxes | **(iv)** | - | (194) | (194) |
| Deferred income taxes | **(iv)** | - | 3,188 | 3,188 |
| Provision for constructive obligation | **(v)** | - | (6,365) | (6,365) |
| Net revenue from sales of gold | **(vi)** | - | 1,674 | 1,674 |
| **Comprehensive income under IFRS** | | $ 322,640 | (808) | $ 321,832 |

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

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

Reconciliation of financial position between Canadian GAAP and IFRS

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

Reconciliation of Consolidated statement of earnings and comprehensive income

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

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

### g. Changes in accounting policies

The following paragraphs explain the significant differences between Canadian GAAP and the current IFRS accounting policies applied by the Company. These differences result in the adjustments in the tables above. The descriptive caption next to each numbered item below corresponds to the same numbered and descriptive caption in the tables in (20(d) (e) and (f)).

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

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

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

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

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

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

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

#### ii. Property, Plant and Equipment

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

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

Additional depreciation expense of $0.2 million for the year ended December 31, 2010 and $0.01 million for the three months ended March 31, 2010 relating to depreciation on the ARO asset recognized, as noted above, was recorded.

#### iii. Share-based payments

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

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

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

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

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

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

#### iv. Taxes

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

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

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

#### v. Provision for constructive obligation

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

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

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

#### vi. Revenue recognition

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

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

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

### h. Statement of Cash Flows

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