

**Centerra Gold Inc.**

**Consolidated Financial Statements**

**For the Years Ended December 31, 2009, 2008 and 2007**

**(Expressed in United States Dollars)**

## Report of Management's Accountability

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

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

In meeting its responsibility for the reliability of financial information, management maintains and relies on a comprehensive system of internal control and internal audit. The system of internal control includes a written corporate conduct policy; implementation of a risk management framework; effective segregation of duties and delegation of authorities; and sound and conservative accounting policies that are regularly reviewed. This structure is designed to provide reasonable assurance that assets are safeguarded and that reliable information is available on a timely basis. In addition internal and disclosure controls have been documented, evaluated, tested and identified consistent with National Instrument 52-109 (Bill 198). An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit Committee of the Company's Board of Directors.

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

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

The Company's President and Chief Executive Officer and the Company's Vice President and Chief Financial Officer have certified the annual Consolidated Financial Statements and annual MD&A filed under provincial securities legislation, related disclosure controls and procedures, and the design and effectiveness of related internal controls over financial reporting pursuant to National Instrument 52-109.

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

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

February 23, 2010

## **AUDITORS' REPORT**

### **To the Shareholders of Centerra Gold Inc.**

We have audited the consolidated balance sheets of Centerra Gold Inc. as at December 31, 2009 and 2008 and the consolidated statements of earnings and comprehensive income, cash flows and shareholders' equity for each of the years in the three year period ended December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2009 in accordance with Canadian generally accepted accounting principles.

*Original signed by:*

KPMG LLP

Chartered Accountants, Licensed Public Accountants  
Toronto, Canada

February 23, 2010

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

As at December 31, (Expressed in Thousands of United States Dollars)	Notes	2009	2008
<b>Assets</b>			
Current assets			
Cash and cash equivalents		\$ 176,904	\$ 149,583
Short-term investments		145,971	17,781
Amounts receivable		44,281	30,247
Income taxes recoverable		-	3,323
Current portion of future income tax asset	14	1,555	-
Inventories	5	151,822	170,157
Prepaid expenses		11,718	18,012
		<u>532,251</u>	<u>389,103</u>
Property, plant and equipment	7	380,979	394,933
Goodwill	8	129,705	129,705
Long-term receivables and other	9	6,554	5,917
Long-term inventories	5	23,120	18,009
Future income tax asset	14	1,418	3,160
		<u>541,776</u>	<u>551,724</u>
<b>Total assets</b>		<u>\$ 1,074,027</u>	<u>\$ 940,827</u>
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities			
Accounts payable and accrued liabilities		\$ 49,178	\$ 35,611
Taxes payable		35,066	14,493
Current portion of provision for reclamation	10	8,169	3,458
Current portion of future income tax liability	14	7,662	-
		<u>100,075</u>	<u>53,562</u>
Provision for reclamation	10	21,533	29,322
Future income tax liability	14	-	1,121
		<u>21,533</u>	<u>30,443</u>
Contingent common shares issuable	13	-	89,084
<b>Shareholders' equity</b>			
Share capital	15	646,081	523,107
Contributed surplus		34,298	32,904
Retained earnings		272,040	211,727
		<u>952,419</u>	<u>767,738</u>
<b>Total liabilities and shareholders' equity</b>		<u>\$ 1,074,027</u>	<u>\$ 940,827</u>

Commitments and contingencies (notes 13 and 17)

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

**Approved by the Board of Directors**

Original signed by:

Patrick M. James , Director

Ian G. Austin , Director

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

For the years ended December 31,		2009	2008	2007
(Expressed in Thousands of United States Dollars, except per share amounts)				
	<b>Notes</b>			
<b>Revenue from Gold Sales</b>		<b>\$ 685,490</b>	\$ 635,980	\$ 373,462
<b>Expenses</b>				
Cost of sales <sup>(i)</sup>		<b>295,944</b>	332,037	207,357
Mine standby costs	<b>6</b>	<b>4,081</b>	-	-
Regional office administration		<b>23,297</b>	18,831	19,357
Depreciation, depletion and amortization		<b>103,748</b>	78,332	44,161
Accretion and reclamation expense	<b>10</b>	<b>2,363</b>	1,404	1,334
Revenue based taxes	<b>14</b>	<b>60,179</b>	-	-
Impairment charge	<b>8</b>	-	18,835	-
Exploration and business development	<b>11</b>	<b>25,826</b>	23,628	20,440
Other (income) and expenses	<b>12</b>	<b>(1,711)</b>	4,458	(5,795)
Corporate administration		<b>32,922</b>	27,311	24,980
		<b>546,649</b>	504,836	311,834
<b>Earnings before unusual items, income taxes and non-controlling interest</b>		<b>138,841</b>	131,144	61,628
Unusual items - Kyrgyz settlement	<b>13</b>	<b>49,333</b>	(37,710)	126,794
Other unusual items		-	-	4,843
<b>Earnings (loss) before income taxes and non-controlling interest</b>		<b>89,508</b>	168,854	(70,009)
Income tax expense	<b>14</b>	<b>29,195</b>	34,089	19,322
Non-controlling interest		-	-	3,218
<b>Net earnings (loss) and comprehensive income (loss)</b>		<b>\$ 60,313</b>	\$ 134,765	\$ (92,549)
<b>Basic and diluted earnings (loss) per common share</b>	<b>15</b>	<b>\$ 0.27</b>	\$ 0.62	\$ (0.43)
(i)- Excludes depreciation, depletion and amortization expenses of		<b>\$ 102,999</b>	\$ 77,315	\$ 43,182

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

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

For the years ended December 31, (Expressed in Thousands of United States Dollars)	Notes	2009	2008	2007
<b>Operating activities</b>				
Net earnings (loss)		\$ 60,313	\$ 134,765	\$ (92,549)
Items not requiring (providing) cash:				
Depreciation, depletion and amortization		103,748	78,332	44,161
Accretion and reclamation expense	10	2,363	1,404	1,334
Impairment charge		-	18,835	-
Loss on disposal of plant and equipment		831	3,939	322
Stock - based compensation expense		1,724	2,137	600
Deferred charges recognized		-	-	557
Unusual items-Kyrgyz settlement	13	31,616	(37,710)	126,794
Forgiven loan		-	-	1,843
Future income tax expense (recovery)		6,727	10,630	(7,566)
Change in long-term inventory		(5,111)	1,481	-
Non-controlling interest		-	-	3,218
Other operating items		(1,724)	146	(561)
		<u>200,487</u>	<u>213,959</u>	<u>78,153</u>
Change in operating working capital	22	45,079	(47,649)	(36,853)
<b>Cash provided by operations</b>		<u>245,566</u>	<u>166,310</u>	<u>41,300</u>
<b>Investing activities</b>				
Additions to property, plant and equipment		(92,073)	(95,104)	(125,409)
Purchase of short-term investments		(128,190)	(17,781)	-
Proceeds from disposition of fixed assets		74	676	-
Acquisition of non-controlling interest		-	-	(7,000)
<b>Cash used in investing</b>		<u>(220,189)</u>	<u>(112,209)</u>	<u>(132,409)</u>
<b>Financing activities</b>				
Proceeds from short term debt		-	-	10,000
Repayment of short term debt		-	(10,000)	-
Proceeds of common shares issued for cash		1,944	-	432
<b>Cash provided by (used in) financing</b>		<u>1,944</u>	<u>(10,000)</u>	<u>10,432</u>
Increase (decrease) in cash during the year		27,321	44,101	(80,677)
Cash and cash equivalents at beginning of the year		149,583	105,482	186,159
<b>Cash and cash equivalents at end of the year</b>		<u>\$ 176,904</u>	<u>\$ 149,583</u>	<u>\$ 105,482</u>
<b>Cash and cash equivalents consist of:</b>				
Cash		\$ 102,204	\$ 91,227	\$ 62,524
Cash equivalents		74,700	58,356	42,958
		<u>\$ 176,904</u>	<u>\$ 149,583</u>	<u>\$ 105,482</u>

Supplemental cash flow disclosure (note 22)

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

Centerra Gold Inc.  
Consolidated Statements of Shareholders' Equity

Years ended December 31

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

	Number of Common Shares	Amount	Contingent Common Shares Issuable	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total
<b>Balance at December 31, 2006</b>	216,238,815	\$ 522,383	\$ -	\$ 30,257	\$ 152,899	\$ -	\$ 705,539
Shares issued:							
Options exercised by employees	79,373	724	-	(90)	-	-	634
Contingent common shares issuable (note 13)	-	-	126,794	-	-	-	126,794
Stock-based compensation expense	-	-	-	600	-	-	600
Change in accounting policy	-	-	-	-	-	557	557
Recognition in net income	-	-	-	-	-	(557)	(557)
Net loss for the year	-	-	-	-	(92,549)	-	(92,549)
<b>Balance at December 31, 2007</b>	216,318,188	\$ 523,107	\$ 126,794	\$ 30,767	\$ 60,350	\$ -	\$ 741,018
Contingent common shares issuable revalued (note 13)	-	-	(37,710)	-	-	-	(37,710)
Contingent common shares issuable reclassified (note 13)	-	-	(89,084)	-	-	-	(89,084)
Stock-based compensation expense	-	-	-	2,137	-	-	2,137
Inventory adjustments, on adoption of accounting standard net of tax (note 5)	-	-	-	-	16,612	-	16,612
Net earnings for the year	-	-	-	-	134,765	-	134,765
<b>Balance at December 31, 2008</b>	216,318,188	\$ 523,107	\$ -	\$ 32,904	\$ 211,727	\$ -	\$ 767,738
Shares issued:							
Agreement on New Terms (note 13)	18,232,615	120,700	-	-	-	-	120,700
Options exercised by employees	306,425	2,274	-	(330)	-	-	1,944
Stock-based compensation expense	-	-	-	1,724	-	-	1,724
Net earnings for the year	-	-	-	-	60,313	-	60,313
<b>Balance at December 31, 2009</b>	234,857,228	\$ 646,081	\$ -	\$ 34,298	\$ 272,040	\$ -	\$ 952,419

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

# **Centerra Gold Inc.**

## **Notes to the Consolidated Financial Statements**

For the years ended December 31, 2009, 2008 and 2007

(Expressed in United States Dollars)

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### **1. Nature of operations**

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

### **2. Basis of presentation**

The consolidated financial statements of Centerra have been prepared by management in accordance with Canadian generally accepted accounting principles applicable to a going concern which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. The operating cash flows and profitability of the Company are affected by various factors, including the amount of gold produced and sold, the market price of gold, operating costs, environmental costs and the level of exploration activity and other discretionary costs and activities. The Company is also exposed to fluctuations in currency exchange rates, interest rates, commodity prices as these relate to input materials, political risk and varying levels of taxation. The Company seeks to manage the risks associated with its business; however, many of the factors affecting these risks are beyond the Company’s control.

### **3. Significant accounting policies**

The consolidated financial statements are prepared by management in accordance with accounting principles generally accepted in Canada. Management makes various estimates and assumptions in determining the reported amounts of assets and liabilities, revenues and expenses for each year presented, and in the disclosure of commitments and contingencies. Changes in estimates and assumptions will occur based on the passage of time and the occurrence of certain future events. This summary of significant accounting policies is a description of the accounting methods and practices that have been used in the preparation of these consolidated financial statements and is presented to assist the reader in interpreting the statements contained herein.

# **Centerra Gold Inc.**

## **Notes to the Consolidated Financial Statements**

For the years ended December 31, 2009, 2008 and 2007

(Expressed in United States Dollars)

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

#### **a. Consolidation principles**

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

The Company's significant wholly-owned subsidiaries include Kumtor Gold Company ("KGC" operating as "Kumtor") and Boroo Gold Company ("BGC" operating as "Boroo") and its 100% interest in the Gatsuert property.

#### **b. Foreign currency**

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

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

#### **c. Cash and cash equivalents**

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

#### **d. Short-term investments**

Short-term investments consist of marketable securities with maturities of more than 90 days, but no longer than 12 months, at the date of purchase. Short-term investments consist mostly of U.S. and Canadian government treasury bills and agency notes. These assets are classified as assets held-for-trading and are recorded at fair value.

# **Centerra Gold Inc.**

## **Notes to the Consolidated Financial Statements**

For the years ended December 31, 2009, 2008 and 2007

(Expressed in United States Dollars)

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### **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. The production cost of inventories is determined on a weighted-average basis and includes direct materials, direct labour, mine-site overhead expenses and depreciation, depletion and amortization of mining interest.

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

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

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

#### **f. Exploration and development properties**

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

# **Centerra Gold Inc.**

## **Notes to the Consolidated Financial Statements**

For the years ended December 31, 2009, 2008 and 2007

(Expressed in United States Dollars)

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

#### **g. Property, plant and equipment**

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

Major overhaul expenditure on mobile equipment, including replacement spares and labour costs, is capitalized and amortized over the average expected life between major overhauls. All other replacement spares and other costs relating to maintenance of mobile equipment are charged to the cost of production if it is not probable that significant future economic benefits embodied within the item overhauled will flow to the Company.

After a mine property has been brought into commercial production, costs of any additional 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.

#### **h. Deferred Stripping costs**

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

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

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

# **Centerra Gold Inc.**

## **Notes to the Consolidated Financial Statements**

For the years ended December 31, 2009, 2008 and 2007

(Expressed in United States Dollars)

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

#### **j. Goodwill**

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

The Company evaluates, on at least an annual basis, the carrying amount of goodwill to determine whether events and circumstances indicate that such carrying amount may be impaired. To accomplish this, the Company compares the fair value of reporting units, to which goodwill was allocated, to their carrying amounts. If the carrying amount of a reporting unit were to exceed its fair value, the Company would compare the implied fair value of the reporting unit's goodwill to its carrying amount and any excess of the carrying amount over the fair value would be charged to earnings. Assumptions, such as gold price, discount rate, and expenditures underlying the fair value estimates are subject to risks and uncertainties.

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

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

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

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

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

# **Centerra Gold Inc.**

## **Notes to the Consolidated Financial Statements**

For the years ended December 31, 2009, 2008 and 2007

(Expressed in United States Dollars)

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

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

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

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

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

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

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

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2009, 2008 and 2007

(Expressed in United States Dollars)

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

#### p. Stock-based compensation

The Company has five stock-based compensation plans: the Share Option Plan; Performance Share Units plan, Annual Performance Share Units plan, Deferred Share Units plan and Cameco Stock Option Plan, all are described in note 15(c). The Cameco Stock Option Plan was terminated on December 30, 2009.

##### *Stock Option Plan*

Stock options granted with share appreciation rights are accounted for using the liability method. Under this method, the options granted and also vested are marked to market at each reporting period and any resulting adjustment to the accrued obligation is recognized as an expense or, if negative, a recovery. Other Centerra options granted without share appreciation rights are accounted for using the fair value method. The fair value of an option is estimated on the date of the grant using the Black- Scholes option pricing model and is amortized as compensation expense over the vesting period. These expenses are included in stock-based compensation expense and credited to contributed surplus. When options are exercised, the proceeds received by the Company, together with the fair value amount in contributed surplus, are credited to common shares.

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

Performance share units granted by Centerra for eligible employees that are intended to be settled in cash are accounted for under the liability method. Upon grant, the fair value of the performance share units, pro-rated for the number of days the eligible employees are in the employment of the Company as compared to the vesting period, are recorded as compensation expense and a corresponding liability is established at the marked to market amount. For all subsequent reporting periods, the liability, adjusted for the number of days the eligible employees are in the employment of the Company as compared to the vesting period, is marked to market and any resulting adjustment to the accrued obligation is recorded as a compensation cost or, if negative, a recovery. The consideration paid to employees on exercise of these performance share units is recorded as a reduction of the accrued obligation.

##### *Deferred Share Units plan*

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

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

# **Centerra Gold Inc.**

## **Notes to the Consolidated Financial Statements**

For the years ended December 31, 2009, 2008 and 2007

(Expressed in United States Dollars)

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

**q. Earnings per share**

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

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

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

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

The Company utilizes forward foreign exchange contracts to hedge certain anticipated cash flows as well as balance sheet foreign exchange risks. The forward foreign exchange contracts are marked to market at the reporting date with the resulting gain or loss recognized in the income statement. The Company does not enter into derivatives for speculative purposes and the only derivatives the Company utilizes for hedging are forward foreign exchange contracts.

**t. Other financial instruments**

Amounts receivable are designated as loans and receivables and are accounted for at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities and are accounted for at amortized cost.

# **Centerra Gold Inc.**

## **Notes to the Consolidated Financial Statements**

For the years ended December 31, 2009, 2008 and 2007

(Expressed in United States Dollars)

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### **4. Changes in accounting policies:**

#### **Adoption of New Accounting Standards and Developments**

##### **a. Goodwill and Intangible assets**

Effective January 1, 2009, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (“CICA”) Handbook section 3064, *Goodwill and Intangible assets*. This standard establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. The adoption of this standard did not have an impact on the Company’s consolidated financial statements.

##### **b. Credit Risk**

Effective January 1, 2009, the Company adopted the new recommendations of CICA issued EIC 173, *Credit risk and the fair value of financial assets and liabilities*. This abstract requires companies to take counterparty credit risk into account when measuring the fair value of financial assets and liabilities, including derivatives. The adoption of this standard did not have an impact on the Company’s consolidated financial statements.

##### **c. Mining Exploration Costs**

On March 27, 2009, the Emerging Issues Committee of the CICA approved abstract EIC-174, *Mining Exploration Costs*, which provides guidance on capitalization of exploration costs related to mining properties in particular and on impairment of long-lived assets in general. Application of this new standard did not have an impact on the Company’s consolidated financial statements.

##### **d. Financial Instruments-Disclosures**

In June 2009, the CICA amended Section 3862, *Financial Instruments – Disclosures*, to improve disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments, which have been aligned with that of IFRS 7, *Financial Instruments: Disclosure* requires a three-level hierarchy ranking that reflects the significance and transparency of the inputs used to measure the fair values of financial assets and liabilities. Fair values of assets and liabilities included in “level 1” are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in “level 2” include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. “Level 3” valuations are based on inputs that are unobservable and significant to the overall fair value measurement. Additional disclosures, as required by Section 3862, are included in note 19 and 20.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2009, 2008 and 2007

(Expressed in United States Dollars)

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

#### Adoption of New Accounting Standards and Developments (continued)

##### e. New Pronouncements

The CICA issued three new accounting standards in January 2009: Section 1582, *Business Combinations*, Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non-Controlling interests*.

Section 1582 replaces section 1581 and establishes standards for the accounting of a business combination. It provides the Canadian equivalent to International Financial Reporting Standards (“IFRS”) 3, *Business Combinations*. Section 1582 applies prospectively to business combinations of the Company for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

Sections 1601 and 1602 together replace section 1600, *Consolidated Financial Statements*. Section 1601 establishes standards for the preparation of consolidated financial statements: it applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

Section 1602 establishes standards for accounting of a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS IAS 27, *Consolidated and Separate Financial Statements*, and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

The Company does not plan to adopt the above new accounting standards prior to January 1, 2011 and has not yet determined the accounting impact these new standards will have on its consolidated financial statements.

#### **IFRS**

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

## Centerra Gold Inc.

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2009, 2008 and 2007

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#### 5. Inventories

	<b>2009</b>	<b>2008</b>
<hr/>		
(Thousands of US\$)		
<hr/>		
Stockpiles (a)	\$ 50,234	\$ 49,698
Gold in-circuit	5,045	6,394
Heap leach in circuit	4,908	5,913
Gold doré	8,818	15,239
<hr/>		
	69,005	77,244
Supplies	105,937	110,922
<hr/>		
	174,942	188,166
<hr/>		
Less: Long-term inventory (heap leach) (a)	(23,120)	(18,009)
<hr/>		
Total Inventories-current portion	\$ 151,822	\$ 170,157
<hr/>		

(a) Upon adoption of CICA Handbook Section 3031, *Inventories*, at January 1, 2008, \$10.4 million of previously written off heap leach inventory and \$10.0 million of mineralized material, now reclassified as low-grade ore inventory following the lowering of the cut-off grade (\$16.6 million, net of tax in total), was recorded as inventory with a corresponding recognition in retained earnings.

#### 6. Mine Standby Costs

Over a nine week period ended July 27, 2009, the Company's mining operations at Boroo were temporarily suspended due to labour disputes initiated by unionized workers, followed by the suspension of the main operating licenses initiated by the Minerals Resources Authority of Mongolia (note 17). The Company incurred and expensed \$4.1 million in labour, maintenance and mine support costs directly as a result of the labour disputes and suspension of the main operating licenses at Boroo for the year ended December 31, 2009.

## Centerra Gold Inc.

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2009, 2008 and 2007

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#### 7. Property, plant and equipment

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

(Thousands of US\$)	Cost	Accumulated Depreciation and Depletion	Dec 31, 2008 Net book value
Mine buildings	\$ 46,123	\$ 24,578	\$ 21,545
Plant and equipment	298,910	177,857	121,053
Mineral properties	167,829	101,617	66,212
Capitalized stripping costs	56,700	13,334	43,366
Mobile equipment	154,821	70,345	84,476
Construction in process	58,281	-	58,281
<b>Total</b>	<b>\$ 782,664</b>	<b>\$ 387,731</b>	<b>\$ 394,933</b>

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

(Thousands of US\$)	2009			2008		
	Kumtor	Boroo	Total	Kumtor	Boroo	Total
Opening balance	\$ 26,503	\$ 16,863	\$ 43,366	\$ 32,571	\$ 6,602	\$ 39,173
Additions	-	-	-	-	13,204	13,204
Amortized	(8,158)	(9,574)	(17,732)	(6,068)	(2,943)	(9,011)
<b>Ending balance</b>	<b>\$18,345</b>	<b>\$ 7,289</b>	<b>\$ 25,634</b>	<b>\$ 26,503</b>	<b>\$ 16,863</b>	<b>\$ 43,366</b>

## Centerra Gold Inc.

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2009, 2008 and 2007

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#### 8. Goodwill

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

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

At December 31, 2008, the Company recorded an impairment charge for the full value of its Mongolian goodwill (\$18.8 million). The carrying value of the Mongolian reporting unit exceeded its fair value as a result of the shortened mine life due to production estimates for Boroo.

Movements in the goodwill balance and its allocation to the reporting units is summarized as follows:

	2009			2008		
	Kyrgyz	Mongolia	Total	Kyrgyz	Mongolia	Total
(Thousands of US\$)						
Opening balance	\$129,705	\$ -	\$129,705	\$129,705	\$ 18,835	\$148,540
Impairment charge	-	-	-	-	(18,835)	(18,835)
Ending balance	\$129,705	\$ -	\$129,705	\$129,705	\$ -	\$129,705

#### 9. Long-term receivables and other

(Thousands of US\$)	2009	2008
Reclamation trust fund [note 10]	\$ 6,443	\$ 4,915
Other long term receivables	111	1,002
Total	\$ 6,554	\$ 5,917

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2009, 2008 and 2007

(Expressed in United States Dollars)

### 10. Asset Retirement Obligations

(Thousands of US\$)	2009	2008
Kumtor gold mine	\$ 14,135	\$ 16,176
Boroo gold mine	15,567	16,604
	<b>29,702</b>	32,780
Less: current portion	<b>(8,169)</b>	(3,458)
Total	\$ <b>21,533</b>	\$ 29,322

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

The Company estimates its total undiscounted future decommissioning and reclamation costs to be \$44.2 million. The following is a summary of the key assumptions on which the carrying amount of the asset retirement obligations is based:

- (i) Expected timing of payment of the cash flows is based on the life of mine plans. The majority of expenditures are expected to occur over the next 1 to 8 years.
- (ii) Weighted average discount rates of 6.99% at Kumtor and 8.0% at Boroo at December 31, 2009 (same rates for 2008 and 2007).

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

(Thousands of US\$)	2009	2008	2007
Balance, beginning of year	\$ 32,780	\$ 20,868	\$ 16,532
Liabilities incurred	(1,091)	(918)	(235)
Revisions in estimated timing and amount of cash flows	(1,571)	11,426	3,237
Impact of revisions in estimated timing and amount of cash flows recorded in earnings	(2,779)	-	-
Accretion expense	2,363	1,404	1,334
	<b>29,702</b>	32,780	20,868
Less: current portion	<b>(8,169)</b>	(3,458)	-
<b>Balance, end of year</b>	\$ <b>21,533</b>	\$ 29,322	\$ 20,868

In 1998, a Reclamation Trust Fund was established to cover the future costs of reclamation at the Kumtor gold mine, net of salvage values which are now estimated to be \$8.4 million. This restricted cash is funded on the units of production method, annually in arrears, over the life of the mine and on December 31, 2009 was \$6.4 million (2008 - \$4.9 million) (note 9).

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2009, 2008 and 2007

(Expressed in United States Dollars)

### 10. Asset Retirement Obligations (continued)

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

In 2008, regularly scheduled closure cost updates were completed at both sites and resulted in an increase in the obligation of \$11.0 million at Boroo and \$0.4 million at Kumtor.

### 11. Exploration and business development costs

(Thousands of US\$)	2009	2008	2007
Exploration	\$ 25,012	\$ 23,508	\$ 19,087
Business development	814	120	1,353
Total	\$ 25,826	\$ 23,628	\$ 20,440

### 12. Other (income) and expenses

(Thousands of US\$)	2009	2008	2007
Interest income	\$ (246)	\$ (1,985)	\$ (6,663)
Sundry Income (a)	(1,649)	-	-
Loss on sales of assets	667	3,572	321
Interest expense on short-term debt	-	551	519
Financing charges and other interest	97	845	96
Provision for uncollectable advances	244	408	-
Foreign exchange loss (gain)	(824)	1,067	(68)
Net	\$ (1,711)	\$ 4,458	\$ (5,795)

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

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

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### 13. Unusual Items – Kyrgyz Settlement

(Thousands of US\$)	2009	2008	2007
a) Contingent common shares issuable	\$ 31,616	\$ (37,710)	\$ 126,794
b) Legal claims settlement	1,750	-	-
c) Tax settlement	15,024	-	-
d) Legal and related costs	943	-	-
	<b>\$ 49,333</b>	<b>\$ (37,710)</b>	<b>\$ 126,794</b>

#### a. Contingent Common Shares Issuable:

On April 24, 2009, the Company announced that an agreement (the “Agreement on New Terms”) had been reached between Centerra, Cameco Corporation (“Cameco”), the Kyrgyz Republic (the “Government”), Kyrgyzaltyn JSC (“Kyrgyzaltyn”), Kumtor Operating Company (“KOC”) and KGC that provides for the Government’s full commitment to and support for Centerra’s continuing long-term development of the Kumtor project. As a result of the agreement which was approved by the Kyrgyz parliament on April 30, 2009, the parties executed restated project agreements to incorporate the provisions of the Agreement on New Terms, including the settlement of all outstanding claims as well as replacing the tax regime applicable to the Kumtor project with a revenue-based tax regime. Pursuant to the Agreement on New Terms, Centerra agreed to issue 18,232,615 common shares from its treasury to Kyrgyzaltyn, a company wholly owned by the Government. Cameco agreed to transfer to the Government 25.3 million common shares of Centerra, which were to be released to the Government upon the satisfaction of certain conditions.

On June 11, 2009, the transactions contemplated by the Agreement on New Terms were completed and resulted in, among other documents, a Restated Investment Agreement being entered into which superseded the Agreement of New Terms to the extent that the two agreements covered the same subject matters (the “Investment Agreement”). Pursuant to the Agreement on New Terms and as part of the closing, the Company issued from treasury 18,232,615 common shares of Centerra valued at \$6.62 (Cdn. \$7.30) per share to Kyrgyzaltyn, a related party.

As a result, the Company recorded an addition to share capital of \$120.7 million. The previously recorded liability, contingent common shares issuable of \$89.1 million, was drawn down and an additional expense of \$31.6 million was recorded in 2009.

On December 30, 2009, Cameco announced that the conditions contemplated in the Agreement on New Terms had been satisfied and therewith released the 25.3 million common shares of Centerra to the Kyrgyz Government.

## **Centerra Gold Inc.**

### **Notes to the Consolidated Financial Statements**

For the years ended December 31, 2009, 2008 and 2007

(Expressed in United States Dollars)

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#### **13. Unusual Items – Kyrgyz Settlement (continued)**

##### **b. Legal Claims Settlement**

Pursuant to the Agreement on New Terms, the Company also paid and expensed \$1.75 million in full satisfaction of all liabilities or claims of any governmental authority against Centerra or any of its affiliates in respect of any matter arising before the closing of the transactions contemplated by the Agreement on New Terms.

##### **c. Tax Settlement**

Pursuant to the Investment Agreement, as described in note 13 (a) above, the Company and the Government have agreed to replace the former tax regime applicable to the Kumtor project with a simplified tax regime with effect from January 1, 2008. Under the new tax regime, Kumtor's gross revenue is subject to tax at a rate of 13%, and effective from January 1, 2009, a payment of 1% of gross revenue is made to the Issyk-Kul Oblast Development Fund. The new tax regime replaces income taxes (10% of taxable income), a mineral resource tax (5% of revenue), an emergency fund tax (1.5% of revenue), a road tax (0.8% of revenue), withholding taxes (10%-30% depending on the nature of the payment), an Issyk-Kul Social Fund tax (2%-4% of income), all customs duties, and certain other taxes.

The settlement with the Government was enacted on April 30, 2009 with the ratification of the Kyrgyz parliament. As a result, presentation in these statements of the old tax regime, income and other taxes, continued to the end of April 30, 2009, with the revenue-based taxes as required under the new tax regime (see note 14 (a), Revenue-Based taxes-Kyrgyzstan) presented starting from May 1, 2009 onwards.

The net tax settlement expense pursuant to the Investment Agreement as at April 30, 2009 totaled \$15.0 million. This net amount includes a settlement paid for the retroactive impact of the Investment Agreement to the 2008 year of \$20.7 million, a credit of \$6.4 million for taxes paid to be applied in 2009 and a tax expense of \$0.7 million representing the difference between the requirements under the new tax regime as compared to the old tax regime for the period of January to April 2009.

In addition, the Company is required to make an annual payment of 4% of gross revenue reduced by an amount equal to the sum of all capital and exploration expenditures made by the Company in the Kyrgyz Republic. Any excess of the amount of capital and exploration expenditures made in the year over the amount otherwise payable will be carried forward for offset against amounts otherwise due in future years. As at December 31, 2009 the excess spent by the Company on capital and exploration over the required 4% of gross revenue is \$65.3 million. This excess amount will be carried forward and applied against future commitments under this tax, subject to audit by the Kyrgyz authorities

## **Centerra Gold Inc.**

### **Notes to the Consolidated Financial Statements**

For the years ended December 31, 2009, 2008 and 2007

(Expressed in United States Dollars)

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#### **13. Unusual Items – Kyrgyz Settlement (continued)**

##### **d. Legal and related expenses**

The Company paid and expensed \$0.9 million in legal and related expenses related to the negotiation of the Agreement on New Terms and the restated project documents with the Kyrgyz Government described in note 13 (a).

#### **14. Income Taxes**

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

Revenue-based taxes are payable to the Kyrgyz Government under the Investment Agreement (note 13) which received the approval of the Kyrgyz parliament on April 30, 2009.

Under the Investment Agreement, effective January 1, 2008 taxes are imposed at a rate of 13% of gross revenue. In addition, effective January 1, 2009, a contribution of 1% of gross revenue is made to the Issyk-Kul Oblast Development Fund. This new Kyrgyz tax regime eliminates income taxes and certain other operating taxes that were paid by Kumtor under the previous tax regime (see note 13 (c)).

Separate presentation in the income statement of these new revenue-based taxes is effective from May 1, 2009. During the period ended December 31, 2009, the 13% revenue-based tax expense recorded by Kumtor was \$55.9 million, while the Issyk-Kul Oblast Development Fund of 1% of gross revenue totaled \$4.3 million.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2009, 2008 and 2007

(Expressed in United States Dollars)

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### 14. Income Taxes (continued)

#### b. Corporate Income Taxes

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

(Thousands of US\$)

<b>Future income tax assets</b>	<b>2009</b>	<b>2008</b>
Property, plant and equipment	\$ 12,314	\$ 15,407
Foreign exploration and development	9,343	8,640
Inventory	1,555	225
Tax losses carried forward	33,010	20,146
Other	2,066	936
Future income tax assets before valuation allowance	58,288	44,233
Valuation allowance	(55,315)	(42,194)
<b>Future income tax assets, net of valuation allowance</b>	<b>\$ 2,973</b>	<b>\$ 3,160</b>

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(Thousands of US\$)

<b>Future income tax liabilities</b>	<b>2009</b>	<b>2008</b>
Property, plant and equipment	\$ -	\$ 1,121
Unrealized foreign exchange gains	7,662	-
<b>Future income tax liabilities</b>	<b>\$ 7,662</b>	<b>\$ 1,121</b>

## Centerra Gold Inc.

### Notes to the Consolidated Financial Statements

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#### 14. Income Taxes (continued)

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

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

(Thousands of US\$)	2009	2008	2007
Earnings (loss) before income taxes	\$89,508	\$ 168,854	\$ (70,009)
Combined federal and provincial tax rate	33.0%	33.5%	36.1%
Computed income tax expense (recovery)	29,538	56,566	(25,273)
Increase (decrease) in taxes resulting from:			
Difference between Canadian rate and rates applicable to subsidiaries in other countries	(39,534)	(24,982)	(6,484)
Changes in tax legislation	4,901	-	7,450
Valuation allowance adjustment	13,121	4,153	(8,300)
Non-deductible contingent shares issuable	12,401	(12,633)	45,798
Non-deductible goodwill impairment expense	-	4,708	-
Impact of foreign currency movements	8,486	-	-
Other	282	6,277	6,131
<b>Income tax expense (recovery)</b>	<b>\$ 29,195</b>	<b>\$ 34,089</b>	<b>\$ 19,322</b>

Income tax expense (recovery) is comprised of:

(Thousands of US\$)	2009	2008	2007
Current income tax expense (recovery)	\$ 22,866	\$ 23,093	\$ 26,888
Future income tax expense (recovery)	6,329	10,996	(7,566)
<b>Net income tax expense (recovery)</b>	<b>\$29,195</b>	<b>\$ 34,089</b>	<b>\$ 19,322</b>

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

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(Expressed in United States Dollars)

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### 14. Income Taxes (continued)

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

The Company recorded income tax expense of \$29.2 million during year ended December 31, 2009 (\$34.1 million -2008 and \$19.3 million -2007).

#### **Kumtor**

As discussed in note 13, effective April 30, 2009 Kumtor became subject to a new tax regime pursuant to which income and other taxes were replaced by taxes computed by reference to Kumtor's revenue. Included in the income tax provision reported for the year ended December 31, 2009 is a tax recovery of \$2.9 million (\$11.5 million expense for 2008, and \$3.1 million recovery for 2007) computed on Kumtor's earnings from January 1, 2009 to April 30, 2009 at a statutory income tax rate of 12%, including tax at a rate of 2% on income, for the Issyk-Kul Social Fund.

#### **Boroo**

The corporate income tax rate for Boroo for 2009 and subsequent years is 25% of taxable income in excess of 3 billion Tugriks (\$2.1 million at the exchange rate at the balance sheet date), and 10% for income up to that amount. During the year ended December 31, 2009, Boroo recorded income tax expense of \$32.0 million (\$22.7million in 2008 and \$22.4 million in 2007).

#### **Tax Losses**

At December 31, 2009 the Company and its subsidiaries have tax losses available for carry forward in the amount of \$150.2 million (2008 - \$70.4 million). A full valuation allowance has resulted in no tax benefit being recorded by the Company in the financial statements in respect of these losses. The table below, in thousands of United States dollars, provides details of losses that can be applied to reduce future taxable income.

<b>Country</b>	<b>Type of Loss</b>	<b>Amount</b>	<b>Expiry</b>
Canada	Non-capital loss	\$106,477	2014 - 2020
Canada	Capital loss	30,405	No expiry
U.S.A.	Net operating loss	6,797	2024 - 2029
Barbados	Net operating loss	5,843	2016 - 2018
Other	Various	666	2013 - 2017

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

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### 15. 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 (loss) per share is computed by dividing the net earnings (loss) applicable to common shares by the weighted average number of common shares outstanding during the year.

Diluted net earnings (loss) per share is computed by dividing the net earnings (loss) 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 (loss) 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. 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.

	2009	2008	2007
Basic weighted average number of common shares outstanding (thousands)	226,699	216,318	216,269
Effect of stock options (thousands)	102	120	-
Diluted weighted average number of common shares outstanding (thousands)	226,801	216,438	216,269
<b>Basic and diluted earnings (loss) per common share</b>	<b>\$ 0.27</b>	<b>\$ 0.62</b>	<b>\$ (0.43)</b>
<b>Anti-dilutive number of common share equivalents excluded (thousands) <sup>(a)</sup></b>	<b>380</b>	<b>547</b>	<b>11,007</b>

<sup>(a)</sup> Common share equivalent consists of stock options granted to eligible employee of the Company, except for 2007 where that number also includes 10,000 contingent common shares issuable classified as equity.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

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### 15. Shareholders' Equity (continued)

#### c. Stock-Based Compensation

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

(Millions of US\$ except as indicated)	Number outstanding Dec 31/09	Expense			Liability	
		Dec 31/09	Dec 31/08	Dec 31/07	Dec 31/09	Dec 31/08
(i) Centerra stock options	1,816,155	\$ 2.1	\$ 1.0	\$ 0.3	\$ -	\$ -
(ii) Centerra -PSU <sup>(1)</sup>	1,201,677	6.2	(1.8)	1.7	6.2	-
(iii) Centerra annual-PSU <sup>(2)</sup>	420,870	6.5	0.7	1.7	6.3	0.3
(iv) Deferred share units	375,216	2.8	(1.0)	0.9	3.8	1.1
(v) Cameco stock options	-	0.7	(1.3)	0.1	1.3 <sup>(3)</sup>	0.6
		\$ 18.3	\$ (2.4)	\$ 4.7	\$ 17.6	\$ 2.0

1) Centerra performance share units.

2) Centerra Annual performance share units

3) Amount payable upon exercise of options (see note 15(c) (v))

#### Centerra Plan

##### (i) Stock Options.

Centerra has established a stock option plan under which options to purchase common shares may be granted to officers and employees of the Company. Options granted under the plan have an exercise price of not less than the weighted average trading price of the common shares where they are listed for the five trading days prior to the date of the grant. The options issued prior to 2006 vest over five years while options issued in or after 2006 vest over 3 years. All issued options expire after eight years from the date granted. Options may be granted with a related share appreciation right. In these circumstances, the participant can either elect to receive shares by exercising the stock option or to receive payment in cash equal to the equivalent gain in the stock price. Centerra, at its discretion, can require any holder who has exercised a share appreciation right to exercise their option instead, or can elect to satisfy the cash amount owing upon exercise of a share appreciation right with common shares.

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

## Centerra Gold Inc.

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2009, 2008 and 2007

(Expressed in United States Dollars)

#### 15. Shareholders' Equity (continued)

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

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

	2009	2008	2007
Average award price for options granted in the year (Cdn \$/share)	<b>\$4.81</b>	\$8.06	\$11.22
Weighted average price on outstanding options (Cdn \$/share)	<b>\$6.58</b>	\$8.64	\$9.17

During 2009, Centerra granted 816,802 stock options at a strike price of Cdn \$4.81 per share (2008 - 886,137 options granted at an average price of Cdn \$8.06 and 2007 - 388,268 options granted at average strike price of Cdn \$11.22 per share).

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

	2009		2008		2007	
	Number of Options	Weighted Average exercise Price- Cdn\$	Number of Options	Weighted Average Exercise Price- Cdn\$	Number of Options	Weighted Average Exercise Price- Cdn\$
Balance, January 1,	1,848,165	\$ 8.64	962,028	\$ 9.17	879,321	\$ 8.07
Granted	816,802	4.81	886,137	8.06	388,268	11.22
Exercised	(393,791)	(5.80)	-	-	(79,373)	(5.72)
Cancelled	(455,021)	(12.43)	-	-	(226,188)	(8.94)
Balance -December 31,	<b>1,816,155</b>	<b>\$ 6.58</b>	1,848,165	\$ 8.64	962,028	\$ 9.17

## Centerra Gold Inc.

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2009, 2008 and 2007

(Expressed in United States Dollars)

#### 15. Shareholders' Equity (continued)

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

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

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

	2009	2008	2007
Expected life (years)	5.0	4.31	6.0
Expected volatility	83.47%	50.38%	37.5%
Risk-free rate of return	1.74%	3.40%	4.12%
Expected dividends	-	-	-
Weighted average fair value of options granted during the year- Cdn \$	\$3.61	\$2.87	\$4.90

The resulting fair value of the options granted in 2009 was \$2.3 million (2008 - \$2.5 million, 2007 - \$1.4 million).

The terms of the options outstanding as at December 31, 2009 are as follows:

Award Date	Award Price	Expiry Date	Number options outstanding	Number options vested
2005	\$6.71 (Cdn)	2013	21,740	17,392
2006	\$12.78 (Cdn)	2014	58,833	58,833
2007	\$11.17 (Cdn)	2015	99,183	66,122
2007	\$11.43 (Cdn)	2015	61,154	40,769
2008	\$14.29 (Cdn)	2016	149,851	49,950
2008	\$5.24 (Cdn)	2016	89,403	29,801
2008	\$5.24 (Cdn)	2016	500,000	166,667
2008	\$4.68 (Cdn)	2016	19,189	6,396
2009	\$4.81 (Cdn)	2017	816,802	-
			1,816,155	435,930

In 2009, \$2.1 million of compensation expense was recorded on this plan (\$1.0 million in 2008 and \$0.3 million in 2007).

## Centerra Gold Inc.

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2009, 2008 and 2007

(Expressed in United States Dollars)

#### 15. Shareholders' Equity (continued)

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

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

Centerra has established a performance share unit plan for employees and officers of the Company. A performance share unit represents the right to receive the cash equivalent of a common share or, at the Company's option, a common share purchased on the market. Performance share units will vest three years after December 31 of the year for which they were granted, except those issued at the time of the Initial Public Offering ("IPO")'s in 2004 which vested on December 31, 2006. The number of units that will vest may be higher or lower than the number of units granted to a participant. The number of units which will vest is determined based on Centerra's total return performance (based on the preceding sixty-one trading days weighted average share price) relative to the S&P/TSX Global Gold Index Total Return Index Value during the applicable period. The number of units that vest is determined by multiplying the number of units granted to the participant by the adjustment factor, which can be as high as a factor of 1.5 or potentially result in no payout.

If dividends are paid, each participant will be allocated additional performance share units equal in value to the dividend paid on the number of common shares equal to the number of performance share units held by the participant. At December 31, 2009, the number of units outstanding was 1,201,677 with a related liability of \$6.2 million (December 31, 2008- 718,877 units, nil liability).

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	Number of Units	Number of Units	Number of Units
Balance, January 1,	718,877	595,080	726,733
Granted	663,572	353,541	283,222
Exercised	(3,073)	(212,056)	(304,794)
Cancelled	(177,699)	(17,688)	(110,081)
Balance -December 31,	<u>1,201,677</u>	<u>718,877</u>	<u>595,080</u>

In 2009, compensation cost expense of \$6.2 million was recorded on this plan (compensation cost recovery of \$1.8 million in 2008 and compensation cost expense of \$1.7 million in 2007).

## Centerra Gold Inc.

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2009, 2008 and 2007

(Expressed in United States Dollars)

#### 15. Shareholders' Equity (continued)

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

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

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

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	Number of Units	Number of Units	Number of Units
Balance, January 1,	<b>116,183</b>	122,911	173,098
Granted	<b>471,428</b>	157,413	201,955
Exercised	<b>(118,239)</b>	(143,371)	(223,583)
Cancelled	<b>(48,502)</b>	(20,770)	(28,559)
Balance -December 31,	<b>420,870</b>	116,183	122,911

At December 31, 2009 the number of units outstanding was 420,870 with a related liability of \$6.3 million (December 31, 2008 – 116,183 units, \$0.3 million liability).

In 2009, \$6.5 million of compensation expense was recorded on this plan (\$0.7 million in 2008 and \$1.7 million in 2007).

## Centerra Gold Inc.

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2009, 2008 and 2007

(Expressed in United States Dollars)

#### 15. Shareholders' Equity (continued)

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

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

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

Deferred share units are paid in full to a Director and to the Vice Chair no later than December 31 in the calendar year that immediately follows the calendar year of termination of service. A deferred share unit represents the right to receive the cash equivalent of a common share or, at the Company's option, a common share purchased on the market. Deferred share units vest immediately. If dividends are paid, each Director and the Vice Chair will be allocated additional deferred share units equal in value to the dividend paid on the number of common shares equal to the number of deferred share units held. At December 31, 2009, the number of units outstanding was 375,216 with a related liability of \$3.8 million (December 31, 2008-298,077 units, \$1.1 million liability).

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	<b>Number of Units</b>	Number of Units	Number of Units
Balance, January 1,	<b>298,077</b>	197,351	142,093
Granted	<b>102,352</b>	112,717	55,258
Exercised	<b>(25,213)</b>	(11,991)	-
Cancelled	-	-	-
Balance -December 31,	<b>375,216</b>	298,077	197,351

In 2009, compensation cost expense of \$2.8 million was recorded on this plan (compensation cost recovery of \$1.0 million in 2008 and compensation cost expense of \$0.9 million in 2007).

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2009, 2008 and 2007

(Expressed in United States Dollars)

### 15. Shareholders' Equity (continued)

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

##### (v) Cameco Plan

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

The liability for this option plan was assumed by Centerra on Centerra’s IPO. Options under this plan were last granted in 2004.

In December 2009, all outstanding options under this plan were exercised by the various holders as a result of the sale by Cameco of its ownership in Centerra. A liability of \$1.3 million is recorded at December 31, 2009 to reflect the ultimate payout in January 2010 for these exercises (at December 31, 2008 the liability was \$0.6 million).

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

	2009	2008	2007
(Number of options, except as indicated)			
Beginning of year	55,200	73,200	129,600
Options exercised	(55,200)	(17,400)	(55,800)
Options cancelled	-	(600)	(600)
End of year	-	55,200	73,200
Award price for options exercised – Cdn\$	\$5.88-\$10.52	\$5.88-\$10.52	\$5.88-\$10.52

## **Centerra Gold Inc.**

### **Notes to the Consolidated Financial Statements**

For the years ended December 31, 2009, 2008 and 2007

(Expressed in United States Dollars)

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#### **16. Disposal of interest in REN Property**

On February 4, 2010, Centerra Gold (U.S.) Inc. (“Centerra U.S.”), a wholly-owned subsidiary of Centerra, signed a purchase agreement with Rye Patch Gold Corp. and its U.S. subsidiary, Rye Patch Gold US Inc. (collectively “Rye Patch”) for the sale of Centerra U.S.’s interest in the REN project in Nevada, subject to the joint venture project partner, Homestake Mining Company of California (a subsidiary of Barrick Gold Corporation) waiving its pre-emptive right to acquire Centerra U.S.’s interest and Rye Patch obtaining TSX Venture approval (the “Conditions Precedent”). The purchase price for the acquisition is \$42 million payable as follows: (i) \$2 million within 2 business days after satisfaction of both Condition Precedents (the “First Payment Date”); (ii) \$10 million on or before the second anniversary of the First Payment Date, at Rye Patch’s election, or, at Rye Patch’s election, it may issue up to \$5 million in Rye Patch common shares and pay the balance of the \$10 million in cash; and (iii) \$30 million on or before the third anniversary of the First Payment Date, or, at Rye Patch’s election, it may issue up to \$15 million in Rye Patch common shares and pay the balance of the \$30 million in cash.

From the First Payment Date, Rye Patch has agreed to perform all of Centerra's obligations under the REN joint venture agreement, including acting as manager. When the purchase price has been paid in full, Centerra U.S. has agreed to transfer the joint venture interest to Rye Patch's subsidiary, Rye Patch Gold US Inc.

Upon Rye Patch’s satisfaction of its obligations under the terms of this agreement, the Company would ultimately record a gain on sale for the value of the proceeds received, less any related expenses.

As at December 31, 2009 the net book value of REN’s property is nil (2008- Nil) because all exploration activities on this property were expensed as incurred.

# **Centerra Gold Inc.**

## **Notes to the Consolidated Financial Statements**

For the years ended December 31, 2009, 2008 and 2007

(Expressed in United States Dollars)

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### **17. Commitments and Contingencies**

#### **Commitments**

As at December 31, 2009, the Company had entered into contracts to purchase capital equipment and operational supplies totalling \$138.3 million (Kumtor \$135.2 million, Centerra Gold Mongolia LLC, a subsidiary of Centerra, \$3.1 million) these are expected to be settled over the next twelve months.

In December 2004, the Company entered into a seven-year lease obligation for its corporate offices in Toronto, Canada. The total obligation outstanding, including operating costs, as at December 2009 is \$1.7 million of which approximately \$0.9 million will be spent in 2010.

#### **Contingencies**

##### **Mongolia**

On June 12, 2009, the main operating licenses at the Company's Boroo mine were suspended by the Minerals Resources Authority of Mongolia ("MRAM") following extensive inspections of the Boroo mine operation conducted by the SSIA. While the suspension was lifted on July 27, 2009, several issues arising from the suspension continue to be discussed by Centerra and the Mongolian regulatory authorities. On October 23, 2009, the Company received a very significant claim for compensation from the SSIA. The Company disputes the claim and is in discussions with Mongolian regulatory authorities regarding it. While the Company cannot give assurances, it believes settlement will be concluded through negotiation and will not result in a material impact.

Under the stability agreement relating to the Boroo mine between the Company and the Government of Mongolia, signed July 6, 1998, as amended (the "Boroo Stability Agreement"), the Company is permitted to offset any value added taxes ("VAT") that it pays against other taxes payable in respect of its Boroo mine operation. In 2009, the Mongolian Ministry of Finance indicated that, despite the Boroo Stability Agreement, Centerra would not longer be permitted to offset its VAT overpayments. This decision was challenged by Centerra and in November 2009, Centerra was notified by Ministry of Finance officials that VAT overpayments up to August 31, 2009 could be offset. Despite this, recovery of any VAT overpayments from September 1, 2009 onwards continues to be subject to negotiations with the Ministry of Finance.

On November 2, 2009, Centerra received a letter from the Mongolian Ministry of Finance reiterating some of the issues raised by the SSIA and indicating that the Boroo Stability Agreement would be terminated if such issues were not resolved within a period of 120 days from the date of the letter. The Company is in discussions with the Ministry of Finance regarding such concerns. While the Company believes that the issues raised by the Ministry of Finance will be resolved through negotiations without a material impact on the Company, there can be no assurance that this will be the case.

## **Centerra Gold Inc.**

### **Notes to the Consolidated Financial Statements**

For the years ended December 31, 2009, 2008 and 2007

(Expressed in United States Dollars)

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

##### **Contingencies (continued)**

###### *Mongolia (continued)*

In July 2009, the Mongolian Parliament enacted legislation that would prohibit mineral prospecting, exploration and mining in water basins and forest areas in the territory of Mongolia and provides for the revocation of licenses affecting such areas. Regulations under the new legislation, which will specify the affected licenses, have not been prepared or published. The Company understands that prior to the law becoming effective the Mongolian government will undertake physical surveys and consult with local officials to determine which, if any, existing licenses will be subject to the new law. The legislation provides a specific exemption for “mineral deposits of strategic importance”, and accordingly, the main Boroo mining licenses will not be subject to the law. The Company’s Gatsuurt licenses and its other exploration license holdings in Mongolia are currently not so exempt. However, the Company is reasonably confident that the economic and development benefits resulting from its exploration and development activities will ultimately result in the law having a limited impact on the Company’s Mongolian activities.

###### *Gatsuurt Investment Agreement Negotiation*

In August 2009, the Government of Mongolia repealed its windfall profit tax of 68% in respect of gold sales at a price in excess of U.S.\$850 an ounce, with the repeal to take effect on January 1, 2011. The windfall profit tax will be applicable to the Gatsuurt project (but not the Boroo project). Centerra views this as a positive change and has recently resumed negotiations with the Government of Mongolia with respect to an investment agreement for the Gatsuurt project which would, among other things, stabilize the tax and legal regime applicable to the development of the Gatsuurt project.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

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### 18. Related Party Transactions

#### Cameco Corporation

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

A net balance related to inter-company transactions of \$0.6 million was receivable from Cameco at December 31, 2009 (\$0.5 million payable to Cameco at December 31, 2008).

#### 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, a shareholder of the Company and a state-owned entity of the Kyrgyz Republic.

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

<b>Related parties in the Kyrgyz Republic</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
(Thousands of US\$)			
Management fees to Kyrgyzaltyn	\$ 575	\$ 828	\$ 451
Concession payments to the Kyrgyz Republic	(116)	2,209	1,202
	<b>\$ 459</b>	<b>\$ 3,037</b>	<b>\$ 1,653</b>
Gross gold and silver sales to Kyrgyzaltyn	\$ 526,066	\$ 470,759	\$ 210,367
Deduct: refinery and financing charges	(2,362)	(2,465)	(1,217)
Net sales revenue received from Kyrgyzaltyn	<b>\$ 523,704</b>	<b>\$ 468,294</b>	<b>\$ 209,150</b>

## **Centerra Gold Inc.**

### **Notes to the Consolidated Financial Statements**

For the years ended December 31, 2009, 2008 and 2007

(Expressed in United States Dollars)

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#### **18. Related Party Transactions (continued)**

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

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 an agreement entered into between KOC, Kyrgyzaltyn and the Government of the Kyrgyz Republic as restated in June 2009. Under the prior arrangements, Kyrgyzaltyn was required to prepay for all gold delivered to it, based on the price of gold on the London Bullion Market on the same day on which KOC provides notice that a consignment is available for purchase.

Pursuant to the Agreement on New Terms (note 13), the original Gold and Silver Sale Agreement was amended with new terms. Effective June 11, 2009, Kyrgyzaltyn is required to pay for gold delivered within 12 days from the date of shipment. Default interest is accrued on any unpaid balance after the permitted payment period of 12 days.

The obligations of Kyrgyzaltyn are partially secured by a pledge of 2,850,000 shares of Centerra owned by Kyrgyzaltyn. As at December 31, 2009, \$37.9 million was outstanding under these arrangements (December 31, 2008 - \$24.1 million).

#### **19. Fair Value of Financial Instruments**

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

Cash and cash equivalents consist of cash on hand, with financial institutions, invested in term deposits, treasury bills, banker's acceptances and corporate direct credit with original maturities of three months or less. Cash and cash equivalents and short-term investments are designated as held-for-trading and are carried at fair value.

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

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

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

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(Expressed in United States Dollars)

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

The carrying values of these financial instruments are as follows:

(Thousands of US\$)	December 31, 2009		December 31, 2008	
	Estimated fair value	Carrying value	Estimated fair value	Carrying value
<b>Financial assets</b>				
Cash and cash equivalents	\$ 176,904	\$ 176,904	\$ 149,583	\$ 149,583
Short-term investments	145,971	145,971	17,781	17,781
Amounts receivable	44,281	44,281	30,247	30,247
Reclamation trust fund	6,443	6,443	4,915	4,915
	\$ 373,599	\$ 373,599	\$ 202,526	\$ 202,526

(Thousands of US\$)	December 31, 2009		December 31, 2008	
	Estimated fair value	Carrying value	Estimated fair value	Carrying value
<b>Financial Liabilities</b>				
Accounts payable and accrued liabilities	\$ 49,178	\$ 49,178	\$ 35,611	\$ 35,611
Contingent common shares issuable	-	-	89,084	89,084
	\$ 49,178	\$ 49,178	\$ 124,695	\$ 124,695

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2009, 2008 and 2007

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

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

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

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

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

The following table summarizes the fair value measurement by level at December 31, 2009 for assets and liabilities measured at fair value on a recurring basis:

(Thousands of US\$)	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Cash and cash equivalents				
Cash	\$ 102,204	\$ -	\$ -	\$ 102,204
Cash equivalent	74,700	-	-	74,700
	176,904	-	-	176,904
Short-term investments	145,971	-	-	145,971
Reclamation trust fund	6,443	-	-	6,443
	\$ 329,318	\$ -	\$ -	\$ 329,318

## **Centerra Gold Inc.**

### **Notes to the Consolidated Financial Statements**

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#### **20. Financial Risk Exposure and Risk management**

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

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

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

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

##### **a. Currency Risk**

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

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

As required, the Company either makes purchases at the prevailing spot price to fund corporate activities or enters into short-term forward contracts to purchase Canadian Dollars. During the year ended December 31, 2009, Cdn \$6.3 million of such forward contracts were executed (2008-Cdn \$5.5 million). There were no outstanding forward contracts at December 31, 2009 (2008-Nil).

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

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

#### a. Currency Risk (continued)

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

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

A strengthening of the U.S. Dollar by 5% against the Canadian Dollar, the Kyrgyz Som and the Mongolian Tugrik at December 31, 2009, with all other variables held constant would have lead to additional before tax net income of \$0.9 million as a result of a change in value of the financial assets and liabilities denominated in those currencies.

#### b. Interest Rate Risk

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

Financial assets and financial liabilities with variable interest rates expose the Company to cash flow interest rate risk. The Company's cash and cash equivalents include highly liquid investments that earn interest at market rates. In addition, the interest on an available and undrawn \$10 million revolving credit facility includes a variable rate component pegged to the London Interbank Offer Rate, or LIBOR, or a base rate set by HSBC bank. This facility with HSBC expires May 30, 2010.

## **Centerra Gold Inc.**

### **Notes to the Consolidated Financial Statements**

For the years ended December 31, 2009, 2008 and 2007

(Expressed in United States Dollars)

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#### **20. Financial Risk Exposure and Risk management (continued)**

##### **b. Interest Rate Risk (continued)**

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

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

##### **c. Concentration of Credit Risk**

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

The Company's exposure to credit risk, in respect of gold sales, is influenced mainly by the individual characteristics of each customer. The Company's revenues are directly attributable to sales transactions with two customers. Boroo sells its product to Johnson Matthey Limited, under the terms of a refining agreement with its North American precious metals division. Kyrgyzaltyn, a state-owned refinery in the Kyrgyz Republic, is Kumtor's sole customer and is a shareholder of Centerra. To partially mitigate exposure to potential credit risk related to Kumtor sales, the Company has an agreement in place whereby Kyrgyzaltyn has pledged 2,850,000 of Centerra common shares as security against unsettled gold shipments, in the event of default on payment (Note 18). Based on movements of Centerra's share price, and the value of individual or unsettled gold shipments, over the course of 2009, the maximum exposure during the year, reflecting the shortfall in the value of the security as compared to the value of any unsettled shipments, was approximately \$46.3 million.

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

## **Centerra Gold Inc.**

### **Notes to the Consolidated Financial Statements**

For the years ended December 31, 2009, 2008 and 2007

(Expressed in United States Dollars)

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#### **20. Financial Risk Exposure and Risk management (continued)**

##### **c. Concentration of Credit Risk (continued)**

At the balance sheet date, approximately 18% of the Company's liquid assets were held with HSBC bank, 6% with Bank of New York, and 5% with Citigroup. The remainder of cash and cash equivalents, and short-term investments were held in government securities, term deposits, banker's acceptances and highly-rated corporate direct credit issues.

##### **d. Liquidity Risk**

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

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

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

##### **e. Commodity Price Risk**

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

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

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

## **Centerra Gold Inc.**

### **Notes to the Consolidated Financial Statements**

For the years ended December 31, 2009, 2008 and 2007

(Expressed in United States Dollars)

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#### **20. Financial Risk Exposure and Risk management (continued)**

##### **d. Commodity Price Risk (continued)**

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

If the world market price of gold was to drop and the prices realized by the Company on gold sales were to decrease by 10%, based on the number of ounces in inventory as at December 31, 2009, the Company's profitability and cash flow, after adjusting for any remaining conversion costs not yet incurred, would be negatively affected by an additional before tax net loss of \$29.1 million.

#### **21. Capital Management**

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

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

As at December 31, 2009 the Company is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital risk management strategy.

## Centerra Gold Inc.

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2009, 2008 and 2007

(Expressed in United States Dollars)

#### 22. Supplemental cash flow disclosure

##### a. Changes in operating working capital

	2009	2008	2007
(Thousands of US\$)			
(Increase) decrease in amounts receivable	\$ (14,034)	\$ (12,226)	\$ 5,985
(Increase) decrease in income taxes recoverable	3,323	(3,323)	-
(Increase) decrease inventory-ore and metal	8,061	(13,470)	(23,912)
(Increase) decrease in inventory-supplies	4,986	(31,616)	(11,970)
Increase in prepaid expenses	6,294	3,218	3,507
Increase (decrease) in accounts payable and accrued liabilities	15,876	(4,725)	(7,495)
Increase (decrease) in taxes payable	20,573	14,493	(2,968)
	\$ 45,079	\$ (47,649)	\$ (36,853)

##### b. Other cash payments

	2009	2008	2007
(Thousands of US\$)			
Interest paid	\$ -	\$ 500	\$ 500
Income taxes paid	28,738	11,923	21,660

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

(Thousands of US\$)	2009	2008	2007
Additions to PP&E during the year ended December 31,	89,764	94,526	120,743
Reduction(increase) to depreciation and amortization included in additions to PP&E	-	(1,569)	(4,737)
Reduction(increase) to accruals included in additions to PP&E	2,309	2,147	9,403
Cash investment in PP&E	92,073	95,104	125,409

# **Centerra Gold Inc.**

## **Notes to the Consolidated Financial Statements**

For the years ended December 31, 2009, 2008 and 2007

(Expressed in United States Dollars)

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### **23. Comparative Information**

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

### **24. Segmented Information**

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

#### **Geographic Segmentation of Revenue**

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

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2009, 2008 and 2007

(Expressed in United States Dollars)

### 24. Segmented Information (continued)

#### Year ended December 31, 2009

(millions of US\$)	Kyrgyz Republic	Mongolia	North America	Total
Revenue	\$523.7	\$ 161.8	\$ -	\$ 685.5
Expenses				
Cost of sales	236.5	59.4	-	295.9
Mine standby costs	-	4.1	-	4.1
Regional office administration	15.3	8.0	-	23.3
Depreciation, depletion and amortization	73.5	29.5	0.7	103.7
Accretion and reclamation expense	1.2	1.2	-	2.4
Revenue based taxes	60.2	-	-	60.2
Exploration and business development	11.9	3.4	10.5	25.8
Interest and other	2.5	(5.1)	0.9	(1.7)
Corporate administration	3.1	1.0	28.8	32.9
<b>Earnings (loss) before unusual items and income taxes</b>	<b>119.5</b>	<b>60.3</b>	<b>(40.9)</b>	<b>138.8</b>
Unusual items - Kyrgyz settlement				49.3
<b>Earnings before income taxes</b>				<b>89.5</b>
Income tax expense				29.2
<b>Net earnings and comprehensive income</b>				<b>\$ 60.3</b>
<b>Assets (excluding goodwill)</b>	<b>\$ 510.3</b>	<b>\$ 402.2</b>	<b>\$ 31.8</b>	<b>\$ 944.3</b>
<b>Goodwill</b>	<b>\$ 129.7</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 129.7</b>
<b>Capital expenditures for the year</b>	<b>\$ 73.4</b>	<b>\$ 16.4</b>	<b>\$ -</b>	<b>\$ 89.8</b>

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2009, 2008 and 2007

(Expressed in United States Dollars)

### 24. Segmented Information (continued)

#### Year ended December 31, 2008

(millions of US\$)	<b>Kyrgyz Republic</b>	<b>Mongolia</b>	<b>North America</b>	<b>Total</b>
Revenue	\$ 468.3	\$ 167.6	\$ -	\$ 635.9
Expenses				
Cost of sales	273.1	58.9	-	332.0
Regional office administration	12.1	6.7	-	18.8
Depreciation, depletion and amortization	59.2	18.2	0.9	78.3
Accretion and reclamation expense	0.8	0.6	-	1.4
Impairment charge	-	18.8	-	18.8
Exploration and business development	14.1	3.2	6.3	23.6
Interest and other	11.9	(2.6)	(4.8)	4.5
Corporate administration	2.6	1.8	22.9	27.3
<b>Earnings (loss) before unusual items and income taxes</b>	<b>94.5</b>	<b>62.0</b>	<b>(25.3)</b>	<b>131.2</b>
Unusual items - Kyrgyz settlement				(37.7)
<b>Earnings before income taxes</b>				<b>168.9</b>
Income tax expense				34.1
<b>Net earnings and comprehensive income</b>				<b>\$ 134.8</b>
<b>Assets (excluding goodwill)</b>	<b>\$ 459.6</b>	<b>\$ 336.4</b>	<b>\$ 15.1</b>	<b>\$ 811.1</b>
<b>Goodwill</b>	<b>\$ 129.7</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 129.7</b>
<b>Capital expenditures for the year</b>	<b>\$ 57.1</b>	<b>\$ 36.6</b>	<b>\$ 0.8</b>	<b>\$ 94.5</b>

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2009, 2008 and 2007

(Expressed in United States Dollars)

### 24. Segmented Information (continued)

#### Year ended December 31, 2007

(millions of US\$)	<b>Kyrgyz Republic</b>	<b>Mongolia</b>	<b>North America</b>	<b>Total</b>
Revenue	\$ 209.1	\$ 164.3	\$ -	\$ 373.4
Expenses				
Cost of sales	165.6	41.7	-	207.3
Regional office administration	10.8	8.6	-	19.4
Depreciation, depletion and amortization	27.6	15.7	0.9	44.2
Accretion and reclamation expense	0.9	0.4	-	1.3
Exploration and business development	12.1	2.6	5.7	20.4
Other income and expenses	2.0	(6.4)	(1.4)	(5.8)
Corporate administration	2.7	1.6	20.7	25.0
<b>Earnings (loss) before unusual items, income taxes and non-controlling interest</b>	(12.6)	100.1	(25.9)	61.6
Unusual items - Kyrgyz settlement				126.8
Other unusual items				4.8
<b>Loss before income taxes and non- controlling interest</b>				(70.0)
Income tax expense				19.3
Non-controlling interest				3.2
<b>Net loss and comprehensive loss</b>				\$ (92.5)
<b>Assets (excluding goodwill)</b>	\$ 415.2	\$ 238.8	\$ 11.8	\$ 665.8
<b>Goodwill</b>	\$ 129.7	\$ 18.8	\$ -	\$ 148.5
<b>Capital expenditures for the year</b>	\$ 87.7	\$ 32.7	\$ 0.3	\$ 120.7